The Solo-Agers Decision Guide
Resource Series

SOA Research Institute — Societal Purpose
WISER — Women's Institute for a Secure Retirement

Managing Your Finances

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Managing Your Finances

This is one topic in the Solo-agers Decision Guide. The Introduction to this Guide outlines the types of decisions that solo-agers need to make to prepare for their future aging needs. Other topics in the series cover preparing for physical and cognitive decline, developing a support network, housing, health care, legal issues, and technology aids.

Managing finances isn't ever an easy task, but it can become more difficult as you get older. Widowhood or divorce may put you suddenly in charge of financial decisions you are unprepared for. Even if you have handled your finances quite well for many years, these tasks can gradually become more difficult to manage if you experience age-related cognitive decline. Without close family to help you with your finances, you need to plan for a future in which you may be relying on friends, other relatives, or paid professionals for this service.

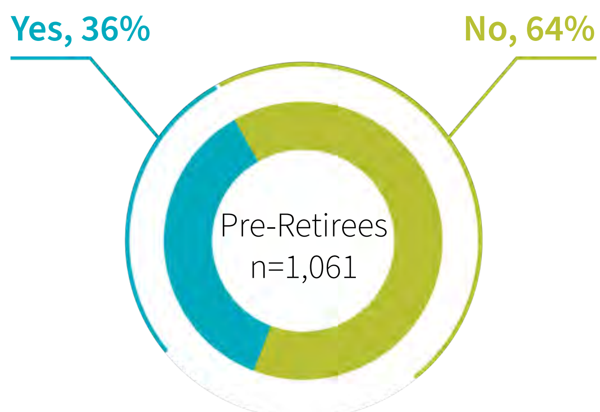
Do you have a plan for managing your finances as you age?

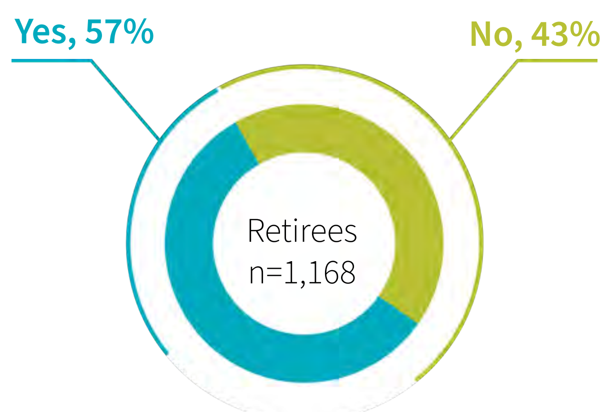
Having a plan for managing one's finances is an important step for all older adults, but even more so for solo-agers because they don't have a family safety net. If you don't currently have a financial plan or haven't arranged for future help, you're not alone. Many people procrastinate thinking about their future finances. Survey research conducted by the Society of Actuaries shows that only 57 percent of retirees and 36 percent of pre-retirees say they have a plan for how much money they will spend in retirement and where that money will come from. AARP research suggests that less than 1/3 of solo-agers under age 70 have someone who could help with daily money management or investments.

Financial Management Components. Creating and sticking to a budget, paying bills and taxes, managing investments, and protecting yourself from financial fraud are fundamental steps you can take for a secure retirement. Unfortunately, these activities often become more difficult over time. Physical and cognitive decline can lead to costly financial mistakes and increased vulnerability to financial scams.

Who will be your "go-to" resource for financial matters as you get older? A financial plan isn't just about the money, but also about simplifying your finances, preparing for your future financial needs, and planning for whom you will trust to manage your finances when you are no longer able to do so.

Do you currently have a plan for how much money you will spend each year in retirement and where that money will come from?





Source: *2021 Retirement Risk Survey, SOA*

Your personal finances can be in better shape if you:

1. Create and stick to a budget in retirement.
2. Plan for how you will cover retirement expenses.
3. Take actions to protect your assets and wealth.
4. Arrange for others to take over financial duties.
5. Seek investment advice, if needed.

Create a Retirement Budget

A budget is simply a plan for future spending. You first identify your expected retirement income and expenses. If your projected expenses exceed your income, you can take steps to either decrease expenses or increase income. The earlier you make this plan, ideally pre-retirement, the easier it will be to make needed adjustments such as delaying Social Security claiming, working longer to build up savings, downsizing, or paying off debt to reduce expenses.

