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REDUCE TAXES | RETIRE EARLY | PURSUE YOUR PASSIONS

A scenic photograph of the Washington Monument in the background, partially obscured by a dense line of pink cherry blossom trees in the middle ground. The trees are in full bloom, and their reflection is visible in the water in the foreground. A crowd of people is visible walking along a path behind the trees. The sky is a clear, pale blue with a few wispy clouds.

# Five Most Critical Mistakes Professionals Without Children Can't Afford to Make



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## Professionals Without Children Can't Afford to Make

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*Let's face it. If you don't have children, you have different financial challenges than your friends, coworkers or family members who do. This doesn't necessarily mean your finances are easier to manage, but the typical rules do not apply. With a growing share of the U.S. population saying they are unlikely to ever have children,<sup>1</sup> below are five of the most common financial mistakes professionals who are childfree or childless frequently make.*

### **Mistake #1: Not Being Intentional About Your Cash Flow**

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Raising kids is expensive; really expensive! According to a recent study by the Brookings Institute, the average cost of raising a child in the United States is over \$310,000 by the time they reach 18.<sup>2</sup> This does not even include the cost of private school, college, a future wedding, assistance with student loan payments, help on a home down payment, etc. These expenses could add hundreds of thousands of dollars more.

If you make a similar salary to your friends or coworkers who have children, but you don't have another mouth to feed and clothe, or to pay for piano lessons or out of state soccer tournaments, do you know where all your money is going? Are you saving a minimum of 10% of your income every year for retirement and not just maxing out your plan at work? (For 2023, the 401(k) contribution limit is \$22,500 or \$30,000 if you are over 50.<sup>3</sup>) Do you get a latte at Starbucks every morning and a chicken salad at Panera for lunch? Can you honestly answer the question of where your discretionary income goes on an annual basis? (The Starbucks latte and Panera chicken salad come to over \$100,000 over 18 years in case you are wondering.<sup>4</sup>)

My point is not that you shouldn't spend money on yourself, you can, and you should, but that you may not be aligning your disposable income with what's important to you. If you were to save an additional \$1,000 a month instead of spending it, the compound effect over a 40-year career at an estimated 4% growth would be over \$1 million.

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1. <https://www.pewresearch.org/fact-tank/2021/11/19/growing-share-of-childless-adults-in-u-s-dont-expect-to-ever-have-children/>

2. [www.brookings.edu/wp-content/uploads/2022/08/Brookings\\_Cost-to-raise-a-child\\_inflation-adjusted-2.pdf](https://www.brookings.edu/wp-content/uploads/2022/08/Brookings_Cost-to-raise-a-child_inflation-adjusted-2.pdf)

3. <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-401k-and-profit-sharing-plan-contribution-limits>

4. <https://www.starbucks.com/menu/product/407/hot> <https://www.panerabread.com/en-us/app/category/22.html>

**Action Steps:** Start by tracking your spending and savings on a monthly or annual basis. Some credit cards provide a year-end summary, which tracks your expenses by category. Next review the results and see if they align with what's important to you. If you love to travel but couldn't manage to take that two-week trip to Europe or South America because work or life intervened, did you at least put aside enough cash outside of your daily checking account to pay for the future trip?

## Mistake #2: Being Over-Insured, Under-Insured, Or Both

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If you do not have children, you have extremely different insurance needs than folks who do. Chances are you bought a life insurance policy if you got married. While you may still need some life insurance, you clearly don't need a policy that would cover future college tuition bills for kids you don't have. By contrast, if you and your spouse have a sizable mortgage on your primary or vacation home, are you both adequately covered so the survivor could pay them off completely?

In contrast to life insurance, if you do not have children and are still working, your need for a long-term disability policy is significant. According to the Social Security Administration, even young and healthy 20-year-olds have a 1-in-4 chance of becoming disabled before reaching retirement age.<sup>5</sup> If you are in your peak earning years, you can't afford not to have adequate long-term disability coverage. Do not assume that your coverage through work is sufficient, because most group policies cap out at certain levels. If you are single or living by yourself, this is even more important.

**Action Steps:** Talk to your Certified Financial Planner<sup>TM</sup> or Certified Private Wealth Advisor<sup>®</sup> professional and have them run an updated life insurance and long-term disability needs analysis. (Side note: if your current financial advisor did not run both of these analyses when you started working with them that's a big red flag in my book). If it has been a few years since the initial analysis was done, chances are your needs are different especially if you've been promoted, gotten married, or changed jobs. Do this before talking to your current insurance agent and do not have them sell you a long-term care insurance policy until you review mistake #4.

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5. <https://www.ssa.gov/disabilityfacts/facts.html>

## Mistake #3: Not Being Intentional About Where You Want Your Money to Go After You Are Gone

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Deciding who gets your money after you die can be a lot more complicated if you don't have children. You don't have the luxury of making the straightforward election of leaving everything to your kids. If you are single, do you want to leave part of your estate to charity but not sure how much? If you are married, and you predecease your spouse, are you comfortable with all your assets eventually going to that side of the family? Do you have a disabled sibling who may need support? Are you really okay with all your retirement savings flowing to your in-laws who hold you personally responsible for them not having grandkids? What about your crazy brother-in-law who espouses political views that make your skin crawl? If you have a spouse, have you had this conversation with them? What do they want if they pass away before you?

