THE Wealth REPORT

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JLPERKINS Wealth Management
Growing and Preserving Your Wealth

HOW TO "PLAN" FOR COGNITIVE DECLINE

Overview

One day in the future we may have genetic tests that can accurately determine who will develop dementia and by approximately what age. For now, it's largely guesswork.

However, while we may not know who will develop a cognitive condition such as Alzheimer's, we do have a pretty good understanding of the potential financial burden of this progressive disease.

Today, Alzheimer's disease is the most common form of dementia, representing up to 80 percent of all cases, and a third of seniors die with the disease.[1] However, the key numbers for the sake of financial planning is that while people with Alzheimer's live, on average, four to eight years after diagnosis, they can live as long as 20 years.[2]

Consider then, that the average coverage of a long term care insurance policy is three years — less than the average duration of the disease.[3] Clearly, given the statistics we do know about age-related cognitive impairment, it is prudent for retirees to include this possibility as part of their financial plan.

While dementia may take years for progressive decline, studies show that one of the first symptoms to appear is the deterioration of financial management skills. This means three things are important:

1. Early diagnosis for ease of transferring money management responsibilities with the help of the patient.
2. Ensure the responsibility is transferred to a person with sufficient experience handling money and managing financial issues.
3. Consider if the person taking over finances is trustworthy and/or could potentially develop dementia in the near future — which would of course require another subsequent transfer of financial responsibilities.

Stage Planning

Dementia is a progressive disease, but the Alzheimer's form can be even more severe and progress more rapidly. It generally follows three basic stages: mild, moderate and severe.

It is during the mild decline stage that financial skills begin to deteriorate. This may be evident as the patient starts to have trouble paying bills and managing bank statements. It's a good idea to utilize bank services such as direct deposit for all incoming sources of income and automatic bill pay for outgoing payments. The mild stage may last several years.

Also during this time, it is important to establish a legal authority as power of attorney to take over financial management on the patient's behalf when necessary. It is critical to take this action while the patient is still capable of understanding and agreeing to the decision.

During the moderate decline stage, the patient may lose the ability to manage daily finances altogether. This often causes anger and frustration, leading to irrational thoughts and behaviors — which is why it is important to transfer money management to another person before this stage. Depending on the person's living situation, it may be necessary to hire a caregiver to shop, cook and even help the patient dress.

During the final stage of severe decline, patients tend to lose short-term memory, including the ability to hold conversations and make decisions. Caregiving duties may range, progressively, from helping the patient eat and use the toilet to complete 24-hour monitoring. The patient may become completely bed-ridden, unable to sit without support, and may no longer recognize loved ones, speak or understand words.

Financial Options

Once a family receives a diagnosis of progressive cognitive impairment, the trajectory of expenses will change. Instead of travel and transportation, assets will increasingly be allocated to pay for prescription drugs, personal care supplies, adult day care, full-time in-home or residential care services.

It's important to be aware that if a family hires an independent professional caregiver to work inside the home, the household may be responsible for the caregiver's Social Security and unemployment taxes.

The following are some of the resources and financial options available to help develop a plan for a person facing dementia and its related expenses.[4]

Medicare & Medicaid

- Medicare pays only for acute care in a skilled nursing facility and only for the first 100 days.
- To qualify for Medicaid long-term care coverage, beneficiaries must spend down assets that could be used to fund their care.
- Not all nursing homes accept Medicaid and ones that do may have limited availability.

Veterans Benefits

- Certain government benefits, including health and long-term care, may be available for people who served in the military.

Long-Term Care Insurance (LTC)

- An LTC policy needs to be purchased before a dementia or Alzheimer’s diagnosis.
- Pay attention to the amount of the daily benefit and if it is adjusted annually for inflation.
- Understand how long benefits will be paid and if there is a maximum lifetime payout.
- Check what type of care is covered (e.g., skilled nursing home, assisted living, licensed home care, etc.).
- Check if there is an elimination period before coverage begins.

Life Insurance

- Life Insurance should be discussed prior to any hint of dementia or Alzheimer's. Once a diagnosis is made or symptoms have begun coverage will be declined.
- Policy owners may be able to borrow or withdraw from the cash value account of certain types of life insurance contracts.
- May offer accelerated death benefits (e.g., 80-85% of policy face value and tax-free income), paid out if the insured person is not expected to live beyond the next six to 12 months due to a terminal illness.
- May offer a rider that waives premium payments if the owner becomes disabled.

