Bellmore Group Management Services, Tokyo Japan on 9 money mistakes to avoid in your 40s

Your 20s were all about setting up your financial foundation and establishing good habits. Your 30s were about life changes like getting married, having kids, and building your career.

In your 40s, everything is amplified even more. You've got growing kids and aging parents — and what you don't have is a ton of spare time.

There's a lot you can do in your 40s to protect your money and care for your family before you begin thinking about retirement in your 50s or 60s. Here's what you should avoid:

1. Buying more house than you can afford

With your growing family, that starter home in a bad school district isn't meeting your family's needs anymore. Suddenly, you want more space for your kids to run around, and you want them to grow up in a neighborhood with lots of friends their age.

It's tempting to opt for more square footage, a larger yard, and an upscale neighborhood. But this means a bigger home loan, increased maintenance costs, and high property taxes.

After spending the first two decades of adulthood in rental apartments or condos (possibly with roommates!), it's natural to want a big, beautiful home to hopefully live in for the rest of your life. But beware of buying more home than you can handle. Houses aren't great investments, so you should be realistic about your budget and avoid tying up all your savings in your home.

2. Not having the right mortgage

Mortgage rates remain quite low (often under 4%, depending on your credit score, loan terms, and other factors). Consider refinancing if you intend to remain in your home for at least a few more years.

I'm a fan of refinancing to a 15-year mortgage. While a 30-year mortgage offers a lower monthly payment, it means you'll have a mortgage well into your 60s or 70s, which isn't helpful in retirement. Plus, you'll pay a lot more in interest.

How much more? Let's say you have a $250,000 loan. You can get a 15-year mortgage with a 3.14% interest rate and a monthly payment of $1,743. A 30-year mortgage would have a 3.81% rate and a $1,166 monthly payment. Spending nearly $600 less per month is appealing, but you'll actually spend $106,073 more on interest payments over the life of the 30-year loan!

As your cash flow situation changes, make sure you have the right mortgage for you. You can compare 15- and 30-year mortgages side by side using this calculator.

3. Overspending on your kids

A big way to keep up with the Joneses in your 40s is to pour your resources into your kids: tutors, travel sports teams, competitive dance troupes, private school tuition, summer camp … the list is endless!

It hard to say no to everything your kids' heart's desire and you really do want to provide those things — not just because you love your kids, but because their friends' parents are your friends and neighbors, and there's pressure for you to fit in.

This is a good time to reassess your money values and teach your kids about creating their own value system. That way, the whole family is spending money and time on what really matters to each of you, instead of what your neighbors are doing.

4. Not saving for retirement because you're saving for college

Many parents I work with want to prioritize funding their kids' college savings accounts. It's natural to put your kids first, before yourself. That's good parenting!

However, I get concerned when parents forgo saving for their own retirement in favor of contributing to a college savings account for their kids. The reality is that your kids can borrow money for college, but you can't borrow money for retirement. You're setting your kids up to have to support you in your old age, right when they have young children of their own.

This can become a huge burden for them in the future. A true gift to your kids is to prepare adequately for your own retirement first, and then save for their college educations second.

Once you're in a financial position to contribute to college savings, consider a 529 Plan, which offers multiple tax benefits. Some plans give you a state tax deduction or credit, your contributions will grow tax-free in the account, and withdrawals for qualified educational expenses are also tax-free.

If your state of residence doesn't offer a tax deduction or credit, you can choose a plan from a state that does. You can research different 529 Plans available at savingforcollege.com.

5. Not having a big enough emergency fund

That $1,000 you stashed away at 22 might have cut it when you were only supporting yourself, but now you've got a family. The potential for unexpected expenses is high.

The stakes are higher, too. For example, when you're young and lose your job, you can float by for a few months by breaking your lease and moving back home. Imagine losing your job when you have a $3,500 monthly mortgage payment, two car payments, grad school debt, a stay-at-home spouse, and three kids!

Give yourself peace of mind. Keep 3-6 months of living expenses in your emergency fund and invest the excess in a taxable brokerage account which you could pull from if you were out of work for an extended period of time.

6. Not maximizing credit card rewards

If you use credit responsibly (meaning you have an excellent credit score and pay your credit card bills in full and on time every month), you're missing out if you have a no-frills credit card that doesn't come with rewards.

A bigger family comes with increased spending, so make that spending work in your favor. Rewards cards can earn you cash back or points that you can use for free or discounted travel. Some cards even include perks like statement credits for airline purchases or the fee for Global Entry.

7. Not doing estate planning

I've witnessed friends have to wade through their parents' complicated estates while grieving their loss. It's essential to create a plan for supporting your family if you pass away or are incapacitated and can no longer works.

Doing the work now will spare your spouse and children a lot of pain. Work with an estate attorney to create a will, and consider the best ways to leave money to your heirs or charitable organizations to minimize the tax burden on your estate. A financial planner is a great ally to have on your side as you worked through this.

8. Not protecting your money in the event of divorce

Unfortunately, divorce is a reality for many families, and it can be financially devastating, especially for women. This is why I think it's important for both spouses to be active participants in their family's financial planning. Too often, one spouse handles all the money — and the other spouse is in for some nasty surprises if the marriage ends.

If your marriage is at risk, keep a detailed inventory of your family's assets and hire a lawyer to help you understand how state laws can affect which assets you'd be entitled to.

There are financial planners out there who specialize in working with clients who are going through a divorce, such as CDFAs (Certified Divorce Financial Analysts). They can help you navigate through this tricky time.

9. Not talking with your parents about their finances

Just like it's important for you to set up your estate for the benefit of your children, it's essential to talk to your parents about their own estate.

The elderly are vulnerable to financial scams because they have the confidence of having managed their money for years, but don't necessarily understand modern money management. They also might be experiencing some cognitive decline, so it helps to have you on their side as they make financial choices.

Some parents tell their adult children too late that they don't have enough saved for retirement, or that they expect their kids to support them. I work with a number of clients who help their parents financially, but it takes some planning and budgeting to be able to do this without sacrificing your own goals.