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How the Age Wave Is Remaking Financial Advice
By Jane Wollman Rusoff | December 22, 2014

For advisors, growing numbers of older Americans mean new responsibilities—and golden opportunities

A likely plea from your clients of advanced age: Please don't call us “elderly,” “seniors” or even worse, “senior citizens.” And would you kindly drop “golden years” and “silver tsunami” from your lexicon too?

Those terms turn off folks age 65 and beyond. Instead, embrace the less irritating “older adults,” “older Americans” or “retirees”—if you must identify them by age at all.

The fact is, however, that by 2030, about one-fifth of the U.S. population will be 65 or older. And by 2032, that cohort will outnumber children under 15. It is therefore essential to key into this unprecedented, ever-growing important demographic.

“This is not business as usual. There has never been a time in history with a more seismic opportunity in front of the financial services industry in terms of millions of people needing help, guidance and motivation. This is going to be the golden age of financial services,” says Ken Dychtwald, psychologist and gerontologist, and CEO of Age Wave, a think tank based in Emeryville, California.

It isn't just the expanding number of older adults; it's their longevity, the complexity of choices—retired, still at the job, embarking on a different career—as well as uncertainty about entitlements down the road, that have created a critical need for financial advisors.

“As people are living longer, retirement planning as we know it is being replaced by longevity planning,” according to MIT AgeLab, a research program at the Massachusetts Institute of Technology.

Indeed, the aging population is a great asset and a splendid opportunity. These still-active men and women are eager to buy innovative products and services designed specifically for them and which represent new sources of revenue for businesses.

Already, a number of entrepreneurs have set their sights on this mushrooming demographic. There are, for instance, smart watches, replacing lockets, that alert a family member in event of emergency; they also remind wearers when to take their meds. Another company is marketing debit cards with dollar limitations that also notify a relative of alarming, outsized withdrawals.

Financial advisors are surely in the catbird seat when it comes to helping older clients manage and plan.

“The earth has moved, and it's moved in the way of shifting age. The aging population is one of the biggest trends not only in America but in the world,” says Paul H. Irving, president of the Milken Institute, in Santa Monica, California, and editor of “The Upside of Aging: How Long Life is Changing the World of Health, Work, Innovation, Policy and Purpose” (Wiley, 2014).

Irving continues: “We’re in the very early stages of massive cultural change. Those who recognize that relatively early will have extraordinary opportunities to grow their businesses. Those that don't will look back in 10 or 20 years and see that they’ve been left behind.”

In particular, the financial services industry “has so much potential to do good for society, and in the bargain, dramatically improve its own competitive position and attract additional AUM,” he says. “I don't think that any company has figured it out yet. But those that do, have a windfall ahead.”

Bank of America-Merrill Lynch is getting a leg up with the appointment of what it calls an industry first: a director of gerontology, Cynthia Hutchins. She is a former FA with the firm who specialized in retirement.

“We’re turning a cruise ship in changing [our] advisors’ mind-set as to the things they need to be bringing to the forefront in client conversations,” Hutchins says. “Much more so than in the past, [aging] clients need financial advisors to help them, and advisors need to pay attention to how financial planning for these clients has changed as a result of longevity, including the major cost of ongoing health care.”

Contingency plans are absolutely required. For instance, what if the client must retire earlier than planned because of illness? Or because they need to be a full-time caregiver to a family member?

"If you retire earlier because of caregiver demands, you stop contributing to your retirement plan. Advisors need to bring a contingency plan to light," Hutchins notes.

Cognitive Concerns

In serving older clients, the issue of cognitive decline becomes a reality. As difficult and unpleasant as that is to discuss, it must be brought up in relation to investing.

Much of the decline is associated with physical manifestations, such as mini-strokes, which often aren't even noticed. Cognitive decline is partly responsible for older people's greater susceptibility to financial scammers; also, they are more easily influenced by those who gain their trust.

"Cognitive decline is something that financial services—and the broader population—are just starting to get our arms around," Hutchins says.

Studies show that, as cognitive abilities decline, confidence in investment decisions, unfortunately, rises.

So "you don't want to get to the point where increased confidence in yourself encourages you to start gambling with large sums of your retirement needs," says Lewis Mandell, financial economist, and professor emeritus of finance and business economics, the University of Washington.

