It's Never Too Early To Start Financial Planning

Over the years, most of the financial planning work I've done has been with couples in their pre-retirement years. As the time for retirement draws closer, it's no surprise that people in their 50s and 60s spend more time thinking about whether they have prepared adequately for life in their later years. But more recently there has been increasing interest from folks in the early stages of their careers.

Although almost everyone would be better off gathering information and working with a professional to develop a proper financial plan, most people don't make the effort. They just wing it and hope for the best. Not infrequently, that doesn't work.

Those who do have a much better chance to make the adjustments needed to maintain their hoped-for lifestyle. A financial plan is a roadmap from where you are today to the distant future. In some cases, following the path you are on will do the job. But if not, there may be other routes to where you are going. The possibilities will include increasing income, lowering expenses, increasing returns on investments, and retiring at a later age.

The earlier you start to plan, the more time you will have to make adjustments and the more likely that you will be successful in doing so. Planning when retirement is just around the corner may turn into a situation in which not much can be done. It will be too late to do anything to increase income and seeking higher investment returns will bring increased risk, which is the opposite of what prudence dictates. The only choices left will be cutting expenses or working longer, neither of which may be desirable or even possible.

Early planning helps put the key issues in perspective and allows plenty of time to make decisions that will have the greatest impact on what's ahead. For young couples, the biggest decisions will center around buying a home and planning a family.

Buying a home often appears to be a daunting proposition. Indeed, the average price of new homes sold in the U.S. during April was $368,300. In and around major urban areas, it can be considerably more. For those newly married and on a career path for only a few years, that's a lot to bite off even with today's unusually low mortgage rates. Although the monthly carrying cost, including property taxes, may not be much more than the cost of renting, there's still the down payment of 20% or so to be considered. That's often the rub. Still, buying a home is making an investment that will appreciate in value over time.

Planning a family is a completely different matter. Unlike buying a home, there's no big number to scare you away . . . until you consider the cost of education. If you expect your kids to go to public school and not attend college, the dollars and cents part of bringing them up may be manageable. But if college is on the horizon, it's time to pay close attention.

Here's where things stand now. At private colleges, the current annual cost of tuition, fees, room, and board is $45,365. At public colleges, the number is $20,092. For the full four years, that adds up to $181,460 and $80,364, respectively. But that's today.

Two decades from now, when children yet to be born will be away at school, these costs will be about double where they are now. That assumes annual increases of only 3%, which may be optimistic. So for each child who may be going to a private college, the four-year cost will be about what a new home costs now. The difference is that the home is an investment that probably will continue to grow in value. The cost of educating children is an investment in their future, but it may well have the single biggest impact on your financial future.