When you and your spouse informed your parents that you weren't having kids, did it go over like a lead balloon? Now think about the drama if you were to pass before them. Save your family from the infighting, finger pointing, and (gulp) potential legal fees by being deliberate about where you want your money to go. Remember, fair does not have to mean equal.

**Action Steps:** Start by having an informed decision with your partner about where you both want your money to ultimately go if something were to happen to you at the same time. If you are single, divorced or widowed you should still give this some considerable thought. Next, review not just the primary but also contingent beneficiary designations on all your retirement and investment accounts and insurance policies, including your employee benefit policies. Finally, set up a time to talk to an estate attorney who specializes in working with families without children. Reach out to me directly if you would like a referral.

## Mistake #4: Not Having a Long Term Care Plan

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“Long term care” refers to needing help with activities of daily living such as eating, dressing, bathing, transferring, and toileting or severe cognitive impairment. This is very different from long term disability, which covers a much broader range of physical, mobility, vision, or hearing impairments.

While long term disability insurance can pay if you are hurt and can no longer work, long term care insurance usually only pays out if you can't perform two or more activities of daily living.

According to a study by the Department of Health and Human Services, 70% of adults who live past age 65 will need severe long term care and/or support before they die.<sup>6</sup> For those adults over 65 who need long term care, 38% will need it for more than four years. Finally, many rely exclusively on family and unpaid caregivers.<sup>7</sup> If you do not have children to take care of you later in life, putting aside that many children may not have the means to take care their parents, it is a tremendous oversight not to plan for the possibility of needing some type of long term care. Without any children to empower to make decisions on your behalf, the ball is squarely in your court!

The most common misconception about long term care is that it's only about whether to buy a long term care insurance policy or to self-fund. I strongly disagree with this "conventional wisdom" and believe a plan first needs to address two other components: Where and by Whom?

**Action Steps:** Start by thinking about what you would want in the event you couldn't take care of yourselves. Ask the question, where would you like to receive assistance? Next and equally important, who would you want supervising and administering such care? If you are married, ask your partner what they would want. These thorny questions need to be answered first, before tackling the question of whether to self-fund or buy a long term care insurance policy you may or may not need.

## Mistake #5: Having Your Investments Out of Alignment with Your Financial Plan

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Whether it is the ongoing upheaval in the stock market, generationally high inflation, or spiking interest rates, it is no wonder people are asking themselves if their financial plan is still on track. Perhaps you don't even have a financial plan.

While no one can accurately predict the future, the right Certified Financial Planner<sup>TM</sup> professional can create a plan for you that looks beyond today's headlines to align your investments with your long-term financial goals. I cannot emphasize this next point enough:

### Your Long-Term Financial Goals Should Drive Your Investment Decisions.

Not the other way around!

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6. <https://aspe.hhs.gov/reports/what-lifetime-risk-needing-receiving-long-term-services-supports>

7. *ibid*

If your investments are out of alignment with your financial plan, you may be taking on a lot more (or less) risk than is necessary and you may be much less likely to reach your desired outcome.

Ask yourselves the following questions:

- Have you met with your Certified Financial Planner™ (CFP®) professional or Certified Private Wealth Advisor® (CPWA®) in the last six to twelve months?
- Did they provide you with a copy of your financial plan? If you looked at it today, would you understand it?
- What potential risks did they identify in your plan? No financial plan is ever 100% bullet proof. You need to be informed of the underlying assumptions upon which your plan is built and the inherent risks.
- Given current events in the world and in your life, are you confident that your financial plan is still on track?
- Do you review your plans annually as well as anytime there is a significant change in your situation (new job, marriage, divorce, death in the family, health concern, etc.). Life happens!

### **Action Steps:**

1. Start by working with a financial advisor who has the CFP® designation. These are table stakes in my opinion. If your net worth is more than \$5 million, I strongly recommend working with a financial advisor who also has the advanced CPWA® designation as they have more extensive training geared for higher net worth individuals and families.
2. Find out if the financial advisor specializes in working with professionals who do not have children. Ask how their financial advice might be different because you are childfree or childless and listen very closely to their answer. For example, if paying less in taxes is important to you (I have yet to meet someone who thinks they should be paying more in taxes) ask them if they provide tax planning advice, as many do not. If they don't respond to this question by asking for a copy of your tax return and the contact information of your CPA, there's your answer!
3. Finally, many financial advisors and planners prepare hundred page long financial plans and wonder why their clients don't understand them or appreciate the work that was involved. In my humble opinion, what you really want is a one or two-page financial plan summary. Yes, there will be back-up analysis that expands on the points in the summary, but the summary needs to be easily understandable to you and accurately reflects three things:
  - A Statement of Financial Purpose
  - Your Financial Goals, Ideally with Target Dates
  - Recommended Action Items Over the Next Three-Six Months

## Conclusion:

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If you do not have children, your financial life is unquestionably different compared to those who do. With the right type of professional guidance, all of the mistakes outlined above are preventable. Start by working with a CFP® or CPWA®, ideally one who specializes in working with individuals and families who do not have children. There are many excellent financial planners to choose from and everyone, including the childfree and childless, deserves a good financial plan. With the right support you can not only avoid critical mistakes, but also lay the groundwork to be confident that you will be able to pursue your passions.

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