

The Financial Life Cycle

The only constant in life is change. We cannot make meaningful financial plans if we don't consider how life changes as we grow older. When we are very young, someone took responsibilities for our needs and wants – humans are born as helpless babies.

We may not have always gotten what we wanted, no one ever does, but we did get enough to make it to our teen years and then adulthood. From there, we must take more responsibility for what happens next. The financial life cycle can be thought of as three stages.

Young adults have fairly simple needs, even when their wants may be lavish. When we start to accumulate things of value, we want to hold on to them. We begin the financial lifecycle protecting what has been provided for us or what we have managed to earned.

Soon, that is not enough. As we grow older, we are going to need more. We need to accumulate wealth. We want to stop relying on our family and we want to have more control over our lives. We want to make more decisions and we learn that we are responsible for the outcomes of these decisions.

The second stage, wealth accumulation, is the longest part of the financial lifecycle. Most Americans will work from their 20's for the next 45 years or more. While we may not be able to save money each and every year, overall we need to put money aside. As our careers develop, we can probably set aside more. Raising a family, or some other events, may set us back in our savings plan, but as we meet those responsibilities, we are better-able to accumulate the wealth we earn.

The third stage of the financial life cycle is wealth distribution – eventually we choose to retire or stop working. Sometimes we are forced to stop working. The reason we spend most of our lives in the wealth accumulation stage is that we will eventually live-off of and spend what we have accumulated.

When is the time to start financial planning? The earlier, the better. When we are young, in the wealth protection stage, we can develop attitudes, values, and beliefs that help us make careful decisions as we get older. When we are on career paths, it's time to accumulate wealth as we can.

The key is to remember that we are all likely to live a long time. Plan on this. Teens can learn to protect what they have and build savings. Young adults can have plans to accumulate savings and then move into investing. Plan on living a long time – eventually retiring and spending the money you saved for retirement.