

February 13, 2023 – Wealth Planning Commentary

De-risking the potential financial impact of cognitive decline

It's uncomfortable to think about, but as we age, some of us will lose the ability to make prudent decisions. According to a recent report from Alzheimer's Association, as many as 11.6mm Americans will live with significant cognitive decline by 2040. Cognitive decline due to advanced age or dementia poses many challenges, including, and certainly not limited to, managing wealth. Wealth Managers cannot take instructions for those with severe cognitive impairment.

During the wealth planning process, we strive to increase the likelihood of achieving goals and look to mitigate risks that may impact the plan. We test the plan against 'what if' scenarios.

Severe cognitive decline is a 'what if' scenario not unlike the risks posed by longevity, rising healthcare costs, disability, and an earlier than expected need for long-term care, to name a few. What steps can be taken now to help avoid issues relating to financial matters in the event of impairment?

It's as straightforward as reviewing one's estate plan with an emphasis on ensuring the legal documents are accurate and up to date. If someone experiences impairment, it's important to have a trusted agent managing their financial affairs. Powers of attorney (POA) may grant this authority to an agent designated to act in the principal's best interest. POAs come in several forms, but only a Durable Power of Attorney (DPOA) will remain to enforce if the principal is impaired. A DPOA stays in place until the principal passes away or is considered of 'sound mind' and revokes the agent's power.

Who will act as your agent? A DPOA designates an agent to act on the principal's behalf. Many do not consider that naming someone of similar age may cause issues in the future. An 85-year agent will face similar cognitive risks that an elderly principal faces. Designating a trusted family member of the next generation may be a good solution.

Another consideration of a DPOA, and other appointed roles within an estate plan, is communication. It's important that a potential agent understands the role and is willing and able to perform the required duties on the principal's behalf. The agent's proximity may also become important. Ideally, the designated person lives relatively close to the principal and is expected to stay in the area in the future. We recommend revisiting the DPOA every 2-3 years and each year after turning age 75. It takes a few moments, which will help ensure the document is current.

Yes, it's unconformable to think about cognitive decline, but it is a risk we all share. Taking the appropriate steps now will help reduce the risk of financial issues in the event of impairment.

Please reach out to us if you would like to discuss fortifying your plan and reviewing your estate documents.

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