# Financial Plan for Your 40s

BOELMAN SHAW
CAPITAL PARTNERS

Tax Preparation | Financial Planning | Insurance Services
Retirement Services | Education Savings

WWW.BOELMANSHAW.COM

1031 Office Park Road | Suite 4 | West Des Moines, IA 50265

CIR116019

## Getting Started

For many people, the 40s is a good time to revisit financial strategy and to attend to aspects of their finances that they overlooked earlier in their careers. If you are in your 40s and do not yet have a budget, emergency fund, retirement account, and basic estate planning in place, you should hesitate no longer. If, like many 40-somethings, you have a stable career, an established budget, and savings and investment accounts, then now is a good time to reassess your plan and ask whether your financial strategy would benefit from some adjustment.

# Make Budgeting Improvements

Ask yourself how you could improve your budgeting practices. For example, if you are carrying large amounts of debt, then develop a plan to pay it off, beginning with the highest interest accounts and working down to those that charge the lowest interest. Also consider whether your emergency fund is sufficiently accessible while also earning at least a modest rate of interest. Common choices for emergency funds include savings and money market accounts.

# Revisit Investment Strategy

## *401(k)*

If you are eligible to contribute to a 401(k) through your employer, it is likely the most beneficial tool you have for retirement savings. If you are not already doing so, consider maxing out annual contributions to your 401(k). **For 2014, each employee may elect to contribute up to $17,500, as long as total contributions (including those from the employer) do not exceed the employee's compensation for the year or $52,000, whichever is lower** (see the IRS website for further details). If you are not able to make the maximum contribution, then contributing the maximum amount that your employer will match will make the most of what you have available to invest. At the very least, make an effort to increase your contribution to get as close as possible to these goals.

**TOTAL AFTER 25 YEARS: $697,920**

**401(k) Employee Savings Plan:**

| | |
|---|---|
| Percent to Contribute: | 10% |
| Annual Salary: | $50,000 |
| Annual Salary Increase: | 0% |
| Current Age: | 40 |
| Age of Retirement: | 65 |
| Current 401(k) Balance: | $50,000 |
| Annual Rate of Return: | 7% |

*Total Employee Contributions: $125,000*

**401(k) Employer Match:**

| | |
|---|---|
| Employer Match: | 50% |
| Employer Match Ends: | 6% |

*Total Employer Contributions: $37,500*

*The chart above is an example. Visit the AARP website to calculate your personal 401(k) savings.*

# Revisit Investment Strategy CONTINUED

### *401(k) continued*

**One effective strategy is to increase your contribution by 1% each January or each time you get a raise in pay.** Contributing even a little more to your 401(k) can make a big difference over time and help to improve the quality of life you are able to enjoy in retirement.

Because many years lie ahead before you retire, you have the luxury of time to ride out market volatility. This is a good time to invest for growth. Look at allocating a generous share of your investment portfolio to equities in order to take advantage of larger potential gains while you still have a considerable amount of time to compensate for potential losses.

### *IRAs*

If you do not have access to a 401(k) or similar plan, or if you are able to contribute more than the maximum amount allowed for a 401(k), then either a Roth or traditional IRA is a good choice for your retirement funds. Which will be best for you depends in large part upon your current tax obligation compared to your expected tax obligation in retirement and upon the likelihood that you will need access to your contributions prior to reaching retirement age.

# Revisit Investment Strategy CONTINUED

## *Roth*

A threshold question is whether and how much you are eligible to contribute to a Roth IRA. The maximum allowable contribution of $5,500 for 2014 is available to taxpayers below established income limits, and a reduced contribution is allowed for those earning slightly more. See the chart below for allowable contributions based on income and filing status.

