Making Smart Investments for Your Family

Raising a family is rewarding—and expensive. Consider taking these steps to support your family financially through a program of smart investing.

Building a career and raising a family requires management skills. Juggling your time, priorities, and money now while planning for the future can be daunting. Saving now to send your kids to college, take care of your parents as they age, and pursuing a comfortable retirement can be challenging.

Savings alone may not be enough. Saving part of your monthly income is the first step toward building wealth, but with current interest and inflation rates, saving may not be able to do the job on its own. After putting aside enough cash for an emergency fund, you may want to consider investing in a diversified set of investments such as stocks, bonds, mutual funds, real estate, and more. I can show you how to match your investment portfolio to your tolerance for risk, your age, your goals, and your income to help you build your wealth.

Start with building your retirement nest egg. Most often, parents put their children's future first by building a college fund. While this is certainly important, preparing for retirement should take precedence. Your children have options that you don't. Your kids can use a combination of savings, loans, and scholarships to attend college. You must live on Social Security and the wealth you've accumulated. The last thing you want is to depend on your children's financial support when they begin working and you stop.

Use the tax code to help build wealth. If you're covered by a qualified employer retirement plan, not only should consider making the largest contributions you can afford, you should make sure the money is invested in assets with the potential to provide long-term growth. If you are self-employed or not covered at work, consider an Individual Retirement Account (IRA) and/or Self-Employed 401(k), preferably self-directed ones, to hold your investment portfolio. Not only are contributions tax-deductible each year (subject to income and contribution limits), but all your earnings are tax-deferred until you start making withdrawals. You can delay withdrawals until age 70½, giving you many years of tax-deferred growth potential.

Take advantage of other tax breaks. While contributions to a 529 education savings plan are not deductible from your taxes, growth is tax-deferred, and if used for qualified educational purposes, withdrawals are tax-free. Your employer may offer tax-advantaged benefits like cafeteria plans. As your wealth grows, consider if it's appropriate to allocate money into investment vehicles like tax-free municipal bonds*, Treasury Inflation-Protected Securities, whole life insurance, Real Estate Investment Trusts (REITs), and qualified annuities, to name a few.

*Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risks.

Qualified accounts such as 401(k)s and traditional IRAs are accounts funded with tax deductible contributions in which any earnings are tax deferred until withdrawn, usually after retirement age. Unless certain criteria are met, IRS penalties and income taxes may apply on any withdrawals taken prior to age 59½. RMDs (required minimum distributions) must generally be taken by the account holder within the year after turning 70½ .

Prior to investing in a 529 Plan investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary.

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