

## FINANCIAL PLANNING FOR LIFE'S SURPRISES

Life's full of financial surprises – and many of them we can see coming.

Many people prepare – if not always adequately – for life's unexpected financial surprises: insurance for health problems or an auto accident, estate plans for death, an emergency fund for the unexpected loss of a job. Yet people frequently fail to anticipate and prepare for financial “surprises” they can see coming: an impending marriage or divorce, a terminal illness, the birth or adoption of a child, an inheritance, a career change.

Many of these events represent major transitions in one's life, and life transitions are the main reason people come to see financial planners. Unfortunately, they often arrive at the planner's office *after* the event has occurred, even though these transitions were predictable, with discernable financial consequences that might have been planned for in order to reduce the financial impact. But at this point, many planning options may already be lost.

A story recounted in the October 2003 issue of the *Journal of Financial Planning* illustrates the benefits of planning for life's surprises. During an annual meeting with her financial planner, a 72-year-old woman talked about wanting to move into a continuing-care facility someday, even though currently she was in good health and lived at home. This was a life transition she and her planner could foresee.

But she further revealed that she was gifting large sums of money to her daughter and that her two sons were worried that she might not have enough money to pay for the care she wanted when the time came. The planner persuaded her to begin visiting and pricing facilities, and she quickly realized that she would not be able to afford what she wanted if she continued giving away her money. With the help of her planner, she started a program to end the gifts within five years. Had not the woman, her sons and the planner anticipated

this situation, she might have been “surprised” when the time came for her to move into a long-term care facility only to discover that she didn’t have enough money.

Many families are in similar situations, with aging parents who are still managing to live independently at home, but who because of declining health will almost certainly have to eventually make a transition – a transition whose difficulty can be minimized with preparation. Yet many will wait until they are “surprised” by it.

Another example is retirement planning. While many people are not saving as sufficiently as they should for retirement, at least most of them are aware of this inevitable transition and are taking some steps to prepare for it. Most have an age or an idea about when they will retire.

But what if you need to retire earlier than planned due to poor health? According to the National Council on Aging, 40 percent of retirees blamed declining health as the major factor in their decision to retire sooner than planned. This means people are retiring who likely are not financially ready to retire. While health problems can appear suddenly, often they do not, and you may recognize the possibility that you won’t be able to retire as late as you desire. Being aware of this and planning for it can help you through this “surprise” transition of forced retirement.

Life is full of similar transitions people can see coming. Divorce, for example, causes numerous financial repercussions. Coming to a financial planner for advice after the divorce means numerous planning options are permanently lost – you really shouldn’t have taken the house, for example.

A terminal illness foreshadows the inevitable transition of death. Dealing with cash flow, insurance, estate planning issues and investments is challenging enough during good times, but it’s infinitely more difficult when you’re trying to manage them following the death of a loved one. Why not try to anticipate the transition and plan before it actually occurs?

At least once every year, think about what financial life transitions may lay ahead, and what you can do between now and then to take the surprise out of them.