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Planning for life's little and "not-so-little" financial surprises

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Whether you realize it or not, you are already taking steps to manage future financial hardships. Auto insurance, health insurance, homeowner's insurance—all of these are investments you are making to protect yourself and your family.

But what steps are you taking to manage the financial "surprises" you can see coming? Your life will certainly change in the coming years—marriage, the birth of a child, a career change, divorce, illness, retirement, and death. While you may not know for certain what lies ahead, there is little chance that your life will remain unchanged. Sadly, most people wait until after life-altering events to talk to their financial planners. This is often too late to take advantage of planning options.

Thinking about your future and planning ahead may ruin the surprise, but—in the end—you'll be glad you did.

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Managing Predictable Surprises

The key to managing financial surprises is to see them coming. A story that appeared in the October 2003 issue of the *Journal of Financial Planning* tells the story of a 72-year-old woman who met with her planner to discuss someday moving into a continuing-care facility. When the woman spoke with the planner, she was in good health and was simply making plans for the future.

The woman also revealed that she was gifting large sums of money to her daughter and that her two sons were concerned that she might not have enough money to pay for her own care when the time came. Understanding the woman's dilemma, the planner recommended that the woman visit and price facilities to see what type of facility she would be interested in, as well as what she could afford. The woman soon realized that the care she desired would cost more than she anticipated, and that she would need to stop gifting money to her daughter. With the planner's assistance, the woman started a program to end the gifts in five years.

Luckily, this woman took the time to speak to her planner and address her sons' concerns. If she

hadn't, she might have found herself "surprised" with a very difficult situation in the future.

Facing Early Retirement

Retirement is one of those events people do plan for. They may not be saving as much as they should, but people realize that retirement—at some point—is inevitable. But what if you need to retire early? Then what?

According to the National Council on Aging, 40 percent of retirees blamed declining health as the deciding factor in their decision to retire early. While you can't foresee health problems, you can be realistic and realize that you, too, may be forced to retire earlier than planned. As you develop your retirement plan, simply recognize that forced retirement is a "surprise" you can't afford to ignore.

Dealing with Divorce

Another life transition that doesn't happen overnight is divorce. As a marriage unravels, the financial repercussions are often overshadowed by anger, fear, and uncertainty. Before you finalize your divorce, talk to a planner about your financial options. Should the house be sold? Is alimony necessary? How much child support is really enough? While you may still be

reeling from the divorce process, a financial planner can provide an honest picture of your financial situation and tell you what toll the divorce will take on you financially. This unbiased and objective opinion can save you from making an emotional decision you may regret later.

Coping with Death

Death is not a popular topic, and planning for it isn't something most people want to do. But isn't this the most inevitable surprise of all? Isn't it likely you'll need to deal with the loss of a loved one at some point in your life? Won't others be left to mourn your loss?

Dealing with cash flow, insurance, estate planning issues, and investments can be incredibly challenging at any time. However, it is far more difficult to manage these

issues following the death of a loved one. Taking the time to discuss your financial situation with a financial planner and your loved ones well in advance allows you to make smart choices that save you money, lower your tax liability, and—most importantly—eliminate conflict and confusion for your family as they struggle with your death.

Yearly Review

As you make your New Year's Resolutions each year, don't just think about personal improvements...think about financial improvements. Now is the perfect time to look at how your life has changed and how things might develop in the coming year. By identifying potential life transitions before they actually occur, you can eliminate most financial surprises.

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The mission of the *Wisconsin Medical Journal* is to provide a vehicle for professional communication and continuing education of Wisconsin physicians.

The *Wisconsin Medical Journal* (ISSN 1098-1861) is the official publication of the Wisconsin Medical Society and is devoted to the interests of the medical profession and health care in Wisconsin. The managing editor is responsible for overseeing the production, business operation and contents of *Wisconsin Medical Journal*. The editorial board, chaired by the medical editor, solicits and peer reviews all scientific articles; it does not screen public health, socioeconomic or organizational articles. Although letters to the editor are reviewed by the medical editor, all signed expressions of opinion belong to the author(s) for which neither the *Wisconsin Medical Journal* nor the Society take responsibility. The *Wisconsin Medical Journal* is indexed in Index Medicus, Hospital Literature Index and Cambridge Scientific Abstracts.

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