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The Financial Counselors

JUNE 18, 2015 | KNOWLEDGE SERIES

Understanding the realities of aging helps families better prepare, especially when financial and personal legacies are at stake.

Family decisions with aging investors: The importance of knowledge and forethought

It is well documented that increased life spans bring great benefits, but introduce health risks and the decline of cognitive ability as well. Enjoying a long and fruitful life sometimes means navigating the difficult territory of impaired decision making.

With more than 14 percent of the U.S. population now over age 65, finding the best way to keep personal finances secure and organized is a goal shared by a wide cross-section of families and professionals. The choices that must be made to manage finances and investments are contingent upon one's understanding of accounts, tax rates, global equity and fixed income markets, and short- and long-term cash flow needs; when this understanding falters, risk increases.

Noted economist and Harvard University Professor, David Laibson, Ph.D., investigated these concerns and found clear trends based on data tracking the ability to retain and recall facts. He noted that when interviewees in the University of Michigan Health and Retirement Study were asked to immediately recall words from a list of 10 simple nouns, the difference in accuracy between age groups was striking. At age 51, the average performance was 6.2 words out of 10. By age 90, the average (controlled) performance was 3.0 words out of 10.[*]

About half of adults in their 80s suffer from some level of cognitive impairment, which contributes to issues such as recall ability and directly impacts financial decisions. This group includes dementia patients, but is also largely comprised of those struggling with cognitive decline – impairment in processing speed, reasoning skills, spatial processing, and the ability to solve problems spontaneously.

Understanding the realities of aging helps families better prepare, especially when financial and personal legacies are at stake. Certainly not all families encounter this issue and some are reluctant to discuss it, but the future can be better managed by those willing to share information and responsibilities with trusted family members and advisors.

Making the transition to more of a team-oriented financial support system is both emotionally complicated and liberating. Whether triggered by a life event such as retirement or the birth of a grandchild, or simply embraced as part of a forward-thinking plan, those that are ready to prepare for cognitive decline should consider three steps: opening lines of communication, formalizing a plan, and creating a checklist to ensure information is available and critical needs are covered.

[*] What is the age of reason? Sumit Agarwal, John C. Driscoll, Xavier Gabaix, David Laibson, Center for Retirement Research at Boston College, July 2010

Advisors that act as fiduciary partners will put family finances in the context of the "big picture."

Communicate within the family

The way in which families interact changes as life progresses, especially for those who are caring for their children and their parents at the same time. Both this "sandwich" generation and the elder generation are considering issues such as investment decisions, maintenance of family-held property, and healthcare needs that expand in tandem with extended life spans.

The idea of sharing information is greeted differently from family to family, as dynamics among parents and siblings can create sensitive environments. Some families limit financial transparency to bill payment and basic budgets, while others share the entire financial universe.

Parents that keep information under lock and key are bound to create uncomfortable situations for their children. Defensive conversations and unpleasant financial surprises can cause rifts; this climate can be eased by choosing priority items to share or creating a simple checklist of providers and accounts (as detailed below).

In an ideal world, financial goals and estate plans are shared. A reliable family member should be appointed to step in if an aging account owner begins to experience difficulties or worse, becomes incapacitated. That process calls for formal documentation and introductions to advisors: meeting in person with trustees, financial advisors, accountants, and attorneys will ensure a seamless transition when a new decision maker is asked to manage the estate.

Without forethought and open communication, decisions could end up in the purview of state government, where assets can be locked until a personal representative or fiduciary is identified and appointed by the court. Untangling the estate invites costly, inefficient, and financially risky outcomes. Families that are able to communicate internally will avoid this snare and be empowered when the time of transition arrives.

Plan with confidence

The delicate nature of cognitive decline underscores that a family's true financial situation goes beyond portfolio performance. Families should work with advisors to create a plan that captures their life goals – not just their financial outlook.

Advisors that act as fiduciary partners will put family finances in the context of the "big picture." Before the landscape changes and urgent help is required, financial plans should be stress tested based on the potential long-term impact and cost of home health care, nursing homes, and other potential expenses. Those plans should be reviewed at least every few years to ensure that new developments are taken into consideration.

When financial, investment, estate, and medical plans and partnerships are in place prior to any apparent cognitive decline, transitions become more fluid and less combative. A strong financial advisor will already know the family, will have recommended that legally executed documents be in place, and can quickly coordinate action steps for relatives and other professional advisors.

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Create a checklist

A comprehensive checklist of financial and legal items is one of the most critical tools with which families can equip themselves. Working with advisors including financial counselors, CPAs, and attorneys, families should identify the location of legal documents, all financial accounts, and the necessary passwords to access critical information. These details should be accessible to appointed family members and held in a secure environment.

Checklist items may include:

- Emergency contact information for close family and advisors
- Health insurance information
- Healthcare proxy
- Durable power of attorney
- List of financial accounts
- Legal documents including birth certificates
- Insurance coverage
- Location of original legal documents or estate plan

As new generations within a family grow into maturity, the needs and complexity behind their personal financial vision evolve dramatically. Those who are helping aging parents on one side and rapidly growing children on the other must be educated and prepared to meet challenges head on.

The best strategy for handling cognitive decline is knowledge, planning, and communication. Families will benefit by improving their personal financial literacy, so that they can recognize warning signs and change direction when concerns arise. If they are comfortable communicating with one another, have a grasp on their own capabilities, and delegate when necessary, they can put themselves in a strong position. Their efforts will allow them to direct less energy to anxiety about their financial pressures and more to the emotional needs across the generations.

TFC Financial Management, Inc.
260 Franklin Street, Suite 1888, Boston, MA 02110
p 617.210.6700 | f 617.210.6750 | tfcfinancial.com