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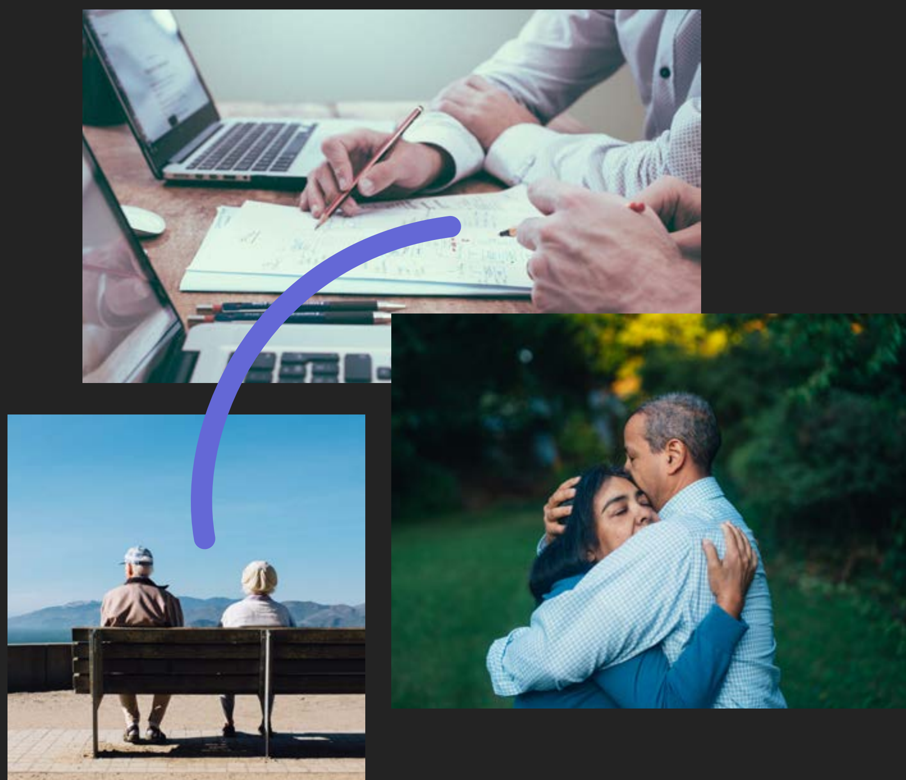

How to Maintain Financial Independence as You Age

At step-by-step guide to taking control of your finances and protecting your money so you don't have to rely on support from others.

On Staying Independent

You likely want to live independently as long as possible. After all, the idea of having to rely on others for support as you age probably isn't that appealing. However, whether you can live independently might not seem entirely in your control.

For example, health issues and cognitive decline could force you to receive care from others. More than half of adults will need long-term care—assistance with activities such as eating, bathing and dressing—at some point in their lives, according to the U.S. Department of Health and Human Services. Even adults who don't develop disabilities that require hands-on care still might need help with their daily money matters. That's because financial-decision-making ability declines with age, according to the National Endowment for Financial Education.

Fortunately, these unsettling statistics don't mean you have to resign yourself to giving up your independence as you age. Yes, some things are out of your control, but there are plenty of ways to maintain your independence—particularly your financial independence—for as long as possible.

Carefull, the first service built to organize and protect aging adults' finances, has created this guide to provide you with steps to improve your chances of prolonging financial independence. To keep you on track, we give you a checklist of tasks for each step you must take.

For even more hands-on help, download the Carefull app to get customized guidance and assistance with protecting your finances.

Step 1

Get your finances in order

The more on top of your finances you are, the less likely you'll need to seek financial support as you age. If you're already in a good place financially, you can breeze through this step. However,a majority of adults have room for improvement when it comes to their finances. This checklist can help you pinpoint areas you need to work on to secure your financial well-being.

Start with a budget

Rather than think of a budget as something restrictive, think of it as a roadmap to help you get where you want to be financially. Review at least one month's worth of spending to get an idea of where your money is going. Then ask yourself whether most of your money is going toward things you need or toward things you want.

If you can cover everything you need to be financially stable (food, housing, transportation, bills, debt repayment, emergency savings, retirement savings), then you're free to spend what is left over on what you want. If not, you'll need to make some changes in your spending to stay on course financially and to achieve the next two goals.

Dig out of debt

Paying down debt—especially high-interest consumer debt—should be your top priority. Make a list of your debts with the amounts owed and the interest rates. Then look at your monthly spending to see how much you can afford to pay toward your debt, as well as what costs you can cut to accelerate your debt pay-off.

Once you've figured out how much you can put toward debt repayment each month, determine which debt you'll pay off first. You could start with the smallest balance to feel a sense of accomplishment as you quickly pay it off then tackle increasingly larger balances. Or you could start with your highest-interest debt. Because the interest on this debt will accumulate faster, you can reduce the total amount you pay over time by tackling this debt first.

If you're drowning in debt, reach out to a National Foundation for Credit Counseling certified financial counselor for help in creating a debt management plan.