1. Estimate your retirement income. Retirement income can come from several sources, including private pension and insurance annuities, public pensions, Social Security benefits, sale of assets, and retirement plan withdrawals. Many retirees also supplement their retirement income with part-time employment.

It is very easy to underestimate the effects of inflation, which is the increase in costs of goods and services over time. Your retirement expenses (e.g. taxes, rent, auto and homeowners' insurance, groceries, and healthcare) can be expected to increase over time, so it is helpful to have sources of income that will increase as well. Whereas most private pensions provide fixed payments, Social Security provides lifetime inflation-protected income. For this reason, it is often advisable to delay claiming Social Security benefits to receive the largest possible starting monthly benefit. Lump-sum assets can be drawn on to make up income shortfalls, but will be quickly depleted if you're not careful.

Common Sources of Retirement Income

Fixed Income

- Defined benefit pensions
- Fixed Annuities
- Reverse mortgages
- Bond investments

Increasing Income

- Social Security benefits
- Part-time employment
- Rental income
- Dividends
- Inflation Adjusted Annuities

Sources of asset draw-down

- Workplace retirement plans
- Individual retirement accounts
- Investment accounts
- Home equity
- Cash value life insurance
- Inheritance

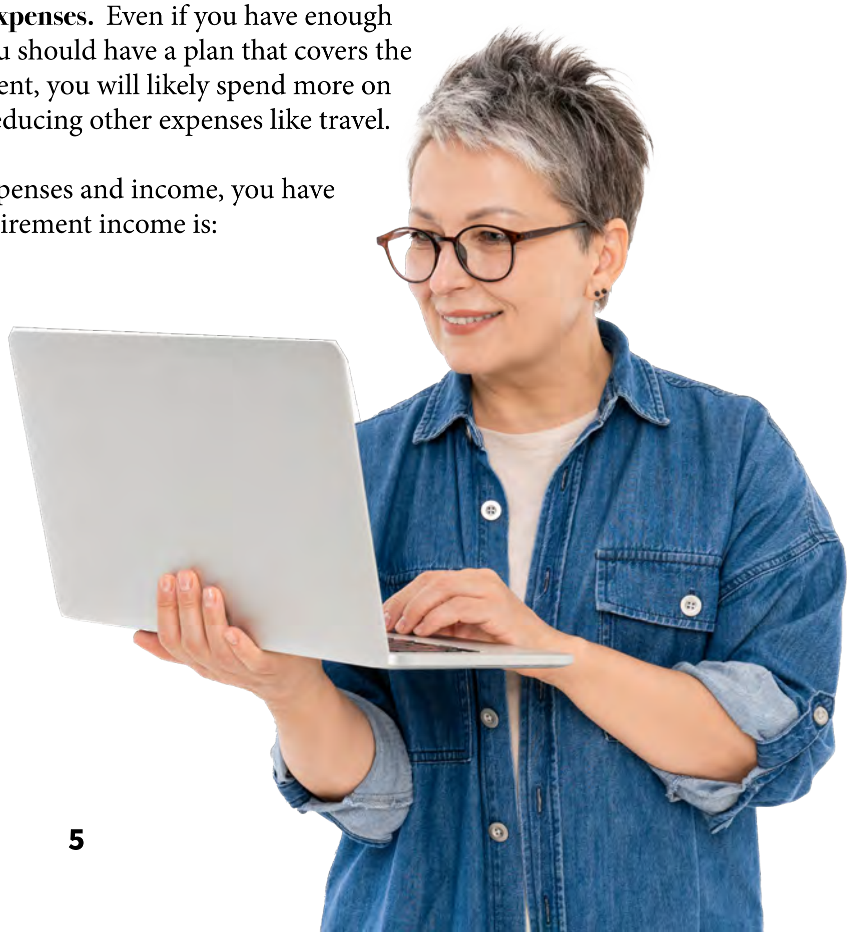
2. Estimate your retirement expenses. The next step is to total up your regular expenses. You can usually do this by reviewing your checking and credit accounts for the previous year, adjusting for annual increases in costs. Although most people are good at estimating regular expenses, it's easy to overlook one-time annual expenses and less predictable expenses, such as travel, uninsured medical and dental, housing and auto repairs.

