USA TODAY Money

Your financial plan depends on your life stage now, not your age

By Adam Shell, USA TODAY
Updated 2/25/2011 4:37:54 PM

NEW YORK — Carving out a winning personal finance plan today is increasingly less about how old you are and more about what stage of life you're in.

The cookie-cutter approach to managing money has become outdated and unworkable for many Americans, as massive demographic shifts, fast-changing lifestyles and the fallout from the recent financial crisis have upended even the best-laid financial plans.

No longer do most people go to college and marry in their 20s, have a family and buy a home in their 30s, work for one company for life, and retire financially secure in their 60s.

Life is more complicated, more unpredictable and more unsettled today.
Indeed, financially disruptive stuff seems to happen more frequently these days and at much different stages of peoples' lives — often when they least expect it and are most vulnerable.

A job loss and bleak job prospects, for instance, mean falling behind on bills, devouring savings and maybe even moving back in with parents or starting your own company out of necessity. Americans are living longer, and that means more adult kids are supporting or caring for aging parents. Marrying later — or more than once — and having kids or a second family later in life mean bigger expenses, such as college tuition, while retirement inches ever closer. College, once a rite of passage for teens, is now both a lifeline — and a big unexpected bill — for the fortysomething set returning to college in large numbers in a bid to retool their careers and stay economically viable.

By Jay Paul for USA TODAY

Brittany Rose, center, CEO of More Than Cheer, with assistants Desire Branch-Ellis, left, and Jenne Nurse, right. Rose, 22, started the business when she was a marketing major in college.

All that added complexity is causing fresh money headaches for people ranging from those just embarking on their life journey as well as those entering or already enjoying their golden years.

• Ron McElhaney Jr., 46, of Savannah, Ga., for example, is having a tougher time saving because he is on his second marriage and pays child support for his two kids plus helps support the two children from his new wife's previous marriage.

• Harry Nieman, 74, of Pittsburgh, says he and his wife, Betty, 73, have had their retirement interrupted by one college-educated son who lives with them after getting laid off three years ago. The former banker is also providing financial help to a second son and his two kids after a job loss.

• Sandra Taylor, a 59-year-old divorced banker who lives alone, says she is delaying her retirement a few years to boost her savings because of a job loss three years ago and the limitations of just one income.

• Brittany Rose, 22, a fifth-year student at Virginia Commonwealth University, started her own business a few years back while a sophomore because of a lack of job opportunities and as a way to take some of the financial pressure off her parents.

Recalibrating financial plans

With increasing frequency, these disruptive unplanned life events are forcing more folks to tear up or recalibrate their financial plans in favor of an updated plan that better addresses their situation. Money once intended for one financial goal must be diverted to more pressing needs.

"The stages and circumstances of peoples' lives often trump personal finance basics," says **Tony Ogorek** of Ogorek Wealth Management, a financial planning and money management firm in Buffalo. "You have to be creative in advising people today. With social mores changing, we no longer have a traditional life cycle to point to. There are no more pre-set stages anymore. The Burger King model of 'serve it up your way' is where the whole (personal finance) planet is going."

Shifting demographics, including the aging of the Baby Boom generation, is one major factor turning the Personal Finance 101 playbook upside down, says William Frey, a demographer at the Brookings Institution.

The world in the wake of the financial crisis is less financially friendly for Boomers. That reality has forced them to rethink retirement and how and where they live.

There has been a big downturn in the migration of Boomers to different parts of the country to retire, Frey says. He attributes that to the housing bust, which has reduced the amount of equity in their homes and made it more difficult for them to sell. Despite a stock market rebound, the drop in 401(k) retirement balances has also resulted in less financial flexibility for those on the cusp of retirement.

These negative financial factors mean the "trend of people working longer" is likely to be extended further into the future, says Frey.

The fact that many Americans are now living into their 80s also places greater financial pressure on Boomers' adult kids, many of whom act as caregivers, provide financial support or monitor their parents' care at nursing homes.

"We haven't faced these issues in such big numbers before," says Frey.

To get a clearer picture of how societal changes and economic upheaval have created new personal financial issues, consider some of the money challenges faced by a number of folks at different stages of their lives.

On their own

With nearly one out of 10 Americans unemployed and job growth sluggish, many college students are no longer attending campus job fairs or sending out résumés in hopes of landing entry-level jobs.

Instead, they are starting their own businesses. Meet the twentysomething CEO.

Take Rose, the Virginia Commonwealth University student. She's not even out of college yet but spends most of her time building her own business, More Than Cheer, which specializes in upgrading the skills of cheerleaders through classes, camps and coaching.

Her upstart business pays the rent, helps offset her tuition bills and helps pay off student loans and credit card balances, which run higher because she used credit to help get her business off the ground.

"Originally, I had planned on working for somebody else," Rose says.

"But," she says, "I saw an opportunity to use my company as a means of supporting myself while staying in school.

