FINANCIAL PLANNING FOR AGES 25-50

Laying a strong foundation for future success

At Tulett, Matthews & Associates, we understand the challenges and opportunities that come with navigating the financial landscape between the ages of 25 and 50. This period, known as the accumulation phase, is crucial for laying a strong foundation for future financial success. Our **Financial Life Planning Guide for Ages 25-50** helps you navigate this phase with a focus on saving, investing, and making smart financial moves with confidence.

We recommend saving 15-20% of your earnings and paying yourself first, ensuring that your financial goals remain a priority despite life's expenses. Early investing is key, allowing you to harness the power of time and compound growth to significantly increase your wealth over the long term.

Beyond saving and investing, our guide addresses managing debt, protecting your family with insurance, and preparing essential legal documents like wills and Powers of Attorney. These elements ensure a comprehensive and resilient financial plan.

At Tulett, Matthews & Associates, our mission is to empower you with the knowledge and tools to make informed financial decisions. Whether you're just starting out or well into your career, our guide is designed to support you at every stage of your financial journey.

INTRODUCTION

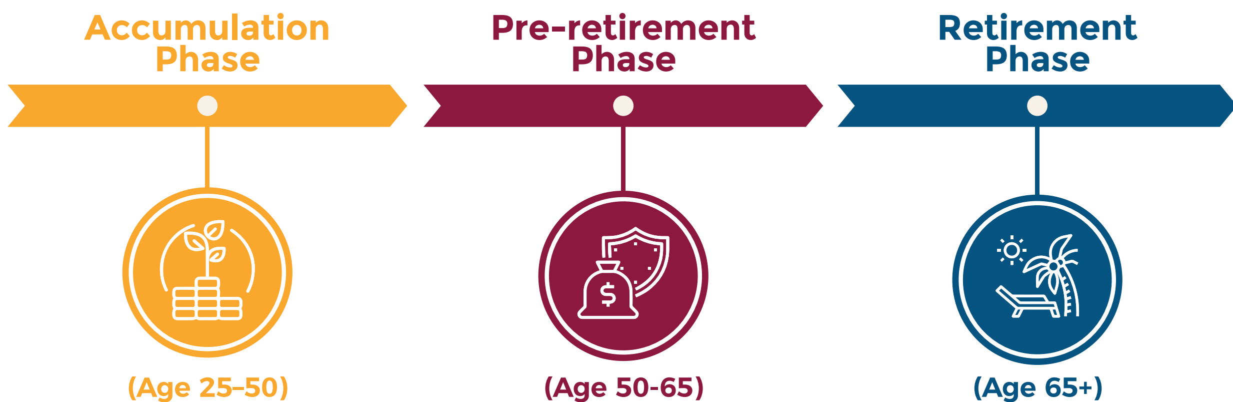
As we described in our book, **The Empowered Investor**:

> *"Securing your family's financial destiny—the core of becoming an empowered investor—involves more than just managing your portfolio and investments, although that is a crucial element. It means taking control of the financial planning process and developing a personal financial plan."*

In other words, if you don't start with a plan, and then structure your investments accordingly, the money alone may not take you where you're hoping to go.

That's where personal financial plan comes in, to help you discover, document, and aim your money toward your heart's desires. It goes beyond your investments, to take in every aspect of your life. Are you a business owner or an employee? Married or single? With children or without? Eager to retire or wanting to work as long as possible? A world traveler or happiest at home? And so on.

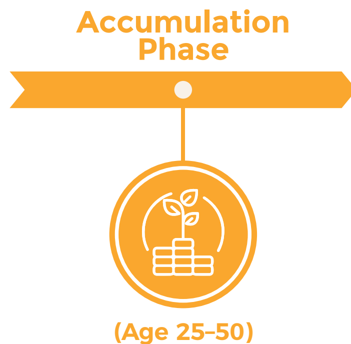
Your planning should also factor in where you stand so far. As the saying goes, a picture speaks a thousand words, so let's illustrate rather than describe what we mean by that:



You'll notice we've segmented life planning into three phases: accumulation, pre-retirement, and retirement. But these phases and age ranges serve as helpful guidelines, not strict parameters. For example, it's never too late to focus on accumulating wealth, nor is there a bad age at which to manage your debt load. Just as each of us learns to walk and talk in our own good time, your own planning phases may march to the beat of a different drummer—and that's just fine.

With that caveat, let's explore each planning phase at greater length, from your foundational years, to your power plays, to when you start chilling out. In the meantime, if you have questions or comments about how to integrate financial life planning into your own life's adventures, please reach out to us any time.

