GARDECAPITAL

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Flash Report

Smart Money Moves to Make While You're Still Mentally Sharp

As we age, we tend to lose some of our cognitive abilities, and that in turn can cause us to make financial decisions that are not in our best interests.

Commonly, people experience a degradation of financial decision-making abilities and "mental sharpness" beginning sometime in their 60s or 70s. When you consider that there are some 10,000 Americans turning 65 every day and all the baby boomers will hit that age by 2030, the issue of cognitive decline (and its potential impact on wealth) is a truly serious one.

Do not panic. There are steps you can take right now that can potentially set you up for success even if you begin to experience some form of cognitive impairment that might otherwise threaten your financial future.

Action Steps

Research reveals that our ability to be good stewards of our wealth may decline as we age:

- Financial literacy scores decline consistently after age 60, with the annual rate of decline being both significant and similar among all the cohorts studied (including men, stockowners and people with a college degree).
- Financial decision-making peaks for most of us in our early-to-mid 50s, while investing skills can start to decline sharply in our 60s and 70s.
- Bankruptcy filings rose fastest among those age 65 and older.
- Even mild declines in cognitive performance reveal evidence of diminished financial capabilities.

The good news: There are numerous steps you can consider taking that can potentially help safeguard your assets from mental mistakes you may one day make.

1. Start early. The ideal time to be thinking about how to protect your assets from the impact of cognitive decline is well in advance of when the need arises. Based on the data above, that means during our late 40s or early 50s for most of us. You cannot make a legally binding will or set up other legal documents (like power of attorney and trusts) unless you are considered to be "of sound mind", which essentially means you understand the consequences of your decisions and you act of your own free will.

2. Simplify your financial life. Consider consolidating disparate accounts under one roof. For example, you might place most or all of your investments with one trusted financial advisor, or merge multiple bank accounts into one. Such "clutter reduction" will not only help you, but may also help if another person (such as a family member or advisor) needs to step in to assist you down the road.

3. Have clarifying conversations with family and advisors. Sit down with the people you would want to help you navigate through life if your capacity were to become diminished. Identify who will help you make sensible financial, health care and other decisions if there is a serious mental or physical health issue. Discuss your wants, needs and values with those people. If your future caregivers and decision-makers know today about your goals as well as how you want to be helped in the future, they can prepare themselves to honor your wishes.

4. Set up or review important legal documents. Here is where your intentions meet up with execution. Some of the key documents you should consider having in place in the event that you experience serious physical or cognitive decline are obvious (such as a will). But others are too often overlooked or never updated, including:

- **Durable power of attorney for finances.** This allows you to appoint one or more people to manage your financial assets if necessary.
- **Health care directives.** These documents spell out clear directions to family members and physicians about preferred health decisions and related matters, effectively relieving family of having to make life-and-death choices about you without any guidance.
- **Living trusts.** A revocable living trust can allow you to name a successor trustee who can take control of the assets in the trust if you become mentally or physically incapacitated.

5. Compile key documents and other important financial information. If someone eventually needs to help in making financial decisions on your behalf, it is best to make it easy for them to step into that role. To that end, start compiling a comprehensive inventory of your key financial information.

You can create a digital file or folder, or keep hard copies in a specific spot like a desk drawer.

Whatever route you choose, tell someone you trust (ideally the person who is on board with helping you if needed, be it a family member, friend or attorney) the location of the paperwork and other details. The specific information you compile will depend on the details of your financial situation, but should likely include:

- **Assets (details for checking accounts, investment accounts, annuities, business interests, real estate)**
- **Liabilities (mortgages, credit cards, recurring expenses)**
- **Beneficiary designations on qualified plans and IRAs**
- **Insurance (life, long-term care, disability, etc.)**
- **Contact information for key people/advisors (accountant, wealth manager, lawyer, physician)**
- **Digital information (IDs, passwords, PINs)**
- Location of your most up-to-date will with an original signature, durable power of attorney, deed for house, car title and any safe deposit boxes/keys
- Location of birth certificate and certificates of marriage, divorce, etc.
- Copies of any business succession plans and the location of ownership-related documentation (for entrepreneurs)

Conclusion

Let us be honest with ourselves about the possibility that we may experience some form of cognitive decline. Then we can take action steps aimed at minimizing the potential for making wealth-erasing mental mistakes. By working in partnership with family and trusted advisors, we can seek to protect the assets we have worked so hard to build and grow over our lives.

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