Planning Around Life Events

Although everyone's attitude toward investing and money is different, most investors share some common situations throughout their lives. For instance, where you are in your life cycle certainly affects how you invest for retirement, but what about other life stages that aren't so closely related to age?

Let's say you're 40 and expecting your first child. You'll need to decide how to balance your finances to account for the additional expenses of a child. Perhaps you'll need to supplement your income with income-producing investments. Moreover, your child will be entering college at about the time you're ready to retire! In these circumstances, your growth and income needs *most certainly* will change, and maybe your risk tolerance as well.

The following are some major life events that most of us share, and some investment decisions that you may want to consider.

When you get your first "real" job:

- Start a savings account to build a cash reserve.
- Make regular monthly contributions, no matter how small, to your company's qualified retirement plan (if available).
- Consider opening an IRA if you've maxed out your company's retirement plan matching.

When you get a raise:

- Increase your contribution to your company-sponsored retirement plan.
- Increase your cash reserves.

When you get married:

- Determine your new investment contributions and allocations, taking into account your combined income and expenses.
- Consider a mutual savings account for goals beyond retirement (saving for a home, an emergency fund, etc.).

When you want to buy your first house:

- Invest some of your nonretirement savings in a short-term investment specifically for funding your down payment, closing, and moving costs.

When you have a baby:

- Increase your cash reserves.
- Increase your life insurance.
- Start a college fund (like a 529 plan).
- Consider establishing a will with a qualified legal advisor.

When you change jobs:

- Review your investment strategy and asset allocation to accommodate a new salary and a different benefits package.
- Consider your distribution options for your company's retirement savings or pension plan. You may want to roll over money into a new plan or IRA.

When all your children have moved out of the house:

- Boost your retirement savings contributions.

When you reach 55:

- Review your retirement fund asset allocation to accommodate the shorter time frame for your investments.
- Continue saving for retirement.

When you retire:

- Carefully study the options you may have for taking money from your company retirement plan. Discuss your alternatives with your financial advisor.
- Review your combined potential income after retirement and reallocate your investments to provide the income you need while still providing for some growth in capital to help beat inflation and fund your later years.

One of the hardest things about investing is disciplining yourself to save an appropriate portion of your income regularly so that you can prioritize your different investment goals -- including saving for retirement. That's why it's helpful to establish a trusted relationship with a financial professional who can help you practice smart money management over your entire lifetime.