LAYING A STRONG FOUNDATION FOR FUTURE SUCCESS



Recommendations

- save 15–20% of family earnings
- Save for children's education
- Manage and pay off debt
- Focus on long term growth
- Protect your family with insurance
- Prepare wills & Powers of Attorney (POA's)

Ah, the irony of youth. When you're in your 20s to early 30s, retirement is probably the last thing on your mind. And yet, hands down, the best time to become an **Empowered Investor** is when you're just getting started. How do you build a strong foundation for your future, while also enjoying a meaningful life along the way? Three key components come to mind:

1. Saving
2. Investing over long periods of time
3. Focusing on the right financial moves

Saving Essentials: Pay Yourself First

It's hard to argue with the importance of saving … but easy to struggle with how to achieve it. Young families face Canadian housing prices that only seem to grow steeper. Weddings and babies are events to celebrate, but they can also take a bite out of your income. So can paying off college debt. And those are just the big-ticket items.

The best way to lay a strong foundation is to get in the habit of always paying yourself first.

What do we mean by that? The expression comes from **The Richest Man in Babylon**, by George Clason. First published in 1926, the book is still in print, and every bit as important today—especially if you're just getting started.

Have you received a gift, inheritance, or similar windfall? Started a new job or scored a raise? Received a tax refund? Whether it's a little or a lot of income, always pay yourself first by saving a percentage of it. All the better if you save it into a registered account for tax-sheltered growth. Then you can spend the rest on today's wants and needs.

> *"Whether you're graduating from university, you're in a trade school, or you're an entrepreneur, it's critical to get off on the right start."*
>
> ~ Keith Matthews
> Tulett, Matthews & Associates

The sooner you start saving, the less you have to dedicate to the effort. **Fidelity's Global Retirement Savings Guidelines** suggests saving 16% of your income if you start at age 25. If you wait until you're 30, you'll need to save 20% for similar results. And so on as you age.

Investing Essentials: Time and Money

Once you've saved some scratch, the next step is to invest it in the markets … and leave it there for decades. Investing even a little bit at an early age boosts your ability to make the most of your youthful super powers: time and compound growth, or the snowball effect of growth on the growth of your investments.

Say, for example, you invest $100, and it earns 5% annually for 20 years. At the end of Year 1, you've earned 5% on $100, or $105. After that, in Year 2, you earn 5% on your new total of $105, yielding $110.25 … and so on. The longer your money can compound in this fashion, the more "growth on growth" you gain.

"The best way to lay a strong financial foundation is to get in the habit of always paying yourself first."

For a simplified example, let's say 25-year-old Jane adds $2,000 annually to her investment account until she reaches age 70—for $90,000 total—and she earns 7% annually on her investments. Joan does the same, but waits until age 35 to get started, setting aside $70,000 by the time she is 70. How do their results compare? Jane's portfolio grows to $613,000 by age 70. Joan ends up with less than half that amount at $297,000. What a difference an extra decade of compound growth can make!

Again, this is an oversimplification. You can't actually count on a consistent return every year, nor can we predict exactly where the premium returns will come from. But because young investors typically have decades to ride out the market's bumpy, if overall upward course, you can consider investing most of your portfolio in more volatile global stock markets and their higher expected returns—but only if you sit tight.

Especially when you're younger, benign neglect may feel unnatural. We're long taught, if you want to get somewhere in life, you should give it your all. Often, that's true. But when it comes to investing, quiet stamina is your best friend.

Beyond Investing…What Else?

1. **Saving for Retirement:** While funding a TFSA may be more appealing when you're younger, saving to an RRSP is a powerful, yet often overlooked best practice. Financial analysis suggests, your CPP or QPP pension and OAS alone are unlikely to sustain you in retirement. A well-funded RRSP can bridge that gap.
2. **Debt management:** Just as compounding growth can accelerate your early investing, early debt digs your hole deeper. Low-interest home or student loans may be warranted (if you have a disciplined plan for paying them off), but high-interest credit can be toxic to a successful financial outcome.

3. **Risk management:** If you have dependents, what would happen to them if your career were put on hold … or worse? Hedge this risk with some basic, low-cost insurance coverage.
4. **Estate planning:** Again, the basics should suffice: Who gets what if you die? Who will be your kids' guardians and financial trustees?
5. **Tax planning:** Beyond establishing and funding your registered accounts, tax planning requires less attention when you're younger.

Key Takeaways

- Three key ingredients combine into a solid recipe for financial success for 25 to 35-year-olds: saving, investing, and making the right financial moves.
- For effective saving, get in the habit of paying yourself first: always set aside a portion of your income before spending the rest.
- Investing early makes the most of your youthful super powers: time and compound growth on your investments.
- Additional financial priorities include saving for retirement (yes, really) and ensuring your debt load doesn't become a drag on your future wealth. If you have dependents, basic insurance and estate planning come into play as well.

