Crisis management

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By Cooper Langford

Before you buy that fancy car, trade in the spouse for a newer model and generally behave badly to assuage your mid-life fears, get a grip on what will happen to your finances, career and life in general

As scenes from a mid-life crisis go, you could do a lot worse than Mike. Mike is 50 years old and holds a management position at a large financial-service organization.

Right now, he's lying in the gravel on the side of a rural road, staring out through the visor of his motorcycle helmet, watching the wheels of a dump truck roll by a couple of feet away. His bike is around, somewhere. But that's not his immediate priority. The main thought going through his head is: "Well, that didn't end as badly as it could have." It hasn't yet occurred to Mike that he still has to explain this to his wife.

Mike was rear-ended by a speeding car at an intersection, but got away with no more damage than some minor injuries and ribbing from friends. His wife actually forgave him, even though she had been set against his decision to buy a motorcycle. She didn't even stop him when he took the insurance money from his accident and bought a new bike.

Mid-life crises can be unpredictable things. Once in a while, they can produce utter flameouts. Take Timothy Durham, CEO of Obsidian Enterprises, a buyout firm in the American Midwest. He celebrated his 45th birthday with a Playboy-themed party at his 30,000-square-foot mansion, attended by 1,000 guests, including more than two dozen lingerie-clad models. Too bad he allegedly funded it — along with a grotesquely lavish lifestyle — with ill-gotten money from one of his companies, Fair Finance Co. Durham is now under indictment in Indianapolis, living under house arrest and accused of running his businesses as a Ponzi scheme. He has pleaded not guilty.

Durham's blowout party obviously speaks to a psychopathology far darker and complex than Mike's near miss. Nevertheless, the stories share a common thread: Something in the years between the mid-40s and early 50s drives people to step outside themselves and question, even reject, all that they've built in the preceding years. The trigger could come from anywhere. Maybe it's that twerp hired as a web intern — it wasn't that long ago, was it? — who just got the big promotion at work. Or a chronic bad hamstring pulled a few years back while diving for a puck. Most often, it's simply a growing awareness that one has more road behind than ahead. Somewhere in the almost-foreseeable future, there will come a day when your eyesight is shot, your knees are gone and, in a piece of wisdom passed on while researching this article, you can never trust a fart again.

Apocryphal or not, we've all heard of people who stared down the realities of mid-life and ran screaming in the opposite direction — possibly into the cockpit of a sports car that cost as much as a small condo, or into the arms of a flirtatious younger woman.

Such extreme reactions are relatively rare. The symptoms are not: low-grade anxiety, occasional depression and a yearning for some kind of renewal in life. Nor are the results: tendencies to splurge on lavish purchases, frustrations with work often

accompanied by desire for career change, risky behaviour and even marital breakdowns. All of which can put your personal finances in a big mess.

Does it have to? The short answer is no. But like everything else to do with personal finance, it helps to have a plan. That sports car just might be within reach.

Though it's rarely framed this way, a basic maxim in personal finance boils down to "know thyself." After all, how can you create a plan to make the most of your assets if you don't really know what you want? Anything else is building wealth for its own sake. That's not necessarily a bad thing, but chances are you'll miss out on good times along the way, which can lead to fears that life is passing you by. That feeling is what puts the "crisis" in mid-life.

According to Sally Halliday, a registered clinical counselor and managing director at the University of British Columbia's Life and Career Centre, the anxiety often associated with the late 40s and early 50s arises when people realize their lives are changing in unexpected ways. The ambitions that drove them through their 20s and 30s — marriage, family, career — are likely reaching the end of their natural courses. In their place is an emerging sense of mortality, perhaps amplified by a health scare or the death of a parent, and a questioning of whether one is really on the right path in life. “There’s a yearning to reinvent,” Halliday says. “People are trying to reconnect with past dreams and update their values and their sense of who they are now.”

That was certainly the case for Motorcycle Mike. In his late 40s, he suffered the double blow of the death of a parent and a health scare, right about the same time he moved into a new home that came with a litany of unexpected repairs. Don’t even ask about his car troubles. The next couple of years were tough, but Mike pulled through in decent shape. “But it did make me question what I was doing,” he says. “You start to look around and ask, ‘What’s next?’” His answer, for better or worse, was a cool motorcycle. “It’s the kind of thing that gets you back in touch with the kind of person you were, or that you wanted to be.”

