



## FINANCIAL ADVISOR

# A Financial Advisor's Guide for Helping Clients Face Alzheimer's Disease And Dementia: Part 2

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*Editor's note: In Part 1 of this article, we introduced the importance of recognizing cognitive impairment in clients and what to look for in determining whether a client is exhibiting behavior consistent with this disease. In Part 2, we provide some practical tools to help prepare clients and their families in advance of potentially developing this disease.*

As with all matters of financial planning, the most effective planning is often done far in advance and considers both anticipated and unexpected events. So it goes for dementia, especially because of the urgency required in detecting the early warning signs before a crisis ensues.

When advisors suspect their clients are suffering from the early stages of Alzheimer's, they may be reluctant to address it for fear of insulting them or otherwise jeopardizing their professional relationships with them. Yet this fear simply must be overcome if an advisor believes a client is at risk of inflicting self-harm, financial or otherwise.

An effective way to address it is to discuss the possibility of the disease with clients long before there are any warning signs. A straightforward discussion helps, but talking about it may not be enough. When possible, the client and advisor should reach an understanding about how they will deal with it. For instance, they could address the legal concerns about client privacy by using an incapacity contact form.

Such a form would establish certain key principles:

- That the advisor's first priority is to discuss and resolve concerns about capacity with the client directly but that circumstances may arise in which the client's financial interests are potentially at risk without intervention; and
- That to prevent problems, the client authorizes the advisor to contact third parties with any concerns about the client's capacity to manage his or her financial affairs.

A properly drafted incapacity contact form should not add any additional legal burdens or obligations for the advisor. Its sole purpose is to provide the advisor with all of the necessary tools to protect and advocate for the client's best interests.

## Sharing Information Among Family Members

Advisors can help promote openness in a family by helping clients arrange for duplicate statements to be sent on an informational basis to family members even before any cognitive impairments are on the horizon. Families can also be given access to the electronic vaults that are offered within various advisor financial planning and investment software solutions. These vaults can store current portfolio reports and financial plans as well as providing easy access to important documents. They can also function as a place where family members can go to obtain necessary information to support one another.

Advisors also can prompt family members to give others access to nonfinancial information— reference notes from doctor visits and prescription lists, for example—within the vault as a centralized resource or perhaps through tools like secure, common, cloud-based file folders.

## Legal Documents

Estate plans and legal documents, including wills, trusts, and powers of attorney, should be kept current, and clients should be encouraged to ask their attorneys if anything should be updated because of changes in the law or in the client's personal life. Remember, when a family needs to use these documents, it is often at a time when additional stress is not welcome. Advisors should seek from clients an up-front agreement that grants them permission to interact with the family attorneys and share information should any cognitive impairment arise.

## Durable Powers Of Attorney, Health-care Proxies And Directives

In general, a durable power of attorney appoints another person to make legal decisions on behalf of the client in the event he or she becomes incapacitated. A health-care proxy is someone who is appointed to make health-care decisions on behalf of the client in such events. A health-care directive is a written statement explaining what the client wants in end-of-life care. It always is advisable to have clients express, in writing, the details of their personal wishes so that family members or other people named in the directive can make medical decisions— with the confidence that they know what the client wants. These statements promote family harmony and reduce indecisiveness and conflict that can be burdensome for loved ones during a stressful time.

Durable powers of attorney and health-care proxies should be reviewed perhaps more often than wills and trusts because the agents named by the client could be called to action at any time. It is important to remind the client who these agents are to ensure that they can best serve the client's needs. Clients should also be made aware of the roles and powers of the legal agent and the health-care proxy. After all, these people are authorized to decide what medical care a patient receives, where he or she lives, and what comfort items the patient gets. Because these decisions need to be funded, the person given power of attorney, as dispenser of these funds, should be able to work in harmony with the health-care proxy.

An attorney who is qualified to practice law in the client's state of residence can confirm that the documents meet all current legal requirements. Additionally, the advisor can assist a client in understanding what is required by hospitals, nursing homes, banks or other institutions in the event that the agents need to act on behalf of the client.

## Trusts

Trusts can be an effective tool for preserving the assets of a person suffering from Alzheimer's or dementia. In a trust, one or more trustees can be charged with overseeing assets for the benefit of the patient and, ultimately, the heirs of that patient. The trustees must also take care to make sure there is an appropriate balance of assets or other resources readily accessible for the individual's care at the standard he or she (and the family) desires. Special needs trusts and Medicaid trusts should also be considered and, if used, expertly designed to meet the needs of the individual and family while adhering to the laws that govern such trusts and their use.

## Other Forms Of Asset Ownership

The use of joint accounts and the joint ownership of bank accounts and homes may help children or others manage finances and assets needed for the patient. Nevertheless, simply putting a name on an account or asset comes with risks both to the patient and the individual signing up for that responsibility. There can also be income, gift and estate tax implications, with the potential for current and future tax liabilities.

## Health-Care Insurance

Health-care insurance can help defray some of the financial burden of caring for individuals with Alzheimer's and other forms of dementia. There are tools to help individuals and families that can easily be found at [www.medicare.gov](http://www.medicare.gov). This government website is an excellent resource to evaluate and compare Medigap policies as well as prescription drug riders available under Medicare Part D. Another helpful website on this topic is [www.alz.org](http://www.alz.org). It is especially useful in understanding which drug plans will cover the medicines that the doctor has determined are best for treatment.