Want more in depth information?

Discover essential financial strategies for ages 25-50 in our **Laying a Strong Foundation Podcast**. Join us as we discuss saving, investing, managing debt, and protecting your future. Learn how to build a solid financial foundation during the critical accumulation phase, with expert advice to help you secure lasting financial success.

Additional Reading:

- **The Richest Man in Babylon**: George S. Clason
- **Global Retirement Savings Guidelines**: Fidelity
- **The Way to Wealth**: Benjamin Franklin
- **The Little Book of Common Sense Investing**: John Bogle
- **Retirement Planning Guidebook**: Wade Pfau, PhD, CFA, RICP
- **Your Complete Guide to a Successful and Secure Retirement**: Larry Swedroe
- And, as always, our own book: **The Empowered Investor**

Appendix

Global Retirement Savings Guidelines: Fidelity

Global retirement savings guidelines

Engaging workers in financial planning

Insights into the purpose and development of Fidelity's integrated and globally-consistent set of retirement savings guidelines.

Fidelity International & Fidelity Investments
Workplace Investing Thought Leadership
September 2020

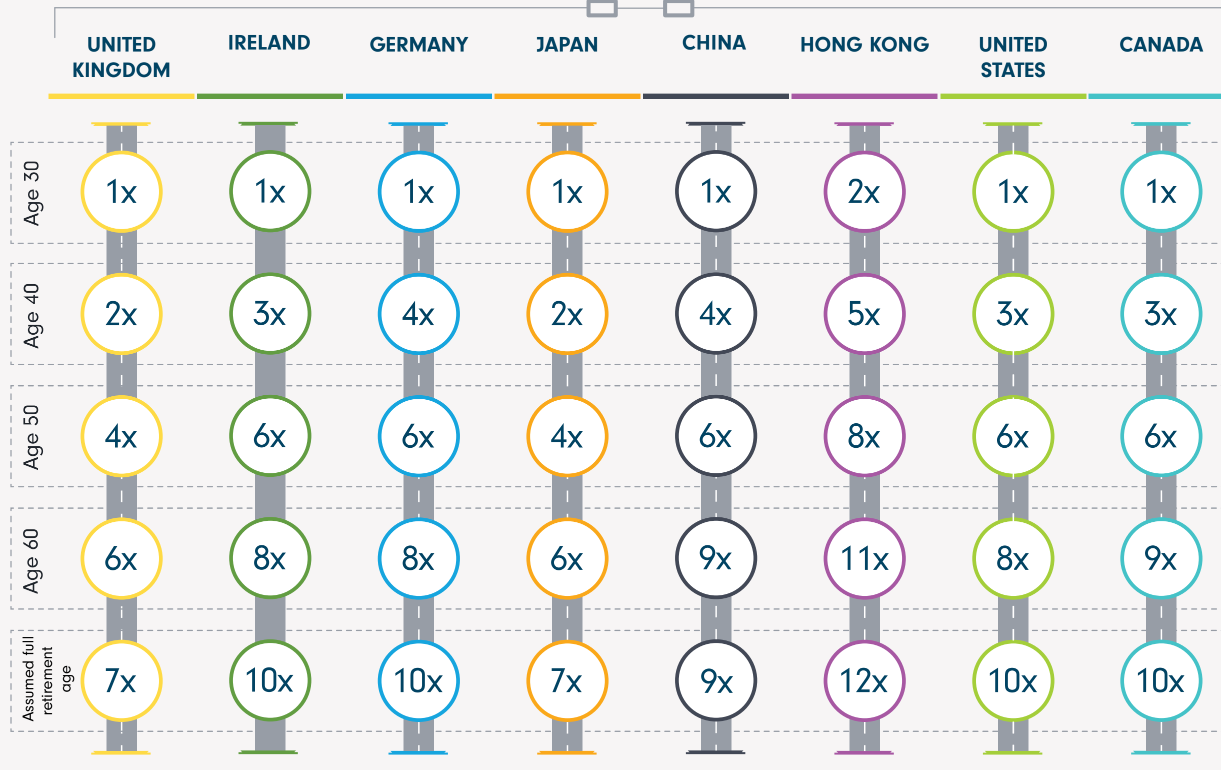
Fidelity™ INTERNATIONAL

Fidelity® INVESTMENTS

Savings milestones

Fidelity's global savings milestones

Estimating how much you will need to save by the time you retire and along the way. Simply multiply your current income by age to give you a savings target consistent with the savings balance needed to maintain your lifestyle in retirement.