A prudent type, Mike paid cash for his bike, which cost about $10,000 including accessories such as a helmet and riding clothes as well as insurance. Paying cash is good policy anytime you want to splurge on something. But what if your mid-life desires or obsessions cost more than what you have in your bank account? One advisor tells of a mid-life client who’d been let go from a senior position in the corporate world, a devastating turn of events for a high-powered professional. He did some consulting work here and there, but no firms seemed interested in hiring him for the kind of position he once held. Feeling down about his career fortunes, the man started to wonder if he should treat himself to something he’d long wanted: membership in an exclusive golf club. It would be expensive, probably more than six figures over time. The man and his advisor worked out a plan to fit the cost into his budget. As a bonus, they rationalized the membership, saying it would put the man in regular contact with the wealthy individuals he hoped to attract as clients for his consulting services.

Sam Chinniah, senior vice-president at Toronto-based T.E. Wealth, applauds this type of approach to personal spending, calling it a balanced mix between meeting short and long-term goals. “I like to see people rewarded along the way,” he says. “Happiness is a journey, not a destination.” That said, achieving balance requires full understanding of your financial goals and priorities.

The most important step? Making an honest evaluation of your cash flow and your spending. “It’s so basic, but so many people don’t have a handle on it,” says Karin Mizgala, co-founder and CEO of Vancouver-based Money Coaches Canada. “It really is about understanding what your life costs now and, if you were to make changes, what impact that would have on your ability to cover bills and to live.”

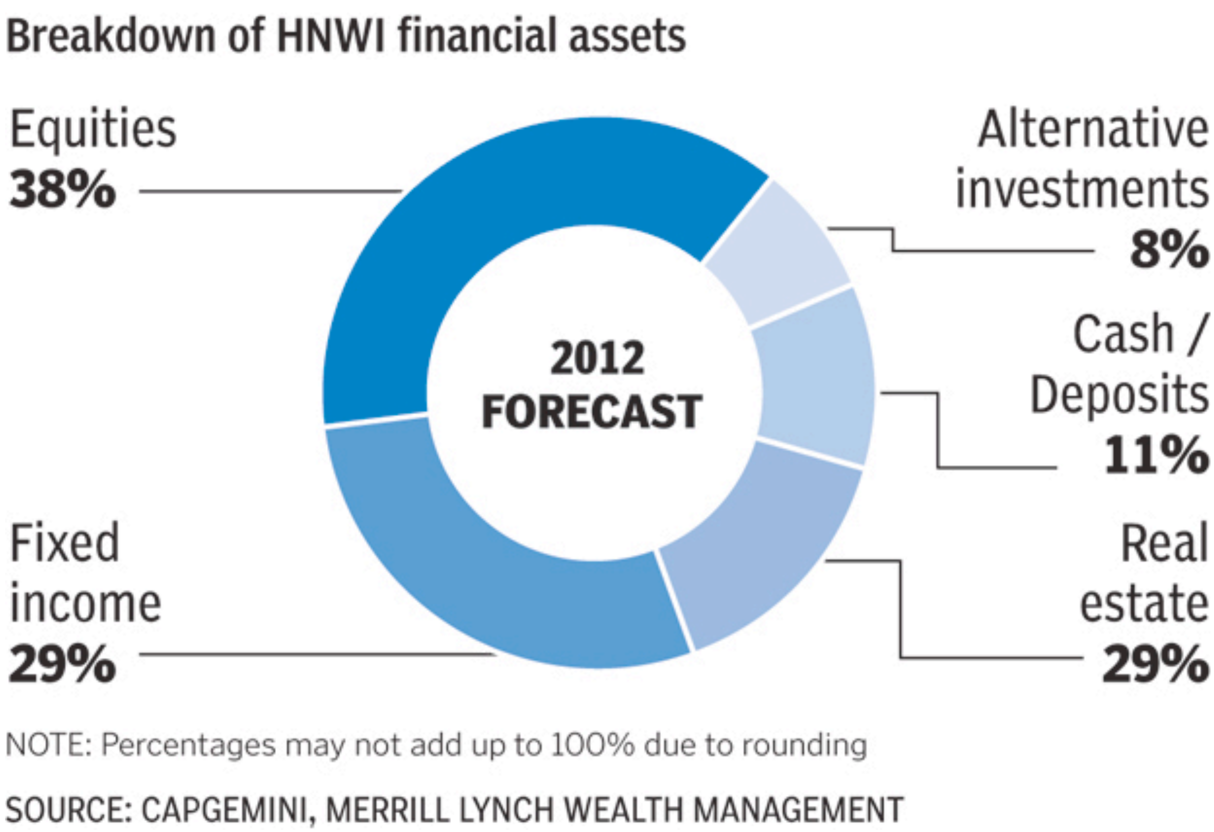
This analysis can lead to some tough choices. Suppose you really are jonesing for a Porsche Turbo Carrera. The base model alone is going to set you back $90,000. That’s not an easy sum for most Canadians, even wealthy ones, to lay their hands on. But before you pile on the debt — a big mistake — look around. There may be options. If your kids are reaching the end of their educations and ready to set out on their own, perhaps its time

to downsize your house. “Or maybe you have a cottage, “Chinniah says.
“Do you need it? Maybe it’s tying you down.”