Long-Term Care Annuity

- Fully funded by the initial premium.
- Coverage typically valued at 200 to 300 percent of the initial premium amount (the higher the initial premium paid, the more coverage received).
- If and when long-term care is required, a specific monthly amount is paid from the annuity’s coverage until the value is depleted.
- Policy owner may be able to access cash value from the account even if he or she never requires care.
- Once the annuity contract matures, any remaining cash value may be passed on to named beneficiaries.

Asset-Based Long-Term Care Insurance

- Offers coverage for long-term care expenses as well as a death benefit.
- If the policy owner depletes the LTC coverage, the death benefit may be used to continue paying for expenses.

Please work with a qualified financial professional and attorney before making any purchasing decisions to ensure you fully understand all of the benefits, features and limitations of the above-referenced programs and financial products.

Financial Planning Checklist[5]

- ☑ Identify all assets (bank accounts, investment accounts, property, household items, real estate).
- ☑ What is their estimated value?
- ☑ How is the main residence titled?
- ☑ Review all insurance policies – what is covered (e.g., cognitive conditions, long-term care), benefits payable, named beneficiaries.
- ☑ Review all income sources, including Social Security, disability payments and required minimum distributions from retirement accounts.
- ☑ Research if penalty-free distributions are allowed from qualified retirement accounts.
- ☑ Consider government resources, such as Medicare, Medicaid, Social Security and veteran's benefits.
- ☑ Consider what tax deductions and/or credits the patient or caregiver may be able to claim.
- ☑ Seek out free or low-cost community resources for meals, transportation, respite and adult daycare.
- ☑ Consider how personal property and work-related benefits can be utilized, such as a flexible spending account, family and Medical unpaid leave or paid time-off.
- ☑ Who will manage the patient's money and tax returns?
- ☑ Consult with experienced financial and legal advisors.

"Knowing intentions about care, living arrangements and desire to protect income for other family members will better prepare you and a financial professional to design an effective plan."[6]

Final Thoughts

As a final consideration, it's worth mentioning the financial plight of a family caregiver for a person with Alzheimer's or other type of dementia. While it is recognized that most family caregivers are not compensated for this role, what is less evident is that they spend an average of $5,155 a year of their own money toward this aid — which can put their own financial security at risk.[7]

Retirement planning is difficult enough, but planning for the possibility of cognitive impairment adds a whole new dimension to the issue. It's a good idea to work with a trusted financial advisor and attorney to develop a comprehensive plan to help protect your financial security and that of a spouse and other family members.

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[1] Transamerica and MIT AgeLab. 2016. “The Caregiver’s Guide to Financial Planning in the Shadow of Dementia.” http://agelab.mit.edu/files/Financial_Planning_Caregiver_Guide.pdf. Accessed Nov. 15, 2017.
[2] Alzheimer’s Association. 2017. “Stages of Alzheimer's.” https://www.alz.org/alzheimers_disease_stages_of_alzheimers.asp. Accessed Nov. 15, 2017.
[3] American Association for Long-Term Care Insurance. 2017. “Long-Term Care Insurance Rates And How to Find the Best Costs.” http://www.aaltci.org/long-term-care-insurance-rates/. Accessed Nov. 15, 2017.
[4] Alzheimer’s Association. 2016. “Making Financial Plans After a Dementia Diagnosis.” https://www.alz.org/national/documents/brochure_moneymatters.pdf. Accessed Nov. 15, 2017.
[5] Transamerica and MIT AgeLab. 2016. “The Caregiver’s Guide to Financial Planning in the Shadow of Dementia.” http://agelab.mit.edu/files/Financial_Planning_Caregiver_Guide.pdf. Accessed Nov. 15, 2017.
[6] Ibid.
[7] Transamerica and MIT AgeLab. 2016. “The Caregiver’s Guide to Financial Planning in the Shadow of Dementia.” http://agelab.mit.edu/files/Financial_Planning_Caregiver_Guide.pdf. Accessed Nov. 15, 2017.

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