The Independence Myth: Understanding Financial Interdependence as we Age

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Fidelity INVESTMENTS

Overview

What is the 'independence myth?'

Retaining independence into older age is often framed as a hallmark of aging well. And having a solid financial plan is a key enabler. **But is the idea of managing that plan and remaining financially autonomous – indefinitely – really a myth? And what happens when our desire to make decisions outstrips our ability to manage our money – particularly spending and bill paying – safely and successfully without help?** Neuroscience suggests that complex financial decision making skills peak in our early 50s and start to decline gradually thereafter. With this in mind, how should each of us plan to partner for help managing our finances and outsmart the independence myth as we age?

Why do this work: what did we hope to learn?

- Determine when independently managing finances actually **compromises long-term financial independence**
- Understand the **transition from financial independence to financial interdependence** – a state that preserves as much of the older adult's financial autonomy as possible – as adult children and other loved ones take a more active role in helping to manage finances
- Explore what else can be done to **preserve financial independence, strengthen family financial safety nets and promote planning**

What was our approach?

In order to unpack the independence myth we engaged three key stakeholder groups (adult children, older adults and financial advisors) in examining financial independence, recognizing and responding to changes in the ability to remain financially independent, and better understanding what help looks like via online surveys fielded 2H15 through 1H16. Participant highlights as follows:

- **Adult children:** participants (n = 1,043) were a minimum of 30 years of age, with a living parent at least 60 years of age who had $500k or more in investable assets and worked with a financial advisor. Of note, 31% of parents had a chronic health issue, an additional 16% suffered from confusion or forgetfulness and an additional 9% had Alzheimer's disease or another form of age-related dementia.
- **Older adults:** participants (n = 1,024) were 50 to 80 years of age, had a minimum of $500k in investable assets and worked with a financial advisor. Of note, 23% of the sample were 65-74YO with an additional 25% 75-80YO.
- **Advisors:** participants (n = 646) had a minimum of three years' experience with 25% of their book age 65 or older and one third of their book with a minimum of $500k in assets. Of note, the advisors' mean age was 48.7 and 36% (H) of advisors had 20 or more years of experience.

Key learnings

- **Older adults place a premium on financial independence.** Remaining financially independent is seen as being as important as "having enough money in the event of an emergency" and just behind "having enough money to live comfortably in retirement."

- **Experience ≠ acceptance:**
    - 6 in 10 older adults witnessed a loved one lose their financial independence
    - 4 in 10 older adults helped manage their parents money
    - 9% think they'll ever lose their ability to manage money

- **Spending is the last bastion of maintaining financial independence.** Three quarters of older adults say it's very important to maintain their ability to manage day-to-day finances, compared to less than half who place similar importance on managing investments.

