

November 14, 2022 – Wealth Planning Commentary

Not so cheery, and important, long-term planning

Despite market turbulence, geopolitical events, interest rates and high inflation receiving most of the attention in 2022, there are some other considerations in wealth planning that may impact you. In their November issue, the Journal of Financial Planning published an article on three important trends: cognitive decline, longevity risk, and the rising cost of healthcare. Not exactly the most cheerful of topics but very important factors when developing your wealth plan.

Approximately 30% of adults over the age of 65 suffer from dementia or mild cognitive impairment. The number increases to 50% for adults in their 80s. When developing your long-term planning, consider that there is a reasonable likelihood of cognitive decline. There are some activities that are within your control now before the chance of impairment increases. Estate documents – Wills, Trusts, Healthcare Proxys, Advanced Medical Directives (AMD) and Durable Power of Attorneys (DPOA) should be designed, executed, and revisited more frequently in later years. We recommend informing the agents, executors, and trustees named within the documents of their roles and your expectations. Keep these documents in a secure place with your advisors or in a location that is known to the people named in your estate documents. These actions will help with a smoother transition as you age.

We are all living longer and that means your assets will need to sustain your lifestyle potentially more than initially expected. In wealth planning, we refer to this as longevity risk. By 2034, there will be more people in the U.S. over the age of 65 than under 18 for the first time in US history. One key goal that all our clients share, besides tax mitigation, is maintaining their envisioned lifestyle throughout their lifetime. During the planning process we account for longevity risk by assuming a life expectancy of age 95, and in some cases 100.

Another important factor in long-term planning is rising healthcare costs. Healthcare costs are increasing at a higher rate than inflation. Since 1957, costs have increased four times faster than the price of all goods and services in the US. The Inflation Reduction Act (IRA) will help control these expenses by capping out-of-pocket costs to \$2,000 a year for Medicare enrollees starting in 2025. The IRA also begins to allow the federal government to negotiate drug prices with pharmaceutical companies starting in 2026.

Cognitive impairment, longevity, and healthcare cost risks are factors that need to be considered when creating your wealth plan. Please reach out to your Wealth Manager to discuss and review your plan's resilience to these risks.

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