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Smart money moves to make while you're still mentally sharp

As we age, we tend to lose some of our cognitive abilities, which can cause us to make financial decisions that aren't in our best interests.

People commonly experience a degradation of financial decision-making abilities and "mental sharpness" beginning in their 60s or 70s. Considering that some 10,000 Americans are 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 profound.

Don't 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 decline being significant and similar among all the cohorts studied—including men, stock owners, 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 show evidence of diminished financial capabilities.

The good news is: You can consider numerous steps to help preserve your assets from the mental mistakes you may make one day.

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

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Simplify your financial life. Consider consolidating disparate accounts under one roof. For example, you might place most 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.

ADDITIONAL STRATEGIES

Have clarifying conversations with family and advisors. Sit down with the people you'd want to help you navigate life if your capacity diminishes. Identify who will help you make sensible financial, health care, and other decisions if there's a severe 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 and how you want to be helped in the future, they can prepare themselves to honor your wishes.

Set up—or review—critical legal documents. Here's where your intentions meet up with execution. Some key documents you should have in place if you experience severe physical or cognitive decline are apparent—such as a will. But others are too often overlooked or never updated, including:

- A 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, relieving the family of having to make life-and-death choices about you without 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.

Compile critical documents and other important financial information. If someone needs to help make financial decisions on your behalf, it's best to make it easy. Start compiling a comprehensive inventory of your critical financial information. Create a digital file or folder or keep hard copies in a specific spot. Tell someone you trust 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)

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- 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 the 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’s be honest about the possibility that we may experience some form of cognitive decline. Then we can take steps to minimize the potential for making wealth-erasing mental mistakes. By working in partnership with family and trusted advisors, we can seek to preserve the assets we’ve worked so hard to build and grow over our lives.

-THE DENT TEAM

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