3. Consider future changes in retirement expenses. Even if you have enough income to cover your current expenses, you should have a plan that covers the future as well. In the later stages of retirement, you will likely spend more on healthcare and on paid caregiving, while reducing other expenses like travel.

4. Evaluate Adequacy. Comparing your expenses and income, you have three possible outcomes. Your expected retirement income is:

- adequate to cover your expenses without drawing down asset accounts.
- adequate to cover your expenses if you withdraw some funds from your assets each year.
- insufficient to cover your expenses.

If your projected income is insufficient and you don't have other resources to draw on, you can make adjustments to your spending or seek additional sources of income to make up the difference.



Ways to Reduce Retirement Expenses

- Stop up budget leaks (such as eating out or compulsive spending)
- Cancel paid subscriptions that you no longer want
- Review autopay charges and cancel unused services
- Pay off debts and limit credit card debt
- Shop around for lower rates on insurance, internet, cable, and telephone services
- Share living expenses with another person
- Downsize housing

Similarly, if your current income will not increase at the same rate as your future expenses, you'll need more income later. Retirees who need additional income may decide to work part-time, share living expenses with another person, or create a regular income stream from their home equity through a reverse mortgage. For more information about reverse mortgages see the Housing section. If your projected income is primarily from lump-sum asset accounts, you may want to use a portion of the assets to buy a financial product that will provide you with cash flow sufficient to cover your regular expenses, as long as this does not leave you with insufficient emergency funds.

Tips for Simplifying Your Finances

- Automate income deposits and bill payment
- Consolidate financial institutions
- Close unused accounts
- Create a summary document for accounts and memberships
- Update your summary document at least annually
- Use a password manager app
- Hire a financial advisor (if needed)

Simplify Your Financial Life

In the early stages of retirement, most people can manage their own finances. Greater assistance will be needed if you experience significant cognitive or physical decline. Such changes can be gradual or may be brought on more suddenly by a medical emergency. In either case, you will probably need at least temporary help with day-to-day money management, and possibly longer-term assistance. Taking steps to simplify your finances will reduce financial stress, allow for more flexibility to handle future changes, and make it easier for a financial helper to navigate. Higher-wealth individuals may want to hire a financial advisor or financial planner to help develop their plan and manage their assets. To find a Certified Financial Planner, check out *www.letsmakeaplan.org*.

Appoint a Financial Advocate

At some point in the future, you may need to rely on others to help with your finances. This will usually involve giving someone Power of Attorney to act on your behalf, but also someone to help with handling day-to-day finances, such as paying bills, reviewing insurance reimbursements, grocery shopping or other money-related tasks. These do not need to be the same person and often are not. It's a good idea to research and select these professionals before you actually need them.

A durable financial power of attorney (POA) gives someone the legal authority to make financial decisions for you if you are unable to do so yourself. You retain the right to change it or cancel the POA as long as you are still able to make decisions.

In selecting who to appoint to this role, the most important criteria are the following:

- **Trustworthiness:** Will they act in your best interest?
- **Age:** Choose someone younger or in good health to reduce the likelihood that they predecease you.
- **Location:** Do they live near enough to be able to help?
- **Availability:** Do they have sufficient time to give to this role?
- **Backup:** If your state allows it, you can appoint a co-POA or backup POA

Although most people appoint relatives or close friends as their POA, solo-agers will usually hire a professional to fill this role. Examples include: trust departments of banks, CPAs, care management companies, non-profit social service agencies, daily money managers, or attorneys. Be sure to ask carefully about fees and services.

In addition to the financial POA, it is advisable to identify one or more helpers who will assist with everyday financial matters such as bill-paying, insurance paperwork, shopping, and personal banking. Although you might have a friend who can fill this role, the criteria for this role should be similar to those applied to selection of the POA, the most important factor being trustworthiness.