"Now, as I am getting ready to graduate, I am even more motivated to make my company more profitable because of the lack of job opportunities."

The bad news: She is pouring any leftover cash back into the business, which means she is not putting money into her retirement account as aggressively as she would like.

In the past five years, the percentage of U.S. entrepreneurs that started businesses "out of necessity" more than doubled, to 28.9% in 2010 from 13.2% in 2006, according to data compiled by Babson College.

"A higher proportion of entrepreneurs started businesses out of necessity, because they had no other options for work," says Donna Kelley, associate professor of entrepreneurship at Babson.

And in a sign of young Americans' growing interest in taking the entrepreneurial route, applicants to the Entrepreneurs' Organization's Global Student Entrepreneur Awards, which are limited to full-time college students running businesses with six months of profits, have risen more than 250% since 2007.

"More collegiate folks now view starting a business as a career choice coming out of school," says Ryan Meyer, an EO spokesman.

Dinesh Wadhwani, 21, a junior at Babson, also was not excited about the limitations of working for an established company. So he started ThinkLite, a company that uses advanced green technology and custom-manufactured light bulbs to help commercial businesses cut their monthly lighting bills by as much as 80%.

"The recession," the young entrepreneur says, "has actually helped my company because companies are much more sensitive to cost savings."

His motivation: "The ambition to have something of my own. I could have just crushed my grades, landed an interview and got a good job."

Instead, he spends his time dealing with lawyers, auditors and clients.

Wadhwani has yet to start funding his retirement. The company, which controls every part of its production line, has established credit lines with nine custom manufacturers as they continue to grow the business.

"Going to class is the third thing on my plate," he says. "First is customers, and the second is the company's supply chain."

Multigenerational living

Another trend that is influencing money matters and living arrangements is the growing number of multigenerational living arrangements, caused either by economic need or cultural shifts related to immigration.

"Families have to help themselves as they never have before," says Stephen Melman, director of economic services at the National Association of Home Builders. In fact, a model home designed by NAHB with multiple generations in mind is big, is all on one floor and has separate wings to accommodate, say, a family as well as grandparents under one roof.

Pew Research data show that in 2008 16%, or 49 million, of the U.S. population lived in households that contained at least two adult generations, up 33% from 1980. And due to the fallout from the housing bust, the number of households in which multiple generations lived under the same roof surged 2.6 million from 2007 to 2008.

Nieman, the retiree in Pittsburgh, fits that description. He and his wife, Betty, have the youngest of their four adult sons living with them because of a job loss three years ago and an unsuccessful job search despite applying for hundreds of jobs. "His unemployment ran out 1½ years ago," says Nieman, who is also financially helping another son and his two kids after he lost his construction job.

The need to help his kids has resulted in some money-saving choices, says Nieman. "We sold our vacation home in Florida two years ago and now rent for only three months in the winter."

Demographic expert Harvey Dent, president of HS Dent Foundation and author of *The Great Depression Ahead*, says managing personal finances around life stages is important. More important is being mindful of the economy's life cycle when deciding whether to be aggressive or conservative with finances. He uses the four seasons to describe the economic cycle and stresses that the economy is now in its winter season, which calls for a cautious investing stance.

"I don't care if you are 25 or 65 years old, in economic winters most investments fall in value, including stocks," says Dent. "The economy's life cycle is more important than an investor's, because it is more pervasive."

Families later in life

Mothers having kids later in life are also upending more traditional financial arrangements. In 2008, 14% of births were to women ages 35 or older, up from 9% in 1990. That means financial sacrifice and tough choices for moms who are working at the time of the birth.

Swapna Patel, a 36-year-old from Houston, had her second child last year, a life change that led to her decision to leave the workforce and her 13-year career as an information technology consultant. She and her husband, Rajesh, 39, decided that caring for the kids was more important than money.

But that decision has brought financial struggles. Despite starting a freelance headhunter business, the family has taken "a major hit to their income." For the first time in their lives, "We are not putting money into savings or retirement accounts," she says.

Patel says one of her main jobs now is to make sure money doesn't leave the house. She clips coupons and looks for deals on the Internet, and says she hasn't spent more than $5 on new clothing for her children since leaving the workforce. To save cash, the couple refinanced their mortgage, lowering their monthly bill by $400.

McElhaney is now at the stage of his life where it is time to pay for college — a few years earlier than expected. Because he remarried, he now has four kids to put through college — two from his first marriage and two from his current wife's prior marriage. One of his stepsons is already in college, and the other is in junior high. College costs for his son, now in sixth grade, and his daughter, in ninth grade, are coming up in a few years.

The need for tuition comes after a few lean years for McElhaney's job-recruiting business: "We are paying our bills and watching our nickels and dimes."

Says Bob Cohen, a financial planner at Financial Strategies & Wealth Management, "Investors want more flexibility, more than previously, to be able to adapt to these uncomfortable times."