What I Wish I Knew Then

That old saying, "Hindsight is 20/20", has moved through many of our thoughts at some point in our lives. Standing in the future and looking back at the past is often the only way to have true clarity of a situation. That leaves us with needing to make many life decisions with large amounts of uncertainty. None of us have a crystal ball that can provide that clarity, but there are ways you can use the experiences of others to help make better decisions. As a financial planner, I work with clients from every stage in life. This creates a knowledge "crystal ball" that helps me guide clients through life decisions. While I may not personally experience the same situation, chances are one, or many, of my clients have. When discussing financial plans with more mature clients, I often hear, "I wish I knew then what I know now." From those many conversations, I want to highlight the top few in hopes that the combined wisdom of many may help guide your decision making.

I wish I had known I needed to save more.

This may be one of the hardest realizations that people face if they are going into retirement and haven't had a clear financial plan in place. When it comes to retirement, just reading online articles and making educated guesses about what nest egg you will need isn't enough. Getting a comprehensive plan in place as soon as possible in your career, keeps time on your side. You will be able to save less every year because you have many more years for the savings growth to compound. Imagine starting to save for retirement at 25 instead of 45. That is 20 additional years those invested savings have to grow. If you wait until 45 you will have to save a significantly higher amount each year to meet your goals. By starting younger you can also create more options for when you want to retire. We have clients that have been good savers from a young age and can easily retire at age 50 or 55 (some even younger) by generating income from non-retirement accounts, but we also have some clients that will need to work longer because they didn't prioritize saving earlier.

I wish I had better understood the long-term impact of taxes on my plan.

Today, many clients moving into the retirement phase of life have the majority of their retirement savings in their employer's 401k. Most of the contributions into these accounts were made on a pre-tax basis, thus they received a tax deduction on their income when they contributed the funds. What many don't think about is that the account will grow and be invested for many years. When you retire and start withdrawing an income from these accounts, you will owe income tax on all the money you take out, at whatever tax rates are at the time. This taxable income can also impact the percent of your social security that is taxed as well as your Medicare premium costs. In 2006 employers were allowed to start offering Roth 401ks as an option to their employees. This option has you make contributions to your 401k after paying the income tax, but then the funds grow tax free and can be taken out as income tax free in retirement after age 59 ½. Many of our clients now use this as a tool to reduce uncertainty in their retirement income plan by reducing the impact that tax law changes could have in the future. Getting a comprehensive financial plan in place as early as possible can help map out which choice is the best for you.

I wish I had put a better defensive plan in place.

Just like in sports, financial planning has an offense and a defense. Often, people focus most of their efforts on the offense: saving more, investing wisely, etc. However, the defense can be just as important for the long-term success of your plan. Your defensive plan should include strategies for income and asset protection. Most people don't realize that there are products available to help protect your income in case you were to become disabled and could no longer do your job. Many employers also offer some benefit as well, and it is important to fully understand those benefits and the gap that still may need to be filled. Having products in place to protect in the case of an unexpected death is also very important. Working with a financial planner to determine what your employer provides, as well as what gaps you have, and how best to fill those gaps with different products, can help build a strong defense. Protecting your home and automobiles is also crucial and many don't re-evaluate their homeowner's coverage often enough. If your home has appreciated greatly in value, the % you are covered for could decrease. Make sure to reevaluate this with your home and auto coverage provider periodically. Also consider working with your home and auto coverage provider to add coverage to help protect your family in the case of a lawsuit. And finally, you want to make sure you have your estate planning in place. When you are young and your financial life is uncomplicated, a basic will is often enough, however as your assets grow your estate attorney may recommend a trust. Make sure to keep your estate plan updated as your family grows, if you relocate to a different state, or just periodically every few years in case laws have changed.

Never underestimate the power of combined wisdom and the importance of having a comprehensive financial plan in place as early as possible in your career. The earlier you start, the longer your money has to grow and the cost of putting the defensive plan in place is often less as well. The money you invest on a good financial plan could have the highest return of any money you will ever invest. Starting out life with a map can help give you that confidence and peace of mind so that 30 years from now you aren't the one saying, "I wish I knew then what I know now."

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.