How often must we witness this tragic scene? A gravely ill man musters all his strength and, in a barely audible whisper, begs his younger brother to take him home from the hospital to die—to rescue him from the needles and tubes of the intensive care unit. But this brother is powerless because the healthcare proxy belongs to the dying man’s eldest son, whose emotional state won’t let him give up trying to help his dad get better. Nine weeks and three different intensive care units later, the man dies, $250,000 poorer.

Is this outcome satisfactory to anyone? Did this individual’s financial plan fail him? Did his advisor miss something?

As the astrophysicist Neil deGrasse Tyson puts it, “Just when you think you’ve figured something out, the universe throws you a curve ball.” Six centuries ago Copernicus and Galileo were considered heretical by the authorities of their time. Today we, too, appear ready for a new construct.

In examining longevity risk and financial planning for baby boomers and elderly Americans, the investment advisory industry appears to be stuck in the equivalent of the 16th century. We have assumed that financial services—the financial calculations, the actuarial assumptions, and an array of well-intentioned financial products—are the center of the financial solar system. Clients, families, society, the healthcare industry, etc. seem to be orbiting in an orderly fashion. But because we are stuck in this mistaken view, we cannot see what’s needed in the much wider context of an aging population that desperately needs advice.

Advisors should encourage individuals to address retirement planning using economic projections, market forecasts, actuarial assumptions, and information about financial products to calculate how much money they need to last a lifetime. Most financial websites provide interactive questionnaires that allow users to test the robustness of their financial plans by changing assumptions about savings rate, life expectancy, inflation, spending rate, and market returns. Exercises such as the one illustrated in figure 1 also provide a reality check and permit the client to envision the future (Beyer 2014).

The accepted remedies to address shortfalls in retirement plans are save more, spend less, and have more realistic expectations; see Marston (2014) for some original ideas on these topics.

A New View
What if our industry’s best practices called for financial plans to be created within a much larger framework and reviewed regularly, preferably annually?

For the sake of argument, what if individuals knew when they would die or could actually elect to choose the date they would die? What if financial products were tied to outcomes such as quality of life, emotional and mental health, and family wellness? Consider a model of the financial solar system like the one shown in figure 2, which takes these quality of life topics into consideration.

Figure 1: When Do I Run Out of Money?
Assumptions you and your advisor would enter

- Annual spending
- Inflation
- Tax rate
- Real return = Total return minus inflation and taxes before any spending

Your estimated lifespan

High growth return

New Great Depression annual loss

Low growth return

Moderate growth return

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Future State 2020
The following are discussions about three possible solutions to retirement planning that may better serve high-net-worth clients.

A Financial Plan That Expires Annually, Has a Larger Framework
Under this approach, an individual’s financial plan would draw on a larger framework, and it would expire after 12 months. Plans might be initiated when the individual is 30 or 40 years of age. But just like an automobile inspection or an annual physical, the financial plan would be scheduled for annual review and renewal, especially after age 50. Software affords a cost-effective way to do this by incorporating and integrating new and complex variables in Monte Carlo or other, as yet uninvited, simulations.

As the individual ages, the plan is altered to accommodate changes in physical health and/or emotional or mental states. The family is actively engaged in the planning process every year. Each affected family member has a voice and works with the advisor to determine the changes needed in the plan each year. All the orbiting variables are incorporated into the planning for the next year, thanks to the software’s powerful algorithms.

Outcomes and Benchmarks Are Broadly Defined
Consider this scene: On his deathbed, your 80-year-old client confides to you, “I lived in the moment, enjoyed every minute, and thank goodness I didn’t worry about how I’d be living at 95.”

Or this one: A 95-year-old client tells you and his family, “Thank you for keeping me alive so long, depleting my savings and your inheritance, too, all to provide me with good care.”

The problem here is obvious. How can we assess outcomes, i.e., our success as a planner—before an individual’s death? What happens when the client dies and money is left over? Who’s celebrating?

Assessing outcomes requires acknowledging the purpose of wealth or the best use for any individual’s money. This acknowledgment means that outcomes are measured by more than just a market index or an estimated annual budget.

