FINANCIAL PLANNING IN YOUR 40s

JNBA FINANCIAL ADVISORS

In your 40s, you may find yourself at the peak of your professional career and at your busiest with family obligations. This is when financial strains are high, and just when you need them the most, you may find it hard to keep up the good financial habits you built in your 20s and 30s. It's not too late. This guide will help you get back on track.

FINANCIAL POSITION

- ☐ Have a budget in place and keep an appropriate financial record system to track your income, expenses, assets, and liabilities.
- ☐ Ensure that you have a liquid emergency fund of 3 to 6 months of living expenses in a cash or cash equivalent type account.
- ☐ Pay off any non-mortgage debt.
- ☐ Evaluate short-term and long-term goals and rank them in order of importance. Prioritizing goals will help you and your spouse (if applicable) confirm you are on the same page.
- ☐ If you have a current mortgage, review the details including term and interest rate to determine if refinancing might be appropriate for you.
- ☐ If you are purchasing your first home or buying a larger one, be sure to have a minimum of 20% for the down payment. Consider the terms of a new mortgage. A 30-year mortgage at this point would not be paid off until you are in your 70s and possibly retired.
- ☐ If you have children, you might be either saving for their college tuition or paying for it at this point. Be careful not to derail your retirement savings in order to pay for college.
- ☐ Continue to monitor your credit and improve it. Check your credit score at least once per year. You can view a free credit report from each of the three credit bureaus once per year by visiting AnnualCreditReport.com. By doing so, you can fix any errors quickly and ensure that an identity thief isn't getting hold of your personal information. Note that the credit report is free; however, your credit score typically is not. Obtaining your credit score is about $20 on this site. There are other ways to find your credit score for free. Some credit card companies display your credit score on your monthly statement.

RETIREMENT SAVINGS

- ☐ Do you have a company retirement plan such as a 401(k), 403(b), etc.? Is there a company match? If so, make sure you are contributing at least enough to get the full company match. In your 40s, it is time to work on increasing your annual retirement plan deferral up to the $19,000 maximum allowed per the IRS limit for an individual under age 50 (based on 2019 limits).
- ☐ Once you are able to maximize your company retirement plan contributions, review income to determine if you qualify for a Roth IRA, and if not, consider a non-deductible IRA contribution to save another $6,000 per year (based on 2019 limits) for retirement.
- ☐ Consider tax diversification with different account types. A Roth IRA or Roth 401(k) might be appropriate for you. Money distributed from these types of accounts generally is not taxable when withdrawn in retirement. Once you are able to maximize these savings, consider saving in a taxable investment account to allow for another way to help control taxes in retirement. Funds from these accounts are only taxable to the extent there are capital gains or dividends paid.

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INVESTMENT MANAGEMENT

- ☐ Understand your time horizon for your investments to make sure accounts are invested consistent with the time frame for spending them.
- ☐ Determine your risk tolerance. It is the amount of risk you are willing and able to take with your investments. Fill out a risk tolerance questionnaire for a base score.
- ☐ Ensure your retirement plan investments and any other investments you own are properly diversified.
- ☐ Periodically rebalance your investments to ensure you maintain your chosen allocations.
- ☐ Understand how to evaluate your investment performance.

RISK MANAGEMENT

- ☐ Confirm you have proper medical coverage on you and your family.
- ☐ Ensure you have enough life insurance to cover your family's needs if something were to happen to you unexpectedly. Term life insurance can still be relatively inexpensive in your 40s.
- ☐ Make certain you have both short-term and long-term disability coverage in place.
- ☐ Complete an annual review with your property and casualty insurance agent.
- ☐ Ensure you have an umbrella (excess liability) policy in place. Umbrella insurance provides coverage over and above your automobile or homeowner's policy. It is sold in $1 million increments. It is recommended that you have enough to cover your net worth.

ESTATE PLANNING

- ☐ Have an executed Will, Power of Attorney, and Health Care Directive in place. If you have minor children, you will need to have language included designating personal guardianship for them as well as trustee(s), if applicable, of your financial assets if something would happen to you.
- ☐ Confirm all beneficiary designations are up-to-date and reflect your current wishes. This includes but is not limited to life insurance policies, company retirement plans, IRAs, etc.

TAX PLANNING

- ☐ Contribute to your employer retirement plan not only to save for retirement but also to decrease your federal taxable income.
- ☐ Consider saving additional funds in a Roth IRA (if you qualify) or making a non-deductible IRA contribution annually.
- ☐ If you prepare your own taxes, ensure you are taking all allowable deductions.