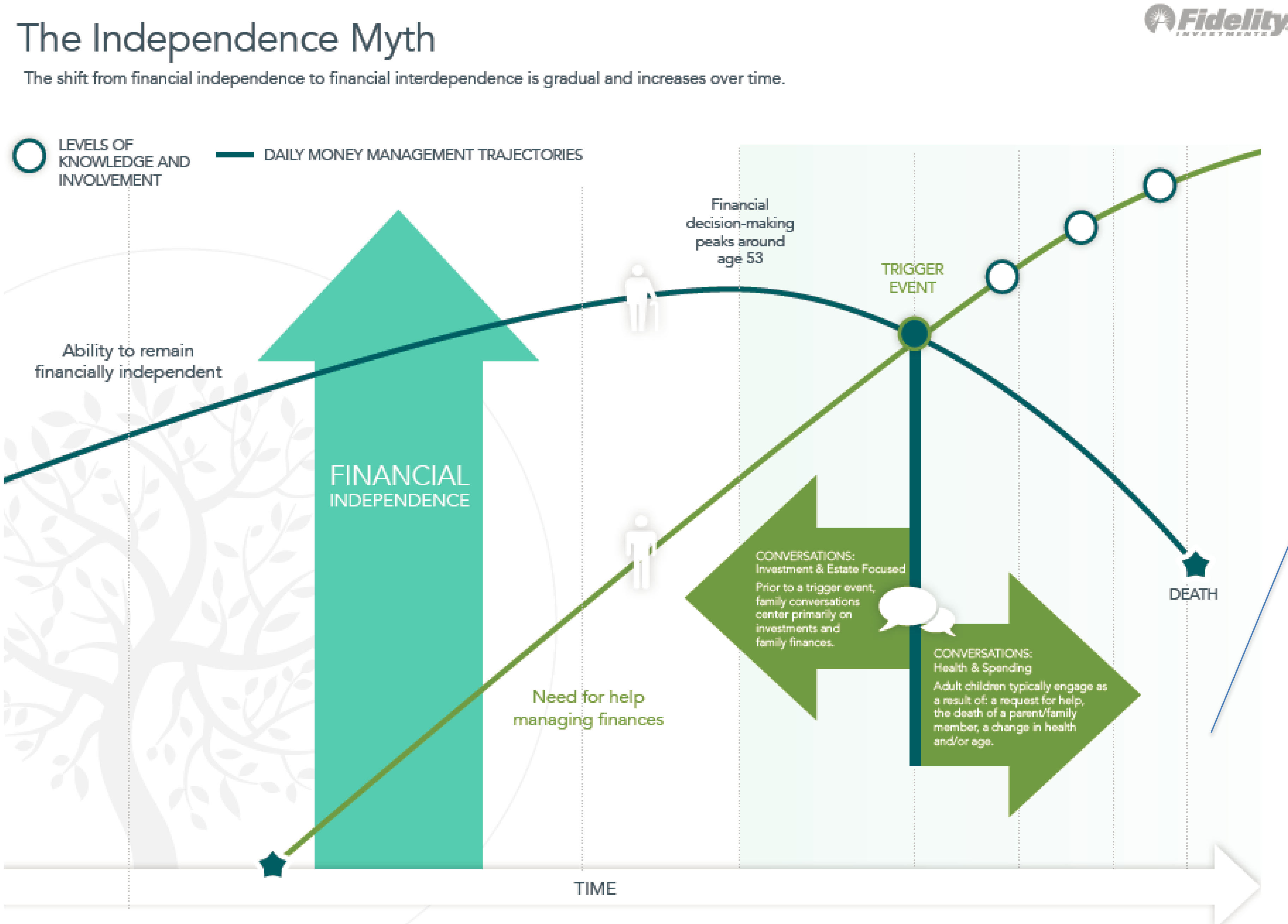
- **Gender matters:**
    - **Adult children:** Are more concerned with their single mom's physical health (72% vs. 63%), cognitive health (66% vs. 56%) and her ability to maintain her standard of living (22% vs. 16%). They also find it easier to talk to mom about money (72% vs. 61%), are more likely to discuss finances (91% vs. 74%) and know how to reach her financial advisor more frequently (42% vs. 28%).
    - **Older adults:** Women are most concerned with having to care for a spouse (61% vs. 50%), staying in their own homes (36% vs. 28%) and needing to rely on family for their own care (39% vs. 34%). They also place greater importance on their ability to continue to manage day-to-day finances as they age (79% vs. 72%).

- **Adult children and older adults on the same page when it comes to what kinds of help they'd like:**
    - ID theft (66% vs. 61%)
    - Referrals for elder care services (59% vs. 51%)
    - Regular family financial check-ins with the parents' advisor (51% vs. 53%)
    - Alerts when a significant amount of money is withdrawn from parents' account (50% vs. 54%)
    - Resources that help a loved one assist in managing finances (50% vs. 42%)
    - Help/resources that assist in identifying triggers for age-related issues (44% vs. 39%)

- **Family financial engagement is a win-win:**
    - **6 in 10 older adults worry about having to burden family with help managing their finances, yet 8 in 10 adult children want to be involved**
    - 95% of adult children see their involvement as effective because it allowed their parents to maintain their lifestyle and preserve their assets – both adult children and older adults view success in terms of the ability to stay at home and avoid falling victim to fraud

Source: Fidelity's The Independence Myth, 2016

A closer look: adult children



Adult children are actively concerned about parents' health, wealth & safety:

- 8 in 10 worry about their parents' ability to manage money
- 47% (H) worry about their parents' ability to remain in their home
- 43% (2H) worry about their parents' susceptibility to fraud

They're also actively engaged as caregivers:

- 14% are managing parents' finances
- 26% are providing unpaid care
- 8% are paying for care

Source: Fidelity's The Independence Myth, 2016

A closer look: what help looks like

What Help Looks Like:
A Comparison of Interest in Resources, Tools and Support

AUTONOMY

	Adult Children	Older Adults
ID theft protection	66%	61%
Referrals for elder care services	59%	51%
Regular family financial check-ins with parents' financial advisor	51%	53%
Alerts when a significant amount of money is withdrawn from parents' account	50%	54%
Resources that help loved ones assist parents to manage their finances	50%	42%
An oversight account that controls a portion of parents' money and is subject to review by a designated caregiver/trustee	43%	27%
A requirement that you approve major financial decisions	42%	31%
Credit cards with built-in limits	34%	21%
Working with a daily money manager to assist with finances	30%	14%

Older adults equate "financial independence" with the ability to manage day-to-day finances (e.g., spending, using credit cards and paying bills) and resist anyone invading that space:

- 9% say their financial advisor is involved in daily money management
- 1 in 7 have discussed managing finances if cognitive function declines

<u>Stakeholders are most closely aligned around resources that minimize risk, maximize autonomy and maintain privacy around spending</u>

Source: Fidelity's The Independence Myth, 2016

Thank you!

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