MID-LIFE MONEY ERRORS

If You Are Between 40 & 60, Beware Of These Financial Blunders & Assumptions

By Dominic Lucente, CFP

Between the ages of 40 and 60, many people increase their commitment to investing and retirement saving. At the same time, many fall prey to some common money blunders and harbor financial assumptions that may be inaccurate.

These errors and suppositions are worth examining, as you do not want to succumb to them. See if you notice any of these behaviors or assumptions creeping into your financial life.

Do you think you need to invest with more risk? If you are behind on retirement saving, you may find yourself wishing for a "silver bullet" investment or wishing you could allocate more of your portfolio to today's hottest sectors or asset classes so you can catch up. This impulse could backfire. The closer you get to retirement age, the fewer years you have to recoup investment losses. As you age, the argument for diversification and dialing down risk in your portfolio gets stronger and stronger. In the long run, the consistency of your retirement saving effort should help your nest egg grow more than any other factor.

Are you only focusing on building wealth rather than protecting it? Many people begin investing in their twenties or thirties with the idea of making money and a tendency to play the market in one direction – up. As taxes lurk and markets suffer occasional downturns, moving from mere investing to an actual strategy is crucial. At this point, you need to play defense as well as offense.

Have you made saving for retirement a secondary priority? It should be a top priority, even if it becomes secondary for a while due to fate or bad luck. Some families put saving for college first, saving for mom and dad's retirement second. Remember that college students can apply for financial aid, but retirees cannot. Building college savings ahead of your own retirement savings may leave your young adult children well-funded for the near future, but they may end up taking you in later in life if you outlive your money.

Has paying off your home loan taken precedence over paying off other debts? Owning your home free and clear is a great goal, but if that is what being debt-free means to you, you may end up saddled with crippling consumer debt on the way toward that long-term objective. In June 2015, the average American household carried more than $15,000 in credit card debt alone. It is usually better to attack credit card debt first, thereby freeing up money you can use to invest, save for retirement, build a rainy day fund – and yes, pay the mortgage.[1]

Have you taken a loan from your workplace retirement plan? Hopefully not, for this is a bad idea for several reasons. One, you are drawing down your retirement savings – invested assets that would otherwise have the capability to grow and compound. Two, you will probably repay the loan via deductions from your paycheck, cutting into your take-home pay. Three, you will probably have to repay the full amount within five years – a term that may not be long as you would like. Four, if you are fired or quit the entire loan amount will likely have to be paid back within 90 days. Five, if you cannot pay the entire amount back and you are younger than 59½, the IRS will characterize the unsettled portion of the loan as a premature distribution from a qualified retirement plan – fully taxable income subject to early withdrawal penalties.[2]

Do you assume that your peak earning years are straight ahead? Conventional wisdom says that your yearly earnings reach a peak sometime in your mid-fifties or late fifties, but this is not always the case. Those who work in physically rigorous occupations may see their earnings plateau after age 50 – or even age 40. In addition, some industries are shrinking and offer middle-aged workers much less job security than other career fields.

Is your emergency fund now too small? It should be growing gradually to suit your household, and your household may need much greater cash reserves today in a crisis than it once did. If you have no real emergency fund, do what you can now to build one so you don't have to turn to some predatory lender for expensive money.

Insurance could also give your household some financial stability in an emergency. Disability insurance can help you out if you find yourself unable to work. Life insurance – all the way from a simple final expense policy to a permanent policy that builds cash value – offers another form of financial support in trying times. Keep in mind; insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. Your financial professional can provide you with costs and complete details.

Watch out for these mid-life money errors & assumptions. Some are all too casually made. A review of your investment and retirement savings effort may help you recognize or steer clear of them.

Dominic Lucente may be reached at 603.645.8131 or dominic.lucente@lpl.com. dlucente.com

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Citations.

1 - nerdwallet.com/blog/credit-card-data/average-credit-card-debt-household/ [6/25/15]

2 - tinyurl.com/oalk4fx [9/14/14]