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Financial planning tips by the decade

It's never too late—or too early—to get your finances in shape.

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I've talked to a lot of people about finances after age 50. Many wish they'd done things differently in their early years.

I completely understand. Daily life keeps us going at such a fast pace that we'd rather spend our spare moments doing anything other than managing our money. But certain financial issues—budgeting, controlling debt, creating an emergency fund, saving for retirement, investing—deserve and require our attention. And the sooner, the better.

That said, you can't expect to accomplish everything at once. The following financial planning tips are organized by decade.

Of course, this is not a strict timetable, rather a helpful overview no matter what your age.

In your 20s: Getting started

You may not have much money—but you do have time. Don't let a smaller income keep you from establishing the basics. Here are six things to focus on in your 20s:

- **Create an emergency fund.** You should set aside enough cash to cover your essential expenses for three to six months. Put it in a safe, relatively liquid account like a short-term certificate of deposit (CD) or money market fund.
- **Start contributing 10 percent of your income to a retirement account.** If you stick with that 10 percent during your working years, you'll likely be in good financial shape come retirement. At this point in your career, consider a Roth IRA or Roth 401(k) because you can pay the taxes while you're likely in the lowest tax bracket of your career, but the earnings on your contributions will accumulate tax free.
- **Minimize credit card debt.** Charge only what you can afford to pay off each month.
- **Make your student loan payments on time, every month.** Seven in ten college seniors who graduated in 2012 had student loan debt with an average of $29,400, according to a report by the Institute for College Access & Success.[1] And 8.9 percent of the total owed in 2012 was delinquent by 90 days or more reported the Federal Reserve Bank of New York.[2] However, if you're able to buck this trend and stay on top of your loans, you'll be in much better shape down the road. A strong credit history is essential when you're ready to purchase a new car or your first home.

- **Enroll in comprehensive health insurance.** If your employer doesn't offer medical benefits, shop around for the best plan. Good health coverage is a must, no matter what your age.
- **Set up good financial "housekeeping."** Make a budget and stick to it. Also, do yourself a favor by setting up automatic payments for savings and regular bills.

In your 30s: Increasing responsibilities

For many people, financial responsibilities start to mount in their 30s: marriage, kids, homeownership, and retirement savings. Can you manage it all? Yes, if you prioritize.

- **Get your debt in check.** Carrying credit card or other high-interest nondeductible debt is one of the biggest mistakes you can make. Not only are you wasting your money on a potentially high interest rate, but you're also undermining your ability to borrow money at a reasonable rate in the future. The Federal Reserve found that 38 percent of all households carry a balance on their credit cards with the average balance at $5,700.[3]
- **Focus on your savings.** Never, ever walk away from your employer's retirement match, if offered. And if you didn't begin in your 20s, you need to save 15–20 percent of your annual salary starting now. After that, you can direct your savings toward a home down payment, a child's college education, or another long-term goal.
- **Invest for growth.** Don't just put money away—put it to work. Open investment accounts and choose investments that offer you an opportunity for growth. Investing doesn't have to be complicated—Exchange-traded funds and index mutual funds can be a good start, but you do have to be in it for the long term.
- **Review investment portfolio performance annually.** Make sure your asset allocation aligns with your risk tolerance and goals.
- **Protect yourself and your family.** Now that you have more money working for you, make sure you're protected. Look into disability insurance and consider life insurance if you have dependents.
- **Start your estate plan.** At the very minimum, you should establish a will that names a guardian for your children. You should also make sure you name beneficiaries for all retirement accounts because these designations will take precedence over your will.

In your 40s: Accumulating assets

Salaries may be growing, but so are the pressures: family, bills, and on and on. It's easy to get distracted. But you have to stay focused—now more than ever.

- **Double down on savings.** No matter what, keep retirement at the top of your priorities. If you haven't started saving, try setting aside 25 percent of your salary. It's a chunk of money, but it only gets more difficult if you wait.
- **Create a net worth statement.** Having a net worth statement that lays out your assets and liabilities will give you a big picture perspective on your finances and a benchmark to measure your progress.
- **Take a fresh look at your long-term goals.** These may include a second home or early retirement. Crunch the numbers to see what it will take to reach them.
- **Consider disability insurance.** If you don't already have it, now is a good time to look into disability insurance. The average worker has a 20–25 percent chance of becoming disabled for three or more months at some point during his or her working career according to the Council for Disability Awareness.[4]

In your 50s: Peak earning years

As you approach the peak, it's smart to start looking at the other side. Retirement may be 15 or more years away, but it's not too early to get specific.

- **Estimate retirement expenses and income sources.** Will you move to a new home or a new community? Travel? Work part time? Whatever you envision, it likely takes money. So back up your plan with real numbers, and be sure to factor in Social Security benefits.

- **Stay on top of your portfolio, focusing on performance, risk and expenses.** Review your investment portfolio and decide when (or if) you should shift to a more conservative asset allocation.
- **Know your tax profile.** Understand how taxes fit into your financial picture, now and in the future.
- **Consider long-term-care insurance.** Now's a practical time to think about it.
- **Update your estate plan.** Make sure your will and beneficiaries are up to date and your assets are appropriately titled.

In your 60s: Retirement getting closer

It's time to focus on the details of life after work.

- **Decide when to take Social Security.** Many people file for Social Security too early, leaving thousands of dollars on the table. Remember, the longer you wait up to age 70, the bigger your check once you begin collecting, so it pays to do some calculations.
- **Sign up for Medicare.** Unless you're still working, you must sign up by age 65 or face a penalty. Medical costs can be a big part of retirement expenses, so look into a supplemental policy as well.
- **Fine-tune your retirement income plan.** Review your projected expenses, add up your reliable sources of income, and figure out how your portfolio will cover the gap. Consider gradually moving to a more conservative asset allocation, but don't walk away from growth—Retirement can last a long time!

Putting it together

The road to financial well-being lasts a lifetime, so take it step by step, year by year, decade by decade, checking in with an investment professional on a regular basis.

Important information

Provided courtesy of Charles Schwab & Co., Inc.

[1]The Project on Student Debt, "Student Loan Debt and the Class of 2012," The Institute for College Access & Success, December 2013.

[2]Data as of fourth quarter 2012, released March 29, 2013.

[3]"Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances," Federal Reserve Bulletin, September 2014.

[4]Council for Disability Awareness, "Disability Statistics," July 2013.

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