Planning for Life's Stages

By Barry L. Dayley

The needs and concerns of bank customers change as they move through the financial stages of their lives. As community banks position themselves to compete with other financial services providers, it is important to consider the needs of their specific customer bases.

When analyzing its customer base, a bank should look at two simple, yet important, issues. First, what products or services do customers need at the various stages of their lives? Second, is the bank ready to enhance those relationships by offering appropriate solutions?

What follows is an overview of seven life stages, by age, and the financial issues to consider for each group.

Ages 0-20. Community banks should strive to help these customers succeed in the coming financial stages of their lives by teaching them sound financial habits. Show them how to budget an allowance and open their first savings account. Once they start earning money, encourage them to open an individual retirement account to teach them how to invest for retirement.

Ages 21-30. These customers need help establishing good credit and learning to use credit cards wisely. They need to whittle down any college debts to free up money for investing and other financial needs. They should start saving at least 5 percent to 10 percent of their income for retirement, ideally in a tax-deferred retirement plan. Time is on their side, and time is what makes money grow. Help them learn good spending, debt management, and savings habits—these habits will pay off big during the rest of their lives. These customers should be encouraged to sock away money for a down payment on a home. If they marry, help them do some prenuptial financial planning. Conflicting money management styles is a leading cause of divorce. These customers should buy life insurance and, where necessary, disability insurance—these are critical because people in this age group now have other people depending on them financially. They should have medical coverage for the family, even if it's not provided at work. Whether or not they are married, they should draft a will, a power of attorney, and a living will.

Ages 31-40. These individuals may be in their second or third (and more expensive) home. Children are being born, getting older, getting more expensive. These customers are probably feeling financially pinched by now, even if they are earning more. However, encourage them to continue making contributions to their retirement fund. If it comes down to a choice between funding college or funding retirement, retirement should take priority. Kids can always find other methods to finance their way through college, but nobody else is going to pay for retirement. Encourage them to update their will, and periodically review their life insurance to make sure it is adequate, especially if they have children.

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Ages 41-50. At this stage, customers are probably in the stride of their careers. They should keep socking away for retirement. One thing to consider at this stage is aging parents. Will they be able to financially take care of themselves should they need to receive home health care or to move into a nursing home? Or will your customer be expected to pay some of the bills? You should encourage them to consider buying long-term-care insurance for their parents if the parents can't afford it. They should discuss with their parents their potential financial needs and concerns, and make sure their estate plan is in place.

Ages 51-60. Customers in this age group may start to see expenses ease off as children reach maturity and move out of the house. Encourage these customers to beef

up retirement contributions to at least 15 percent to 20 percent of income. This will probably be the last good stretch to really sock it away. Help your customers to start getting serious about their vision of retirement, too. It will make a difference in how they plan. They shouldn't get too conservative in their investing at this stage, even if they plan to retire soon. They've got a lot of years of living left, and plenty of time to weather market ups and downs. They should also get serious about an estate plan.

Ages 61-70. These customers should study their Social Security and Medicare options to make sure they take full advantage of them. Be sure they don't have gaps in medical coverage if they retire before they qualify for Medicare. They may consider working part-time during retirement. A rocking chair can get boring after a while. If they haven't already, they should buy long-term-care insurance. Carefully review retirement plan payout options. How they choose is immensely important. They also need an estate plan. Investments may grow more conservative, but should not be too conservative. With good health, they'll have many years left to live in retirement, and they will need their nest egg to stay ahead of inflation.

Ages 71 and beyond. With proper planning, they can slow down and enjoy their retirement. Encourage them talk to their kids about their estates.

Understanding the financial needs of customers as they pass through these life stages will help community banks better serve their needs. Providing financial planning, investment, insurance, and wealth management services will enhance customer relationships, and can substantially increase fee income to the bank by increasing sales in investment and insurance products and bringing additional assets under management.

All views expressed are solely those of the author. Barry L. Dayley is senior vice president of Money Concepts International Inc., an ACB Business Partner.

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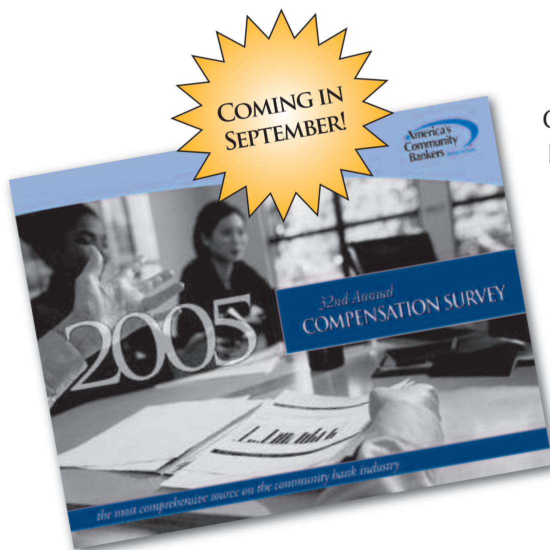

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