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One Man's Opinions – Spring 2014

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This newsletter was inspired by my colleague, Lewis Walker, CFP. Lew and I both started our financial planning careers in 1975. In the early years our paths crossed frequently as we both rose quickly to the top in service to our brand new profession.

Walker recently published an article with suggestions as to how financial planners need to deal with our clients as they age. Here I have framed them instead from the viewpoint of the client. We need to be aware of a variety of changes in our financial circumstances we face as we pass through the various stages of our lives.

We begin our journey to our eventual death on they day we are born. It is said that each human gets 50% of their eventual physical and emotional growth in their first year. As I observe my 15 great grandchildren, who are arriving with a great deal of regularity these days, this thought repeatedly proves itself. I find it amazing how quickly they turn into little human beings, walking, learning to talk, and establishing themselves as humans. Of course at this point all humans are dependent on their parents or some other adult for all their needs, physical, financial or otherwise.

Starting school is our next major transition. We become students, as well as teachable and growing humans for the next twelve to sixteen years. Somewhere around age 16 though, we leave childhood behind and start our journey to individuality. I believe that, at this age, we are fairly much the adult we are going to be. Our parents, while still financially responsible for us, have effectively finished parenting us. We usually get part time jobs (and cars) and become gradually more responsible for our own lives and less dependent upon our parents.

The day our last child leaves for college marks another transition for our families. Our days of active parenting are over. A great deal of freedom comes at this point. We can now focus our attention and energy more on ourselves. It is time to look outside for more avenues to personal growth and satisfaction and dedicate money to pursue them.

When our last child finishes college or some other formal education, their parents begin to achieve more and more financial freedom in their lives. I call it the accumulation phase. Saving more of our earnings is common, and we have fewer family expenses at this point as well. Opportunities for travel and pastimes grow too. While we may occasionally be needed to help out financially, we are no longer responsible for our adult children and their living expenses.

I believe most families with children go through five stages in their financial affairs. The early years are the carefree ones, between formal education and the arrival of the first child. For most of us, the "struggle years" then commence. We buy or rent an appropriate residence. Income tends to increase but so too do the family's expenses. For most families financial discipline is necessary to progress. Our net worth tends to rise while extra discretionary cash may still be light, especially if we are saving for college.

At or about the time the youngest child starts college, the family slowly begins our "accumulation phase" financially. I am not sure why this occurs at this point rather than after the last child graduates, but for most of my client's this seems true. The family needs lessen and more accumulation is possible. For most this phase continues until around age sixty, when "conserving" our life style becomes more important than accumulating more assets. Many families downsize their homes at this point. After all, how much space do two people need?

In our late fifties or early sixties, most us find ourselves slowly moving from the accumulation phase of lives to the conservation stage. It becomes more important to preserve our lifestyles and standard of living than to attempt to gain more net worth.

In our sixties health challenges normally begin. Even if we have lived a healthy life style, our bodies begin to betray us as we age. Running, tennis, and racquetball took their toll on my knees. After having them "cleaned out" at 59 I had to have both replaced at 67. Since then I have gained 10% in weight and it seems to be permanent. While my health is good, parts of me are wearing out. My eyes now need glasses to see clearly.

Financially the conserving phase continues until retirement, when the "preserving" years begin. Making sure we have sufficient assets and income to meet our needs without working becomes paramount. Preservation of our net worth becomes vitally important as we begin to draw it down rather than build it up. A few of us keep working as long as we can. But even if we have sufficient assets to live on without touching our retirement accounts, the government after age 70 mandates a mandatory minimum yearly drawdown from them which grows larger as we age and therefore our life expectancy gets shorter.

From 75 to 85, we are "senior citizens," our physical health usually continues its decline and travel is not as easy, nor as desirable. Family becomes even more important to us and we treasure it more. Many move to be near them.

If and after we reach 85 health problems multiply, as do expenses. Medicare (and Medicaid) protects us from going broke. It is interesting to note that Medicare and its accompanying Medi-gap health insurance have sharply reduced the odds of going bankrupt for health reasons. Studies show that, for those of us with incomes below $170,000 per year, the most we have to pay personally is in the $11,000 range. Most of us have the resources to cover this modest amount.

The elephant in the living room, however, is the possibility we might need extended long term care. 20% of us will. Contrary to popular belief, Medicare does not pay for more than 14 days of long term care, and this is after a hospital stay. Long term care insurance is vital for most of us. It is wise to purchase it in your 50s and 60s to ensure reasonable premiums and insurability as we age. There are only a handful of high quality insurers in this field. This is one area where buying the best and therefore the most expensive policy from a financially sound insurance company makes great sense.

As we continue to age, lower personal energy and higher expenses restrict travel over time. It varies greatly; some people are still running in their eighties or even nineties. But they are few and far between.

As our health declines so does our standard of living. We give up the car keys to our kids and become dependent on some one else to chauffer us around. Here in the Midwest losing our driving privileges means a big change in our daily living. We are, for the most part, dependent on our own cars rather than public transportation.

I would recommend using the services of your Certified Financial Planner at or before we reach each of these stages in our lives. We have information and advice to guide our client's through these often confusing stages. Along with our growing medical team we can continue to enjoy a high quality of life so long as we are still here.

Tom McAllister, CFP

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