Jonathan Pond's One Pager

Seniors: Who are You Investing For?

Seniors, who are you investing your money for? Individuals and couples who have accumulated a fairly sizable estate are unlikely to spend it all. After all, most who built up their estates have done so the old-fashioned way, by living modestly. Despite my entreaties to "spend it all before you die," these individuals and couples are unlikely to suddenly become big spenders in their later years.

Of course, it's important to consider how your estate should be passed on. Rare is the family where all children and other heirs are in fine financial fettle, and this may influence how an inheritance is received. For example, giving a spendthrift child an inheritance outright may do more harm than good.

While estate planning tends to emphasize matters that arise after death, you should also consider whether the way your money is invested now takes into consideration the age of those who are most likely to receive it later on. All too often, retirees invest money that is likely to be passed on to younger generation family members the same way they invest money that they're going to need for retirement. So the money might be invested in Treasury bonds, utility stocks, and other income producing securities. But shouldn't they be investing this money not like a 75-year-old, but more like a 45-year-old (a child) or a 20-year-old (a grandchild) should be investing it? In effect, they should invest that portion of their wealth that is likely to be passed on to their heirs more aggressively, emphasizing growth investments rather than income-producing securities.

If this fits your situation, your first inclination might be to set up a separate "inheritance" account that would be invested differently than the money you are going to rely on. That approach, while elegant, probably isn't necessary. Instead, you can simply change your overall investment diversification to increase the percentage you allocate to growth securities.