Financial products sold today will be considered inadequate tomorrow because the outcomes are too narrow. Individuals already bear more financial and emotional risk than they realize. The price of being wrong is already too high for individuals. If people outlast their money, what recourse do they have? If they die prematurely without using their money as they dreamed, who suffers the consequences? Who is rewarded? Are there incentives for advisors to create plans that have fuzzy outcomes? I suggest that if we were to place the individual at the center of the universe, as shown in figure 2, the incentives might be tied more explicitly to outcomes that would incorporate intangible metrics such as wellness, peace of mind, and happiness. At the very least, new questions will be asked of everyone who sits at the table working on the financial plan. These conversations are far from easy, but not having them at all is heartbreaking.

A Very Different Dialogue
Consider a family that joins its patriarch or matriarch and financial advisor at the planning table. When should they start talking about these sensitive topics? At age 50, or 60, or 70? How should they talk about a last will and testament, and its need to be updated? How should they broach difficult subjects such as end-of-life care? How should they approach the choice between a nursing home versus staying at home with 24/7 care that is more expensive? What weight does the family give to the purpose of the wealth as it was defined by the individual years before the individual became incapacitated? What if the wealth holder shuts down the conversation? Who is responsible for expanding this dialogue and trying to answer these questions? The advisor? The family? The individual? What if everyone is in denial?

Candid conversation about death—its meaning, its impact, and its timing—is a lingering taboo that we cannot afford because it is detrimental to our financial, physical, and emotional well-being as individuals and as a society. Our views about death, assisted suicide, and the elderly most definitely will transform as baby boomers age. The so-called safety net, i.e., government funds, already has grown inadequate for so many.

We must prepare today. As weak signals that change is afoot continue to bombard us, suggesting that change is coming, let’s hope we’re not like Galileo’s contemporaries, who couldn’t face the new paradigm.
As the late Peter Drucker claimed, “The most important part of communication is what’s left unsaid.” In this dialogue about longevity risk, however, what we’re not talking about is too important to remain unsaid.

If financial services took the lead, through innovation and research, we could create a new construct. It’s been done before; for example, the birth of the insurance industry in 14th-century Genoa transformed how we manage risk. We can and should craft new and creative solutions to managing longevity. We all will benefit.

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Author’s Note
This article perhaps would have been more appropriately written by a neuroscientist or psychiatrist, not someone like me without scientific credentials. Yet I’ve had the unique privilege of standing at the intersection of the investor and advisor for more than three decades, and I have observed what works—and what does not—in the relationship. At the Institute for Private Investors (IPI), an educational membership organization for ultra-wealthy individuals, I have listened for many years to investors and advisors—their decisions, their changes of heart, their choices, their disappointments, and their yearnings—and from my very personal perspective, we are in desperate need of reform, if not revolution, in how we approach this topic.

Endnotes
1. Chhabra (2005) defines how individuals might approach such planning with allowances for returns that are geared toward personal fulfillment, not just market returns.
2. These ideas may seem outrageous to us now, but they may be possible and more acceptable in the future. Indeed, five states (Oregon, Washington, Montana, New Mexico, and Vermont) provide varying degrees of protection for assisted suicide. See the documentary, “How to Die in Oregon,” which explores one woman’s approach to choosing the date of her own death, at http://www.deathwithdignity.org/category/how-die-oregon.
3. See Beyer (2014) for an exercise for determining the purpose of one’s wealth.
4. The term products is used broadly here, including target-date funds, long-term care insurance, trusts, defined benefit plans, 401(k) plans, self-managed accounts, and managed portfolios, plus annuities as cited in Chatzky (2014).
5. Dunn and Norton (2013) argue that certain kinds of spending can in fact foster happiness.
6. Kathy Pearson, founder of Enterprise Learning Solutions, uses the phrase “weak signals” in her Private Wealth Management lecture at Wharton when describing how often we could have actually glimpsed the changes that are coming if only we paid attention to earlier weak signals.

References