Analytic intelligence peaks at age 20. On average, overall ability to make financial decisions peaks at 53; and as we age, the rate of decline steadily increases, according to Mandell. However, as we grow older, experiential intelligence slowly increases "because we've done more things. It tends to keep increasing for much of [the rest of] our lifetime."

"To the financial advisor, [cognitive decline] means, more so than ever, that there certainly are a lot of older folks in need of a really capable advisor," says Mandell, author of "What To Do When I Get Stupid: A Radically Safe Approach to a Difficult Financial Era" (Point White Publications, 2013). "They need someone who will focus on strategic investment needs rather than tactical ones."

Mandell recommends "automatic-like" investments that "lock up wealth and need little management. A good planner will try to make sure that basic needs are adequately covered and also [separate] a small piece of the portfolio for the client to play with. But all the rest should be to provide and be invested in secure-enough things to generate income needed for the rest of the client's life."

Along those lines, an immediate annuity may be appropriate, Mandell says. "It's a very good investment for someone who needs cash flow for the rest of their life that they can't generate just from dividends and interest. A single-payment immediate annuity is a good way to supplement cash flow on which they're going to depend for their needs."

Alzheimer's is the disease that respondents, age 25 and up, said they worried about most—more than cancer, stroke, heart disease, diabetes and arthritis combined—in a 2014 Age Wave-Merrill Lynch study, "Health and Retirement: Planning for the Great Unknown."

Since Alzheimer's remains little understood, including predicting its duration, "this is something that's unique to think about in terms of planning, "Hutchins says. "But it certainty needs to be [addressed] in terms of the financial pieces that must be put in place to, at least, avoid being a burden on the family."

Longer Lives

A number of studies have found that once people reach 65 and are in relatively good health, they will probably live into their 70s, 80s or even 90s. Along with that, of course, comes greater likelihood of need for long-term care. According to Hutchins, 70% of people now 65 will require it.

"That's a huge number!" she says, noting that "two-thirds of unpaid caregivers are women, 14% of them over age 65. So by leaving [the labor force] and no longer contributing to their retirement plan, they're sacrificing their own retirement to care for a family member."

It is also imperative to focus on clients' ongoing, routine health care costs in later years, as Medicare covers only "a little bit over 60%," Hutchins notes. "You need to be thinking about $4,000 to $5,000 a person per year. With a 20-, 30- or even 40-year retirement, we have to factor that increased longevity into our planning."

At the same time, retirement, per se, is being reimagined and reinvented. Irving, in fact, insists that retirement is detrimental. "Retirement is oversold," he says. "Retirement is bad for your wealth and bad for your health. Research shows that remaining engaged has all kinds of positive outcomes associated with it, including lower disease rates and longer lives."

To be sure, many aged 65 and older are still on the job or opened their own small businesses or kicked off second careers.

"The new rules of retirement are to work longer. We have to prepare for 50 years of work," Joe Coughlin, Ph.D., director of MIT AgeLab, has noted.

And Irving stresses: "Traditional retirement planning in the way that many advisors talk about it doesn't really reflect what is well recognized by data as being the direction of older people today. So those messages from financial advisors need to change. That means more holistic planning."

The industry, Irving continues, "has a fantastic opportunity to think more broadly about how people will age and more creatively about the opportunities associated with a longer stage of life in which they are reasonably healthy and have more flexibility" to continue to be productive.

But for millions of baby boomers, the twilight years will be a nightmare. One-third of them have less than $1,000 in total net lifetime assets, Dychtwald says. "This is a disaster waiting to happen. Boomers have largely lived their lives with the belief that money grows on trees or that there's always another loan you can get," the psychologist adds.

“So, what I see going forward,” he continues, “is a substantially large percentage of retirees who will be struggling financially, living in anxiety and being a burden to their families. That third of the generation will find themselves at or near the poverty level. Another third, who worked hard, invested wisely and will probably be the recipients of an estimated $15 trillion of their parents’ wealth, will be in great shape.”

Talking with clients earlier about the decades before them and creating a cohesive, comprehensive financial plan makes the young-old more hopeful about their finances, studies show.

“We’re doing our clients a big disservice if we’re not discussing these issues or helping them put contingency plans in place,” Hutchins says. “But the flip side is that if we start having candid conversations earlier and often, clients feel prepared and enlightened.”

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