Fidelity's suggested savings milestones (expressed as multiples of current income at different ages) are based on our research, which estimates the savings balances at different ages that are consistent with the accumulation of savings necessary to maintain a pre-retirement lifestyle through retirement. In turn, these savings balances reflect an estimate of the region-specific % of preretirement annual income (assuming no pension income) through a planning age specific to each region that would be necessary to maintain that pre-retirement level of income in retirement.

The region-specific income replacement targets were found to be generally consistent across a range of pre-retirement household incomes – income at the point of retirement.

The savings milestone suggestions may have limited applicability if your pre-retirement income is expected to fall outside that range. Individuals may need to save more or less than the suggest savings rate guideline depending on retirement age, desired retirement lifestyle, assets saved to date, and other factors.

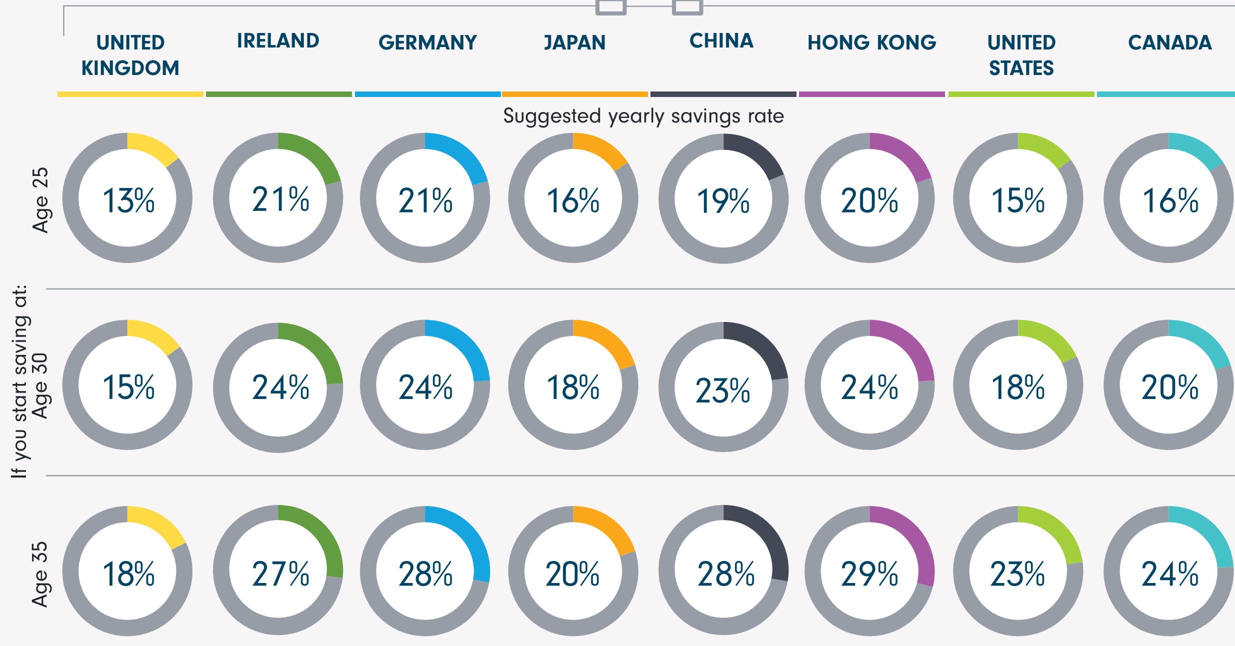
Fidelity developed the savings milestones through multiple market simulations based on historical market data. These simulations take into account the volatility that a variety of asset allocations might experience under different market conditions.

Given the region-specific assumptions, including retirement age, planning age (life expectancy), wage growth, and income replacement targets, the Retirement Savings Guidelines were evaluated at the 90th percentile confidence level for the U.S. and China. Guideline values for all other regions were evaluated at the 80th percentile for the accumulation (working and saving) phase and the 90th percentile for the decumulation (retirement) phase. The average lifetime equity allocation of the hypothetical portfolio was assumed to be roughly 50%. Remember, past performance is no guarantee of future results. Performance returns for actual investments will generally be reduced by fees or expenses not reflected in these hypothetical calculations. Returns will also generally be reduced by taxes.

Fidelity Investments and Fidelity International are seperate trading names and through their combined networks provide global asset management and benefit administration solutions to customers. "Fidelity" refers to the combined network of brands that encompass Fidelity Investments and Fidelity International.