Build emergency savings

To avoid going into debt or increasing the debt you have, make sure you have cash set aside in an easily accessible savings account to cover emergencies. If you're still working, you should have enough to cover three to six months' worth of expenses in case you lose your job and need cash to keep you afloat until you find work.

If you're retired, make sure you have at least enough to cover the deductibles you need to pay out of pocket for your homeowners, auto and medical (Medicare) insurance policies. However, it's a good idea to have an even bigger cash reserve to cover several months' worth of expenses if the market drops and you don't want to be forced to draw on investments in your retirement account until the market recovers.

Keep in mind

Budgeting, paying off debt and building emergency savings might require you to make some sacrifices. Don't let that discourage you, though. Remember that making adjustments now can help reduce the chance that you'll have to sacrifice your financial independence in the future.

Step 2

Prepare for long-term financial needs

Living a long life can be expensive. You'll need a source of income to replace the paycheck you earned during working years to cover living expenses. You'll need money to cover health care costs, which likely will increase as you age. You also might require long-term care, which can cost several thousand dollars each month and isn't covered by Medicare.

The sooner you start preparing for future financial needs, the less likely you'll have to rely on family or government programs to support you as you age.

Boost retirement savings

If you're still working, start by figuring out how much you need to save for retirement. It's likely more than you think because you'll need to have enough to cover the difference between the Social Security benefit you'll receive and your expenses for 20 to 30 years.

Average annual spending for an adult 65 and older is $48,106, according to the Bureau of Labor Statistics 2019-20 Consumer Expenditure Study. The current average monthly Social Security benefit is just $1,544, which is $18,528 annually. Using those figures, you would need $729,450 to fill the gap between Social Security benefits and expenses over the course of 25 years. To get a better estimate of how much you need to save for your situation, use one of the free retirement savings calculators available online.

One of the best ways to reduce the amount of money you'll need in retirement is to work longer. If your health allows it, each year you continue to work (even part-time) will reduce the savings you need to support yourself in retirement—and give you more time to contribute to a retirement savings account. And if you delay collecting Social Security benefits until age 70, your monthly benefit will be higher—76% higher than if you had started collecting benefits early at age 62, according to Boston College's Center for Retirement Research.

Downsize sooner than later

You don't need to wait until you retire to move to a smaller home or apartment. By downsizing, you may be able to dramatically reduce your housing costs to free up room in your budget to save more for retirement.

If you're already retired, don't wait to downsize until a health or financial problem forces you to do so. You'll reap the financial benefits by reducing your housing costs sooner rather than later. Plus, you'll have more time to research housing options if you're not in a rush because of an emergency.

Look for a home that will allow you to age in place, such as a one-story house with walk-in showers or an apartment with a landlord who will handle the maintenance. Consider continuing care communities that offer a range of options from independent living to assisted living and skilled nursing care all in one location so you won't have to move again if you need care as you age.

Consider cutting off financial support for adult children

It's natural to want to help your children. However, you shouldn't jeopardize your own financial security to continue supporting them once they are adults. Your priority should be saving for retirement or covering your own expenses in retirement so you won't end up having to rely on your children for support as you age. If that happens, your children certainly won't be better off financially.

Prepare for long term care needs

More than half of Americans age 65 and older will need long-term care at some point, according to the Department of Health and Human Services. Long-term care is assistance with activities of daily living, such as bathing, dressing and eating.

People tend to rely on family to provide this sort of care—but that can put a huge physical, emotional and financial strain on family caregivers. Plus, family and friends aren't always capable of providing the necessary care. So it's important to have a plan to pay for professional long-term care, which can cost $4,500 a month or more.

Medicare doesn't cover the cost of long-term care. Medicaid will cover long-term care in a skilled nursing facility and at home. However, to qualify for this joint federal and state health care program, you would have to have very limited income and assets.

If you're in your 50s or early 60s and relatively healthy, you might be able to get long-term care insurance or a life insurance policy with a long-term care benefit to help cover the cost of care if you need it. Or you could set aside more in savings to cover the cost of care out of pocket.

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Prepare for long term care needs (continued)

If you're older and already have a permanent life insurance policy, you may be able to tap the cash value in the policy to pay for care. You also could sell the policy through what is called a life settlement, which typically pays less than the face value of the policy but more than the cash surrender value. Another option is to use the equity in your house through a reverse mortgage if you're 62 or older and own your home outright or have paid off most of the mortgage.

Keep in mind

Consider meeting with a financial advisor to help you assess your long-term financial needs and to come up with a plan to cover them. You can search for fee-only fiduciary advisors near you by using a free service such as Wealthramp, the Garrett Planning Network and the National Association of Personal Financial Advisors. If you have limited income, check with your state chapter of the Financial Planning Association, which has members who will offer their services for free.

Also, keep in mind that the more you do now to improve your health—exercising daily, eating a healthful diet, getting quality sleep, quitting smoking and challenging your brain—the less likely you will be to develop chronic conditions that will increase your health care costs as you age and force you to rely on others for care.

Step 3

Protect your finances

Don’t let the hard work you put into securing your financial well-being go to waste. Make sure you’ve put protections in place to protect your money.

