Asset location strategies for those who are just starting out

It's never too early to save or to weave asset location strategies into your plan

For young investors excited about starting careers and households, retirement can seem very far away. But even modest amounts of savings, planning and learning at this life stage can pay off significantly later.

Meet Sean and Victoria

- **32 and 33 years old; married**
- **$107k annual household income**
- **Undergraduate degrees: Sean is a high school teacher and Victoria is a manager at a creative agency**
- **$290k accessible assets held in 403(b) brokerage account and 401(k)**
- **Debt includes a mortgage and student loans**

Sean and Victoria are making good financial decisions and are comfortable with their short-term plan. They're able to indulge occasionally without sacrificing a comfortable lifestyle. However, they haven't yet turned their attention to longer-term financial goals, like:

- Paying off their mortgage and student loans
- Saving for retirement

Here are three important conversations to have with your advisor if you are like Sean and Victoria and are just starting out:

1 **First thing's first:** The emergency fund.

Six months' worth of household expenses is recommended to be held in an accessible account for unforeseen expenses and emergencies.
Make this priority #1.

If your household has more than 6 months covered, as Sean and Victoria do, this is an opportunity to discuss ways for those funds to work smarter — minimizing taxes, debt repayment or additional tax-smart retirement savings.

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2 **Planning for the future now:** Tax-smart saving for retirement.

Take an inventory of all planned retirement income sources: employer-sponsored defined contribution plans, pensions, Social Security and other personal savings.

If you have pensions and/or Social Security: determine if these will meet income needs in retirement. If not, consider employer-sponsored plans or separately funded IRAs.

If you have a 401(k), 403(b) or 457 plans: try to max out contributions to lower today's effective tax rates. Starting early makes a huge difference.

If additional discretionary income is available: pay down debt and/or consider Roth IRA or a permanent life insurance policy for the potential of future tax-free income.

Discuss the concept of asset location with your advisor. The tax status of the investments you ultimately choose can make a big difference in what you get to keep in retirement.

3 **Planning for the unexpected:** life insurance.

For young families, life insurance is an important safety net as well as a financial planning tool that can potentially deliver tax-free income in retirement.

Premiums may be funded from excess emergency savings and/or in other discretionary income.

The general good health of the under-35 demographic makes premiums affordable.

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