### *Roth IRA Income Limits, 2014*

| FILING STATUS | MAGI | ALLOWABLE CONTRIBUTION |
|---|---|---|
| Married, Filing Jointly | Below $181,000 | Up to the limit |
| | $181,000 - $191,000 | A reduced amount |
| | $191,000 or over | 0 |
| Married, Filing Separately *(if lived with spouse any time during year)* | Below $10,000 | A reduced amount |
| | $10,000 or over | 0 |
| Single, Head of Household, or Married Filing Separately *(if did not live with spouse during year)* | Below $114,000 | Up to the limit |
| | $114,000 - $129,000 | A reduced amount |
| | $129,000 or over | 0 |

Source: www.IRS.gov

**If you are eligible to contribute to a Roth, you may make after-tax contributions that you will be able to withdraw tax free in retirement.** This is especially beneficial if you currently have little or no tax obligation or if you expect to be taxed at a higher rate during retirement. This may be the case, for example, if you currently have dependent children, a mortgage payment, business expenses, or other factors that entitle you to tax deductions and credits that you will not have after you retire.

# Revisit Investment Strategy CONTINUED

### *Roth continued*

The other main distinction of a Roth IRA is that **contributions can be withdrawn without penalty at any time and for any reason.** If you think there is a significant risk that you will need the money you contribute before you reach retirement age, then a Roth provides an important advantage for you.

### *Traditional*

A traditional IRA is a good choice for those above Roth income limits and those who anticipate that their tax obligation in retirement will be less than it is while they are working. Because contributions are tax deductible, it **lightens the saver's current tax burden and defers taxes until the money is withdrawn in retirement**. Contributions taken out prior to age 59 ½, however, are subject to penalties unless they are used for specific exempted purposes, such as education, disability, or unreimbursed medical expenses. See the IRS website for details on exceptions to early distribution penalties.

### *Personal Investment Account*

A personal investment account allows for greater flexibility in investments as well as increased liquidity. Systematically investing in a personal account by automatically depositing a certain amount each month is a good way to build your investments over time and cultivate the discipline necessary for a sound strategy. Bear in mind, however, that investment carries risk. The best way to minimize this risk is to **avoid investing money that you are likely to need in the short term.** It is important to have time to ride out market fluctuations so that you are not forced to withdraw money at a time when the market is down. In addition, unlike tax-advantaged retirement accounts, the **personal investment accounts are subject to annual capital gains taxes.** Some investments, however, are more tax-efficient than others. Speak with a financial professional with tax planning expertise to help you find the right balance of tax burden, risk, and potential return.

# Revisit Investment Strategy CONTINUED

## *College Savings*

If you wish to provide funds for your children's higher education expenses, you probably already have some type of college savings plan in place. If you do not, then beginning one as soon as possible will allow you to provide as much support as you can when your kids reach college age. **Tax-advantaged plans, such as Coverdell ESAs, 529 plans, savings bonds, and UTMA custodial accounts, help to make paying for college more affordable.** If you do not yet have college savings for your kids, speak with a financial planning professional to find a strategy that fits your needs. If you already contribute to a college savings plan, then this may be a good time to increase your contributions. As your income grows, put more money into the account to give your children's college fund a boost as they approach high school graduation.

The chart below illustrates the amounts you could have saved by the time your child turns 18, given various monthly investments.*

| CHILD'S AGE NOW | $100/MONTH | $200/MONTH | $300/MONTH | $400/MONTH |
|---|---|---|---|---|
| NEWBORN | $38,735 | $77,471 | $116,208 | $154,941 |
| 4 | $26,231 | $52,462 | $78,693 | $104,924 |
| 8 | $16,388 | $32,776 | $49,164 | $65,552 |
| 10 | $12,283 | $24,566 | $36,849 | $49,132 |
| 14 | $5,410 | $10,820 | $16,230 | $21,640 |
| 16 | $2,543 | $5,086 | $7,629 | $10,172 |

**Amounts assume a 6% rate of return compounded annually. Consult a professional to determine the best investment options for you and to discuss potential return rates.*

## Monitor Tax Liability

The U.S. tax code is nearly 74,000 pages long, and it grows longer each year. Keeping up with its ongoing changes requires special attention and expertise. To make the most of your money, consult with a tax professional for year-round tax planning. A savvy professional can advise you about how to minimize your tax burden as well as ensure that you are claiming all of the credits and deductions that the law allows. Because there can be wide variations in education, experience, and customer service among financial professionals, be sure to do your research before you hire.