Yearly savings rate

Fidelity's global retirement savings rate



Fidelity's suggested total pre-tax savings rates (expressed as a % of pre-tax current income) are based on our research, which indicates that most people would need to contribute at these rates from an assumed starting age of 25 through an assumed retirement age specific to each region (see general disclosure for regional details on retirement ages) to potentially support an income level equal to region-specific % of preretirement annual income (assuming no pension income) through a planning age specific to each region. The region-specific income replacement targets were found to be generally consistent across a range of pre-retirement household incomes – income at the point of retirement.

The savings rate suggestions may have limited applicability if your pre-retirement income is expected to fall outside that range. Individuals may need to save more or less than the suggest savings rate guideline depending on retirement age, desired retirement lifestyle, assets saved to date, and other factors.

Fidelity developed the savings rate targets through multiple market simulations based on historical market data. These simulations take into account the volatility that a variety of asset allocations might experience under different market conditions. Given the region-specific assumptions, including retirement age, planning age (life expectancy), wage growth, and income replacement targets, the Retirement Savings Guidelines were evaluated at the 90th percentile confidence level for the U.S. and China. Guideline values for all other regions were evaluated at the 80th percentile for the accumulation (working and saving) phase and the 90th percentile for the decumulation (retirement) phase. The average lifetime equity allocation of the hypothetical portfolio was assumed to be roughly 50%.

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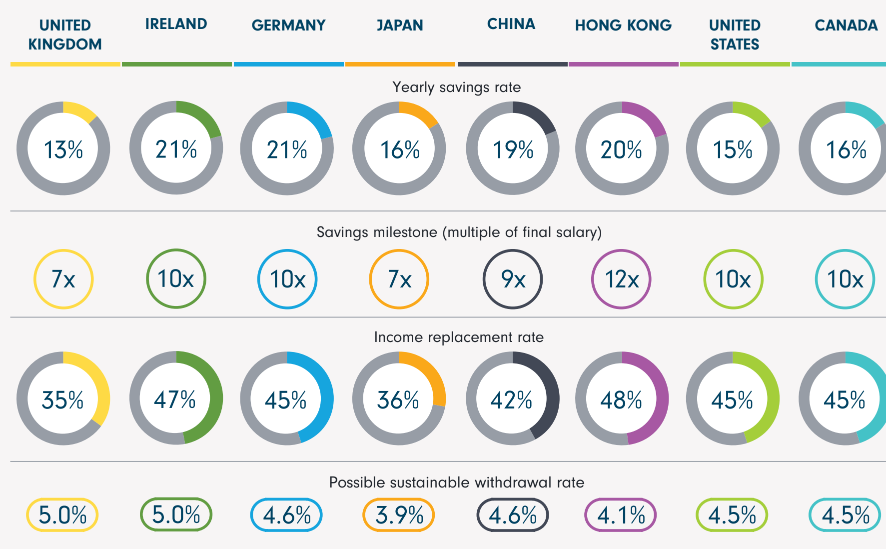
Retirement Savings Guidelines: A Regional Comparison

As described in the previous section, the Retirement Math Framework provides guidelines for a set of four retirement metrics – required yearly savings rate, income replacement ratio, savings milestones and possible sustainable withdrawal rate.

The values for these guidelines will vary across regions due to differences in a variety of region-specific assumptions including observed saving/spending behaviour, taxation, structure of state/government pension and health insurance schemes, mortality, assumed retirement age, wage growth, inflation, and capital market assumptions. Individually and in combination, these differences in assumptions/inputs result in cross-region differences in guideline values. It is important to note that while the guideline values may be different across regions, the underlying analytical framework that produces those values is globally consistent and produces guidelines that are locally relevant and globally comparable.

Regional results are summarised in the following sections. Additional insights can be gained by reviewing this paper's Appendix materials.



Definitions:

Yearly savings rate: The suggested annual rate of (pre-tax) savings over a full working lifetime.

Savings milestones: Age-based savings targets expressed as multiples of current income.

Income replacement rate: The percentage of pre-retirement income that an individual/household should target to replace annually from their personal savings (including workplace savings) in retirement in order to maintain pre-retirement lifestyle.

Possible sustainable withdrawal rate: The real (inflation-adjusted), annual withdrawal amount expressed as a percentage of the initial (at retirement) asset balance.

Footnotes:

Hong Kong savings rate - 20% savings rate is net of an assumed 5% MPF contribution from both employer and employee pay.

Japan's income replacement rate - 28%, which excludes 8% income replacement from an assumed final lump sum salary payment of 2x annual pre-retirement salary.

Canada's income replacement rate assumes CPP enhancement, fully realised in base case (Current Age = 25).

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