The point is that the assets you’ve acquired at earlier stages of your life may no longer be as necessary as they once appeared. A large home, for example, can be a significant drain on your cashflow when you no longer need the space. Freeing up that equity can give you a budget to enjoy some of the luxuries you no doubt deserve and, with a bit of luck, even leave you with a chunk of change to invest in long-term savings. The question is whether or not the trade-off is really what you want.

The same holds true for career change, a common desire when people start hitting walls and existing jobs just aren’t fun anymore. The risk is that jumping into a new line of work — perhaps one more in tune with shifting personal values — could cause a reduction of income. You have to prepare. Again, analyze your spending and determine if there are aspects of your current life that you’re prepared to give up for more satisfying work.

Mizgala also recommends setting a cash reserve. “I know the investment industry doesn’t like when people have money in bank accounts. The terrible interest rates and all that,” she says. “I’m actually an advocate of having cash, especially during transitions.”



Financial planning isn’t only about preparing for what you want; it’s also about preparing for the worst. Mid-life raises special concerns. Insurance sits at the top of list. If you’re heading towards your 50s, chances are you’ve spent the last couple of decades coasting along with health and life insurance through a group plan at work. Maybe you bought an inexpensive term policy along the way for extra protection. In the longer term, however, you're going to need coverage for when you're no longer a member of a group plan or when your term coverage has expired.

Mid-life is your last chance to plan for long-term health-care needs. You're likely still pretty healthy, but don't let that fool you. Genetic predispositions to illness — such as heart disease, diabetes, cancer — start showing up when people hit their 50s.

You want to get coverage sorted out before then. The bottom line? Don't wait.

Another big mid-life risk is marital breakdown. The financial consequences of breaking up assets accumulated over decades can be devastating, so divorce should only ever be a last option. But sometimes it's the option. The financial benefits of staying simply don't make up for the boredom or misery of staying together.

Once more, the central issue is being clear about your priorities and what you really want. Take the case of Steve, a consultant now in his mid-50s. He and his ex-wife accumulated assets worth more than $1 million during their 20-year marriage, including a home in an upper middle-class neighbourhood, investment savings and a small inheritance. That sum should have seen them comfortably into retirement. But about two years ago, just as their youngest child was finishing college, long-simmering issues in their relationship came to a head. Seeing no way out, they split.

It wasn't easy, Steve admits. "When you're into that kind of money, it can be difficult." Nor was the process, though amicable, kind to him financially. His ex-wife kept the house; he kept his share of the retirement savings and the inheritance, which had come from his side of the family. But, overall, things are working out in his favour. Steve took advantage of a downturn in real-estate prices in his area and bought a new house in a nice-enough neighbourhood. It has since started making modest gains in value. His retirement savings are back on track and he is debt free, except for a mortgage. "I don't have anywhere near what I used to have," Steve says. "But I think I'm going to be okay." Best of all, he's got a new girlfriend.

Steve's story does not have the high drama of the more exaggerated tales of mid-life meltdowns. Nor does Mike's for that matter. But they demonstrate the key points financial experts emphasize: Their decisions were made thoughtfully and the costs were sustainable. If you have those bases covered, you should take advantage of your relative youth and good health to have some real fun.

Like the guy out in Saskatoon who started a "Sponsor My Mid-Life Crisis" web campaign last year. He's only in his late 30s and he doesn't give out his name on his site — nor answer e-mails, apparently — but he makes a case for having been put through the wringer: marital breakdown, back injury and assorted family issues accompanied by bouts of depression and many regrets. He's got some new tattoos and cut his hair back into the blue Mohawk he wore as a teenager. Twelve months ago, he also started asking for donations so that he could buy something big: a bright yellow 2010 Camaro.

Here’s the kicker. He’s also using the campaign as a charity fundraiser. If he meets his $43,000 target by his Sept. 1, 2011, deadline, he’s going to lobby General Motors to make a matching donation for the price of the car to the Canadian Lung Association. If he doesn’t reach his goal — or if GM doesn’t pony up — he’ll simply donate the money himself. No harm, no foul. Probably no car, either. But if you’re going to have a crisis, you may as well be creative and enjoy it. Just as long as you don’t start acting like a tool.