Put legal protections in place

It's essential to have estate planning documents—not just to ensure the smooth transfer of your property when you're gone, but also to protect you if you're no longer able to manage your finances on your own while you're living.

You need a will or trust that specifies who gets what when you die. If you die without a will, the intestacy laws of your state and a judge will determine how your property is distributed. A will also allows you to name an executor to act on your behalf and settle your estate.

More importantly, you need to name a power of attorney to make financial transactions and decisions for you if you are unable to yourself. This needs to be someone you trust to handle your finances if you have a serious health issue or experience cognitive decline. This document must be signed while you're still mentally competent. If you don't have a power of attorney and become incompetent, the court can name a conservator to handle your finances (and it might not be the person you would've chosen).

You also should name a health care power of attorney to make medical decisions for you if you can't and have an advance directive that spells out what sort of end-of-life medical treatment you do or do not want. There are free and low-cost DIY estate-planning documents, but it's better to meet with an estate planning attorney to draft documents that are specific to your situation.

Have adequate insurance

Review your auto and homeowners insurance policies to make sure you have the coverage you need. For example, you don't want to find out that your policy won't cover the full cost of rebuilding your home and replacing your belongings if, say, a fire destroys it. Spending a little more to have adequate coverage can save you thousands down the road if emergency strikes.

If you have people (spouse, children, aging parents) who rely on you for financial support, make sure you have enough life insurance to replace your income, to cover major debts such as a mortgage and to pay for major expenses such as college tuition. Also, consider disability insurance if you're still working to help replace your income if a disability or illness leaves you unable to work.

Be sure to sign up for Medicare at age 65 (even if you're still working) to avoid a late enrollment penalty. Also, carefully review your coverage options. Medicare Part A has no premium, but only provides hospital coverage. Part B provides coverage for doctors' visits, and there is a monthly premium that's deducted from your Social Security benefit. You'll have to pay extra for Part D prescription coverage, a Medicare Advantage plan or a Medicare Supplement plan—but that could be money well spent because the expanded coverage can dramatically reduce your out-of-pocket costs for care and medications.

Set up account and credit monitoring

Americans lose billions of dollars annually to scams and fraud. So it's important to monitor your financial accounts and credit reports to spot unusual activity and signs that your identity has been stolen.

Your bank and credit card issuers likely offer the option to set alerts and receive notifications about activity on your accounts. You also can get free copies of your credit report from each of the three credit reporting agencies—Equifax, Experian and TransUnion—from AnnualCreditReport.com.

However, there's an easier and more comprehensive way to keep tabs on your financial accounts, credit and personal data: Carefull. You can securely link your credit and bank accounts to the Carefull mobile app or desktop service and get 24/7 monitoring of your accounts for unusual transfers, unusual transactions, unusual merchants, large transactions and other signs of fraud. Careful also detects late or missed payments, duplicate payments and other money mistakes you might make. On top of that, Carefull monitors your credit reports, scours the web to detect misuse or illegal selling of your personal information, and provides $1 million in identity theft insurance.

Keep in mind

It's worth it to spend money on estate planning documents, adequate insurance, and account and credit monitoring to protect your finances. The cost will be minor compared with the potentially devastating expense of not having these protections in place.

Step 4

Discuss your finances with trusted family members

What does talking to family members about your finances have to do with remaining financially independent? It’s important to pinpoint people you can trust and fill them in on the details of your finances in case there comes a time when you can’t manage your finances on your own. Talking to your spouse, your adult children or other family members before there’s an emergency will arm them with the information they need if they have to help.

Alert family members about your estate planning documents
You don’t have to tell your children, grandchildren or other family members what you’re leaving to them in your will. However, you do need to let them know where your will is located and how to access it.

You also need to let the person you name as your financial power of attorney where the POA document is and under what circumstances that person is allowed to act as your agent. Your POA will need an original of the document to show to your financial institutions if he or she has to act on your behalf. However, it can be a good idea to let your financial institutions know while you’re still competent that you’ve named a power of attorney so you can fill out any paperwork they might require.

Share details of your finances

Your power of attorney and the person you name as the executor of your estate need to know details of your finances so they don't have to play detective when they get involved with your financial affairs. If you're not comfortable sharing details with them now, write down a list of your accounts with usernames and passwords, monthly bills, insurance policies, personal information such as your Social Security number and any other relevant financial information and tell your power of attorney and estate executor how to access that list.

Also make sure your spouse or partner knows how to access your accounts and pay your bills in case of an emergency.

If you use the Carefull service, you can add trusted family members to your "Circle" so they can get insight into your finances and be a second set of eyes. Carefull provides view-only access, so they won't be able to make any transactions within your accounts.

Have an “in case of emergency” plan

Talk to family members about what sort of care or support you would like if something were to happen to you. Tell them what resources you have to pay for that care. If you don’t let them know your wishes, they might assume that you expect a lot more than they can give.

Of course, you might want them to pitch in and help. But you probably don’t want them to put their lives on hold—and put their finances at risk—to care for you.

Keep in mind

Sharing information about your finances with trusted family members doesn’t mean giving up your independence. Instead, it’s a smart way to ensure your finances are handled in a way you want and are protected if something happens to you.