## Manage Risk

In addition to health, home, and auto insurance, life insurance is a vital part of managing risk in your financial plan. **Life insurance is important for couples, especially if they have children.** An appropriate life insurance benefit can replace lost income, help surviving family members to pay off debt, help children to fund education expenses, and allow you to make personal bequests to anyone you wish to support. Even if one spouse does not earn income, life insurance is important to replace the work that spouse performs, such as child care, household tasks, or other work that would have to be performed by paid help in the absence of the non-earning spouse. Term life insurance is a popular choice for couples raising children. The term of the policy can be set to ensure financial stability until the children are grown and capable of self-support.

# Construct or Revisit Estate Plan

A comprehensive estate plan helps to ensure that your resources are used to effectively benefit those who are important to you. Your plan should include a few key documents to elucidate your intent with respect to the distribution of your estate and to the management of your health care and finances in the event that you are incapacitated. It is important to revisit these documents periodically to ensure that they continue to reflect your wishes.

## *Living Will*

A living will is an expression of your wishes with regard to end-of-life care. In this document, you can specify which life-sustaining measures and medical treatments you do or do not wish to receive in the event that you are unable to communicate at the time. Having a living will in place provides the peace of mind of knowing that you have clearly conveyed your preferences so those caring for you are able to treat you as you would want.

## *Powers of Attorney*

A power of attorney (POA) designates an "attorney-in-fact" to make decisions as your representative. The primary goal of a POA is to empower a trusted individual to make decisions for you in the event that you are unable to do so. You can decide under what circumstances a POA comes into effect. An effective POA for health care allows your attorney-in-fact to make decisions for your medical care. **This person is required by law to abide by your wishes to the extent they are known, so it important to clearly communicate those wishes to whomever you designate.** A financial POA names an attorney-in-fact to manage your finances. The person you trust to make health care decisions may or may not be the same person you trust with your finances. It is up to you whether you name the same person in both documents or choose different attorneys-in-fact for the two responsibilities.

