Prize Winner

Adoption and Retirement

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INTRODUCTION

The following personal essay is written by Mark about his family's personal experiences. Mark is an actuary who studies mortality and his brother is a fee-based financial advisor who helps people meet their retirement goals. All the family details are true.

Every family's story is unique. This particular story of two brothers includes untimely deaths, adoption, money challenges, and big retirement goals. Through sharing pieces of our family's story, I hope to offer practical insights for navigating retirement challenges that arise from unique family situations like adoption, intergenerational caregiving, and financial planning amidst uncertainties.

UNEXPECTED CHANGES TO FAMILY STRUCTURE

Our biological parents died young, and my brother and I were adopted and raised separately. With our adoptions, each set of adoptive parents faced an unexpected change to their family structure. How did this impact their retirements? Our adoptive parents were from different generations, and therefore in different stages of their retirement journeys when this change to their family structure took place.

My brother was adopted by our maternal grandmother and step-grandfather. They were of the Silent Generation, and having lived through the Great Depression and World War II, they valued thrift and stability, preferred low-risk savings, and were reluctant to discuss finances openly. Given their ages, they both retired relatively early in my brother's life. As an occupational therapist and a veteran/warehouse foreman, they had saved for retirement but perhaps had not planned for the costs of raising another child. Cancer cut off their primary source of income and they lived frugally, but they worked during the years when pension plans were prized as a gold standard to safeguard against hardship, so their retirements felt secure. My brother attended college on a scholarship, because paying for college had not been part of his adoptive parents' retirement plan.

I was adopted by our maternal aunt and uncle who had no other children. As Baby Boomers, they benefited from economic growth in their prime working years as a nurse and a geologist, which allowed them to approach retirement planning with more optimism about investing and future growth. My parents saw the industry's shift from Defined Benefit to Defined Contribution plans as an opportunity for workers to be more self-directed and to capitalize on booming markets. With many working years left at the time when they adopted me, they could adjust their retirement plans to include raising a child and college savings.

Our adoptive parents' experiences highlight not only how retirement has changed over the generations, but also the importance of considering unexpected changes to family structure when planning for retirement.

INCREASINGLY COMPLEX FAMILY STRUCTURES

My brother and I each started our careers as math teachers and then transitioned to the retirement industry. My brother became a financial planner, while I became an actuary focusing on mortality for life, annuity, and pensions. During this time, our family structures led to more complex needs. How did this impact the beginning years of our retirement journeys? Increasing our incomes was important, but we found ourselves needing flexibility most of all.

As my brother was beginning his career as a financial advisor, his adoptive father was diagnosed with Alzheimer's disease. Before transitioning to full time memory care, my brother's adoptive father needed him to be the primary caregiver with regards to paying bills, getting to medical appointments, and maintaining social relationships. In these years, my brother needed to prioritize taking care of an aging parent over retirement planning.

As I was beginning my career as an actuary, I both lost my adoptive father to cancer and fought a cancer battle myself. These experiences combined with studying mortality every day as an actuary resulted in my decision to work part time for a few years. During these years, I found I needed to bring some of the time I'd have in retirement forward to today and prioritize spending time with my kids while they were young.

Our experiences caring for aging parents and experiencing health crises in our early working years are just two examples of how a complex family structure can impact one's retirement journey. These days, living a life of linear financial progress through a 40-year career that ends with a pension is the exception, not the norm. As family structures have become more complex, the ability to build up an optimized retirement plan with the exact assets, insurance, and income needed has become increasingly difficult.

Along with complex family structures, longevity, inflation, taxes, and markets all conspire to make financial planning an ongoing process. An investment or insurance product with locked in features that made perfect sense years ago could be rendered unsuitable or downright wrong for someone today. Products that require long holding periods, that have very limited applications, or that require a high proportion of someone's net worth may not offer the flexibility needed by people planning for or living in retirement today. Life insurance with living benefits including Long-Term Care Riders can solve multiple needs and reduce the risks that premium dollars get "wasted," especially if premium payment methods are flexible. Roth IRAs can offer access to contribution dollars in the pre-retirement phase of life, before 59.5 and beyond when growth is available penalty free.

COMPLEX RETIREMENT GOALS AND FAMILY DYNAMICS

As our careers have progressed, our retirement goals have become more complex. Family dynamics including inheritance have also come into play. How has adoption and emotionally charged family relationships impacted our future retirements? It has become increasingly clear that family conversations about finances and retirement are crucial.

When my brother's adoptive parents died, he and his adoptive siblings were each left a modest inheritance. As a Certified Financial Planner with years of experience helping others with retirement planning and wealth management, an inheritance means that he has a path to retirement that is a function of his savings and investment and independent of future inheritance.

Mark's retirement future is more uncertain and entwined with other financial goals influenced by his family structure. For example, one of Mark's goals is to have a multi-generational property with space for his adoptive mom to live close by and potentially a starter home for his kids. Rising housing costs means that achieving this dream may delay his retirement by decades.

We have seen firsthand that complex goals are made even more complex when inheritance is considered. Most advisors agree that banking on any sort of inheritance for retirement is risky at best and generally not recommended. Still, over the next twenty years, the Great Wealth Transfer refers to the expected transfer of tens of trillions to be passed down from Baby Boomers to younger generations. Without some frank conversations, Gen X and Millennials like me risk misplanning for a windfall or unexpectedly needing to financially support an aging parent.

While financial products can help, ultimately advisors need to engage families across the generations, especially in cases where adoption and other complexities are present. There are many reasons why a person may avoid talking about finances with their parents; however, it is imperative for the older and younger generations to have meaningful dialogues about the possibilities of 'surplus assets,' and the needs, wants, and wishes for everyone concerned. As a family's structure and retirement goals become increasingly complex, good communication and robust scenario analysis can help the family make sense of the possibilities.

CONCLUSIONS

Financial planning, together with aging parents, around their needs and inheritance wishes is not made any easier by dynamics such as untimely death, adoption, or cognitive decline. The messiness of regular life and the need for flexibility make Roth IRAs, hybrid life insurance with long-term care riders, and flexible pay products more adaptable to uncertainties all families face. Regardless of what makes a family structure unique, it will have an impact on how people discuss money with those they love, how people set short and long term goals, and ultimately the tools and services they use to save and plan for retirement.

My brother and I are both fortunate in that our professional lives have equipped us to navigate some of these life and retirement challenges. We have come to recognize that financial planning is not just about numbers—it's about adapting to life's unexpected turns while respecting each family member's needs and goals.

From my messy family to yours, happy retirement planning.

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