Recommended Legal Documents

- **Durable Power of Attorney** to give a trusted person the authority to manage your financial and legal affairs if you are unable to do so
- **Payable-on-Death** form (from each bank) to name a beneficiary for checking and savings accounts
- **Transfer-on-Death** form (from each brokerage firm) to name a beneficiary for non-retirement investment accounts
- **Trusts** can be used to have someone else manage your assets when you can no longer handle your financial affairs.
- Update beneficiaries on retirement accounts and insurance

Protect Your Assets and Wealth

Older adults are often targeted by financial scammers aiming to take advantage of diminished cognitive abilities and trusting natures. Financial crimes can derail even the most carefully planned retirement, wiping out hard-earned savings and leaving victims without much recourse. They often go unreported because the older adult is embarrassed or ashamed. The 2021 SOA Retirement Risk Survey found the percentage of people who were very or somewhat concerned about being a victim of fraud or a scam was significantly higher than in 2019, more than 43% of pre-retirees and 47% of retirees.

Understanding the most common types of scams is the first step in protecting yourself. Common advice is for friends, family, and caregivers to be alert to any unusual financial activities, large account withdrawals, sudden changes to a will or other legal document, or spending on a new "friend" in the older person's life. Solo-agers may not have someone in their life who will fill that role. It's therefore a good idea to name a Trusted Contact on your accounts who can check your statements and be notified by a financial institution of suspected financial abuse. Credit companies offer identity theft services that will flag suspicious transactions.

Protecting Against Financial Fraud

- **Choose a financial advocate** to be your POA
- **Add a Trusted Contact** for accounts and investments
- **Sign up** for an identity theft service
- Make sure your **financial records** are organized and secure
- **Check your credit report** to review for suspicious activity
- **Never provide personal information** over the phone unless you initiated the call

Financial abuse can be as simple as intercepting checks or cash, stealing Social Security and credit card numbers, and overcharging for services. However, today's scammers commonly operate over the telephone and computer. With the advances in artificial intelligence, scammers can even masquerade as people you know. According to the US Special Committee on Aging, the top scams targeting older adults include the following:

- **Government impersonation scams.** The caller pretends to be from the IRS, Social Security or Medicare and tells the person that they owe money that must be paid immediately.
- **Robocalls.** You may be asked "Can you hear me?" Your response of "Yes" is recorded and then used to sign you up for something.
- **Computer tech support.** A pop-up screen on your computer or phone tells you the device is damaged or has a virus and tells you to call support. The scammer may request remote access to your computer or demand that a fee be paid to repair it.
- **The grandparent scam.** A scammer masquerades as your grandchild and asks for money to solve an urgent financial problem (overdue rent, car repair, jail bond), often begging you not to tell their parents. Payment is often requested in the form of debit cards to prevent the scammer from being tracked.
- **Romance scam.** Scammers create fake profiles on social media or dating sites to exploit older adults' loneliness. This leads to online correspondence with requests (sometimes urgent) for money, often to pay for visas, medical emergencies or travel expenses to come visit.
- **Sweepstakes and lotteries.** Scammers tell an older adult they have won a prize and need to send money up front to cover taxes and processing fees.

Resources for Finances

AARP Fraud Watch Network Helpline 1-877-908-3360

AARP Fraud Tracking: *www.aarp.org/money/scams-fraud/tracking-map/* (report suspected frauds and scams)

AARP, Thinking Ahead Roadmap: *A Guide for Keeping Your Money Safe as You Age* (2021)

AARP, Solo-agers: Attitudes and Experiences, February 2021 (doi.org/10/26419/res.00428.00)

American Bankers Association, *Protect the Elderly from Financial Exploitation https://www.aba.com/advocacy/community-programs/consumer-resources/protect-your-money/elderly-financial-abuse*

American Association of Daily Money Managers, *www.aadmm.com* (search for Certified Daily Money Managers near you)

CFP-Board, *www.letsmakeaplan.org* (search for CFP near you)

Federal Trade Commission: consumer.ftc.gov/identity-theft-and-online-security (valuable information on protecting against identity theft and scams)

Anna Rappaport, *Improving Retirement by Integrating Family, Friends, Housing and Support: Lessons Learned from Personal Experience https://www.soa.org/493996/globalassets/assets/files/resources/essays-monographs/managing-impact-ltc/mono-2014-ltc-manage-rappaport.pdf*

SOA Research Institute, *Late in Life Decision Guide,* 2022 (includes a summary exhibit of money management issues at different ages)