It is important to set up third-party notifications to alert a family member or other responsible individual in the event a premium is missed so that this coverage (and any other insurance coverage) stays in place. When patients' cognitive impairment reaches a stage where they need help with everyday activities, their health insurance, Medicare and Medicaid generally don't cover the custodial care they require. But these types of insurance can cover important cognitive testing, exams and neurologist visits. When possible, patients and their designated representatives should verify that their insurance covers their doctors as an in-network benefit to avoid the higher cost associated with out-of-network care.

## Disability Insurance

Disability insurance is a type of insurance often available as a group benefit to employees, though it's sometimes purchased directly by individuals as well. This insurance is designed to replace income if an individual can't

perform the duties of his or her occupation (or any occupation, if the policy is written that way). One might think this type of insurance would cover dementia, and it can in part; but advisors need to be careful in understanding the terms of the insurance coverage in place.

While dementia can keep people from working, disability policies may exclude such conditions or limit the time period for the payout of benefits. Moreover, policies often provide coverage through age 65, or just beyond, when the majority of cognitive disorders begin to emerge. Among the cases we are seeing today, most disability policies don't provide any significant benefit. However, if dementia, mild cognitive impairment and Alzheimer's occur in individuals who aren't yet 65, the disability policy might indeed come into the planning equation.

Income through Social Security Disability Insurance (SSDI) may also be available to clients, even those with significant assets. While there are limits on the amount of earned income a patient can make per month to be part of the program, there are exclusions for certain unearned income. The Social Security Administration added early onset/younger-onset Alzheimer's to the list of conditions under its Compassionate Allowances initiative. This has helped to streamline the process for qualifying individuals to access resources and reimburse expenses through SSDI programs. Helpful materials can be found on the Alzheimer's Association website, including worksheets and checklists that may be of assistance in determining what aid someone can receive from SSDI programs.

## Long-Term-Care Insurance

Medicare and private health insurance, including supplemental plans, generally will cover only limited care for a patient in a nursing facility or in a patient's home. For in-home care, a patient in recovery often must require skilled nursing care (not simply help with daily living activities). Private insurance coverage may pay for in-home care, but often if it's less than eight hours a day for 21 days or less. After a hospital stay of at least three days, a patient needing continuing treatment typically can be provided with 100 days of coverage in a skilled nursing facility.

Long-term-care insurance can be purchased as an option to insure beyond what health-care insurance covers. These policies can be designed to pay a specific daily benefit, with or without inflation adjustments, and to pay out after a specific elimination period for a number of years. There are also stand-alone options, asset-based long-term care products, and life-insurance policies that can have riders allowing benefits to be paid under certain circumstances. When the insured patient cannot perform at least two of the six activities of daily living—eating, bathing, dressing, toileting, transferring and continence—such policies will then have a stated benefit triggered. Mental impairment alone may not trigger the benefit, and although it is more common today to see specific cognitive triggers included, policies can differ, so it is important to review the policy to understand what is covered.

The cost of care can be extraordinary, with the average stay for an Alzheimer's patient in a skilled nursing home facility currently estimated at eight years. The average cost of a skilled nursing home stay in the United States is approximately \$8,000 a month for a private room, according to Genworth. Individuals and families may want to attain insurance coverage specifically to protect assets, and in some cases, to pay for care that otherwise would not be affordable.

## Life Insurance

Life insurance policies may include a rider for accelerated death benefits, which means benefits can be paid while the insured person is still living. These policies have varying conditions, but this benefit typically is structured to allow a percentage of the death benefit to be paid out when a client is terminally ill or meets the standard of requiring nursing home care. When the policy pays a benefit to cover the cost of current nursing home care, that payout typically allows for 2% of the death benefit monthly and it's capped at 50% of the total policy.

A client's existing life insurance policy also may be sold to a third party in exchange for cash. There are two main options: life settlements and viatical settlements. With a life settlement (typically available to women over age 75 and men over age 70), a third party buys the policy and then takes over premiums until the death of the insured individual. A viatical settlement can be explored if the person named on the policy is suffering from a terminal illness that is expected to last two years or less. The life settlement is taxable, while a qualifying viatical settlement generally isn't. In most cases, the cash offers for the insurance policies are a fraction of the full value of the death benefit the family otherwise would have received.

## Tax Planning

When recording expenses, it is important to plan early to have a system to keep good records or hire a bookkeeper. There are professionals who have expertise in care management and related resources that can help. When filing, it is important not to overlook the tax deductions available for medical expenses that exceed 7.5% of adjusted gross income (AGI) for 2017 and 2018. These deductions become subject to a limit of 10% of AGI in subsequent years under the current tax code, and they are subject to future legislative action. Clients can find tax breaks elsewhere—for example, they sometimes can receive dependent-care credits when patients move in with them. Lastly, don't forget about Flexible Spending Accounts and Health Savings Accounts; monies deposited in these could be used to reimburse health care expenses.

## Conclusion

Until a cure is found, Alzheimer's disease and other forms of dementia must be recognized as some of the greatest risks facing clients today. Simple statistics tell us so. Additionally, within the approximate 5 million people over age 65 today who have Alzheimer's disease, 62% of these are women. <https://www.herwealth.com/blog/living-together-over-50-ignoring-financial-risks>

Financial advisors must increase their focus on these risks, both in their interactions with clients and in their ultimate financial planning methodologies and practices.

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