Don’t Let the Little Things Hold You Back from Achieving Financial Freedom

I recently moved into a new home and, still acclimating to where everything is located at in the kitchen, I startled myself one morning when putting dishes away. Sleepy-eyed, I had wandered into the kitchen, and while the coffee was brewing, decided to knock out a chore and put the dishes away out of the dishwasher. I opened a high cabinet and began to push a glass tray onto the top shelf and BAM! It sounded like a bomb went off! By pushing that tray in the front of the cabinet, I didn’t realize it was pushing another glass tray out of the door on the back side of the cabinet. This beautiful, antique, amber glass egg tray shattered into a million little pieces all over the floor in my breakfast nook. One lesson should be to never attempt your chores until you have had at least one cup of coffee! But the other lesson would come later that week. Thinking I had gotten all of the glass, one afternoon the light hit the floor just right and I saw a tiny sliver of glass reflect back. I leaned down and pressed my finger to it to pick it up and throw away and, to my surprise, it cut deep into my finger and I started bleeding wildly! How could one tiny, almost non-visible piece of glass cut so deep and have such a big impact? I had picked up thousands of other pieces without issue, but this one left its mark.

What does this have to do with finance? Everything! Many work so hard to pick up all the pieces of their financial life to get on, and stay on track, but leave little shards that cut deep and can throw off your financial plan and keep you from reaching your goals. Here are the most common financial shards we see.

Shard One: Building Your Financial House on Sinking Sand

When thinking about retirement and making long-term plans, the exciting thing is to see your nest egg grow over time. Now it fluctuates up and down with the performance of the market, but overall if you keep saving, that nest egg will grow. I think of this like you are building a house. You start with the walls and the roof (the basics), add the plumbing, electricity, drywall (start to make it livable) then you really make it your home with decorating and furnishings. But what about the foundation? Did you just start building your financial nest egg house and not think about the foundation it was being built on? For so many, they have this plan to build these amazing nest eggs but didn’t put any foundational protection in place. The foundation of any financial plan is protecting your income and assets with the right types and amounts of insurance. What happens to the long-term plan if you become disabled and lose half, or all, of your income? What happens if you or your spouse passes on unexpectedly? What if one of you needs long-term care later in life? What if your home value has appreciated and your homeowner’s insurance no longer fully protects you? What if your family is sued and you don’t have enough liability insurance to protect your nest egg? What if you don’t have health insurance and become ill and accumulate huge amounts of medical debt? Having the right amount, and type, of insurance in place to shift the risk from your nest egg to an insurance company is what builds the solid foundation from which you can then start to confidently build your financial home on. Talk to your financial advisor about the foundation of your plan and make sure you, and your nest egg, are adequately protected.

Shard Two: Neglecting Your Estate Plan

No one likes to think of a day when they will no longer be here. Often, it is the emotional stress of thinking about losing your life, or the life of a loved one, that keeps people from confronting their estate planning head-on. You can build the most amazing financial plan, but if you haven’t put the proper estate planning in place, once you are gone the entire thing can fall apart. Once you are at the stage in life where you have started accumulating some assets, have a family, are moving up in your career, that is the time to meet with an estate attorney. They will work with you to help determine what the best estate planning actions are for you at your stage in life. Putting basic wills in place to dictate who would care for your children should something happen to you is crucial to avoid a court making that decision for you one day. Many people also consider putting into place a revocable living trust so that their assets transfer directly where they want them to go and avoid the expensive, and public, probate process. Your estate attorney will also help you through the process of putting in place powers of attorney for healthcare and finance should one or both of you become incapacitated. If you have additional complexities, such as a disabled child or a business that you will one day want to pass down to your children, your estate attorney can help you through more complex estate planning as well. Again, these are not the easy things in life to discuss, but they are so important! And this shard can cut deep for generations to come if not properly dealt with.

Shard Three: Not Planning for Down Markets in Retirement

Right now, many who are reading this are still in the wealth accumulation phase. You are saving and saving and building your nest egg (hopefully on top of a solid foundation of protection). Once you get to retirement, you are no longer adding to the nest egg from your earned income from working but are now drawing an income from your nest egg. What happens if you retire, and all of your nest egg is invested in the stock market and the market takes a nosedive? The number one rule of investing is do not sell when the market is low. How can you avoid this if your money is all invested, and you are no longer working and need to generate an income for yourself from your savings? What we know is that, in the past,while the market ebbs and flows up and down based on what is happening in the world, it has continued on an upward trajectory for the long run. Going into retirement, you need to have a plan for these down-market periods so you don't have to sell investments when they are valued lower than normal. If you are forced to sell your investments when they are low, this can have a long-term, negative impact on your nest egg and could lead to you running out of money sooner in retirement. Work with your financial advisor to develop a strategy for when these down markets occur. Establishing a plan to have access to non-market-based assets is crucial to avoid having to sell low. For some clients it is keeping some extra funds in cash, others utilize cash value life insurance or use the equity in their homes. The down-market plan that is most appropriate for your situation should be discussed in the context of your overall financial plan with your advisor.

Don't let these seemingly small shards slice a rift in your otherwise well-designed financial plan. Paying attention to the little things today can help keep these little things from having big impact down the road!

Do you have a specific question? E-mail me at: anne.e.schutt@nm.com and we can include your question in an upcoming article.

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