# Construct or Revisit Estate Plan CONTINUED

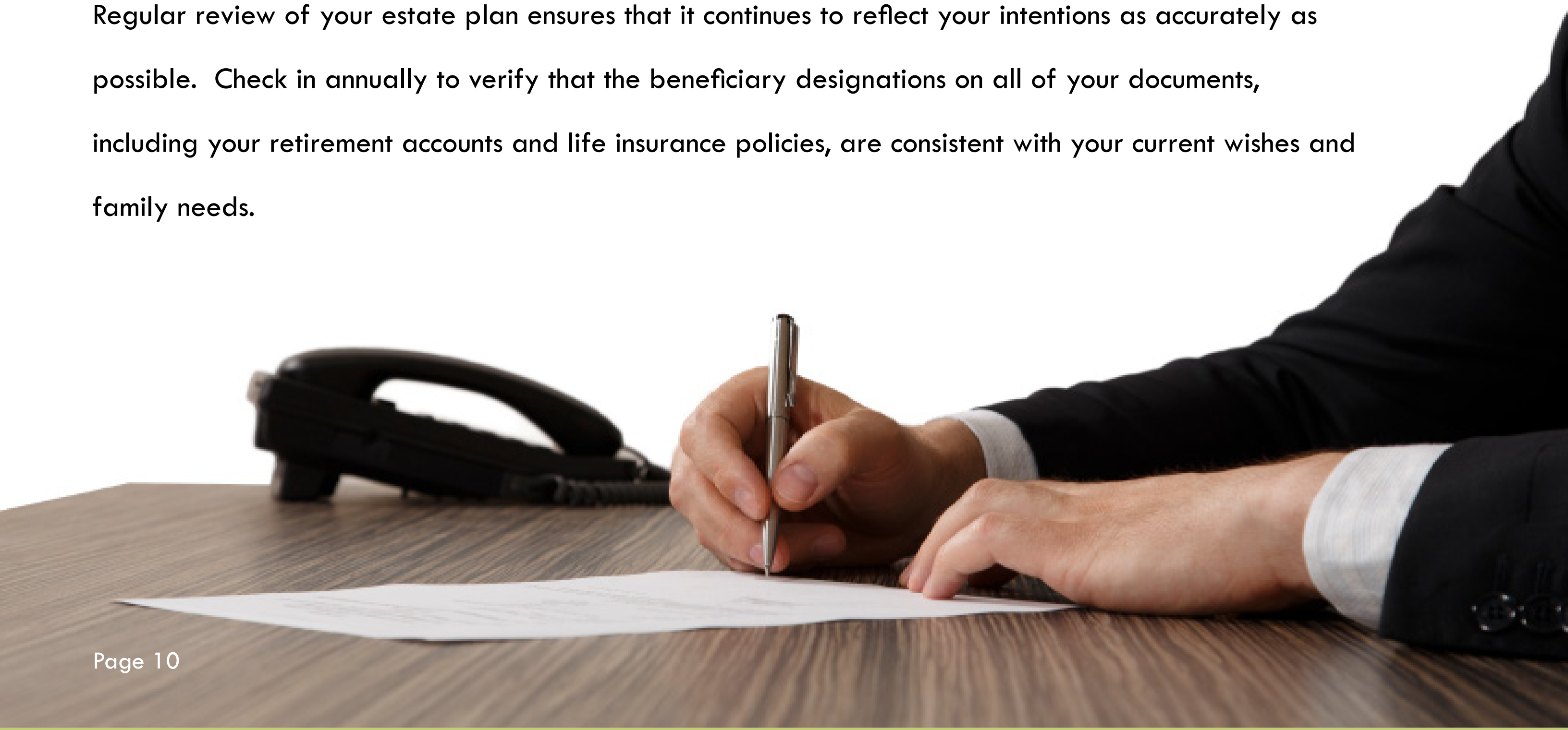
## *Will*

The will is the primary estate planning document. It names heirs and distributes assets according to your expressed wishes. **Dying without a will is referred to as dying "intestate" and subjects the estate to state intestacy laws, which may or may not reflect the preferences of the deceased.** In addition to distributing property, a will also designates a guardian for surviving children and an executor to manage the estate.

**You may wish to set up a trust within your will to avoid probate and allow conditions to be placed upon the distribution of your property.** A common example is the distribution of funds to minor children or very young adults. Many people prefer to allocate money to young people over time to ensure that they will have support until they are capable of supporting themselves, such as when they complete college or reach a certain age. Speak with your attorney about options for setting up trusts for your beneficiaries.

## *Beneficiary Designation*

Regular review of your estate plan ensures that it continues to reflect your intentions as accurately as possible. Check in annually to verify that the beneficiary designations on all of your documents, including your retirement accounts and life insurance policies, are consistent with your current wishes and family needs.



## Boelman Shaw Capital Partners

At a time when you have greater stability and earning potential, a serious approach to savings and investment greatly enhances your power to provide for yourself and your family later in life. For many people, their 40s is a time to boost contributions to savings and investment accounts as well as to get any missing pieces of their financial plans in place. The financial and tax professionals at Boelman Shaw Capital Partners can help you reevaluate your plan and find ways to make the most of your current earning power.

# Disclaimer

Boelman Shaw Capital Partners provides tax advice. Registered Representative, Securities offered through Cambridge Investment Research, Inc., a Broker/Dealer, Member FINRA/SIPC. Investment Advisor Representative, RDA Financial Network, a Registered Investment Advisor. Cambridge Investment Research, Inc., RDA Financial Network, and BSC Capital Partners are not affiliated.

* Diversification does not guarantee profit nor is it guaranteed to protect investments from losses.

Neither the named representative nor the named Broker dealer gives tax or legal advice.

Opinions, estimates, forecasts and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice.

This material is for information purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Investing in small- and mid-size companies may involve greater risk in price volatility and potential reward than investing in larger, more established companies.

International investing presents certain risks not associated with investing solely in the United States. These include currency fluctuations, political risks, accounting procedure differences and the lesser degree of public information required to be provided by non-U.S. companies.

Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Opinions expressed are not intended as investment advice or to predict future performance.

Past performance does not guarantee future results.

Consult your financial professional before making any investment decision.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. Please consult your financial advisor for further information.