Protecting

Know How Now: Financial Education Series

Planning for incapacity

Do you handle most or all of the bill-paying in your household? Are you responsible for making most of the investment decisions? How prepared are you for the possibility that you might someday become physically or mentally incapacitated and unable to manage your financial affairs?

Incapacity can happen to anyone at any time due to causes like a serious injury, Alzheimer's disease or other forms of illness. Everyone needs to plan ahead for such a risk. And if you have a spouse or partner, the pair of you need to plan together. (For more on incapacity planning for couples, read **Tough decisions about decision-making**.)

Learn what you need to do now to address the risk of incapacity.

Consolidate assets

Assets that are scattered among too many financial institutions or retirement accounts might be hard to locate and manage on your behalf should you become incapacitated. This could result in more work and headaches for the person or persons responsible for taking control of your financial affairs. Try to consolidate your assets as much as feasible.

Formalize your planning

In the event you become incapacitated, whoever becomes responsible for managing your finances will find the task easier if there's something in writing to guide the way. It pays for you to always have an up-to-date, formal financial plan, preferably one written by a professional advisor, to provide a snapshot of your current finances and an outline of your goals as well as general recommendations on how to achieve them. Be sure to have your financial plan updated at least annually or more often if you experience a major life change, such as a marriage, birth or adoption of a child, or divorce.

Another useful document is an investment policy statement. When you use a professional financial advisor to manage your investments, he or she will draft a formal statement laying out your goals and specific investment strategies for achieving these goals. The statement will include information about your risk tolerance and liquidity requirements and a recommended asset allocation for your portfolio.

Be sure you have these legal documents

Every adult should have the following legal documents in place at all times.

- **A living will.** With a living will, you specify in advance what types of medical treatment you do or do not wish to receive in the event you ever become incapacitated and unable to make such decisions on your own.
- **A health care power of attorney.** You use a health care power of attorney to appoint a "power holder" to make medical decisions on your behalf in the event of incapacity. By having a health care power of attorney in addition to a living will, you enable the power holder to act in circumstances in which the living will does not specify your wishes.
- **A financial power of attorney.** This allows you to appoint a trusted person to make financial decisions on your behalf in the event of incapacity.

- **A will.** This defines how your assets will be distributed after you've passed away. If you have children who are minors, you can use a will to name a guardian so that the decision about who will care for the children will not be left to a court. A will also directs how debt, taxes and expenses are to be paid and names an executor to file any necessary tax returns and manage your estate until everything has been distributed.

Explore the idea of using a revocable trust

A revocable trust is a legal instrument you can use either together with or in place of a will. You transfer assets to the trust and specify in writing how the assets are to be distributed after your death. Legally speaking, the trust owns the assets, but you can use them yourself for any purposes. You can terminate or amend the trust at any time.

A revocable trust offers two main advantages over a will. First, a revocable trust is generally harder to contest after your death. And second, because a revocable trust does not become part of the public record, it keeps your personal and financial affairs private.

Keep documents organized

Keep all essential legal and financial documents in a safe place, such as a fireproof, waterproof and portable box in your home. Let a trusted person know where the documents can be found.

Documents that are important to round up include:

- A will
- A revocable trust
- A living will
- A health care power of attorney
- A financial power of attorney
- A formal financial plan
- An investment policy statement
- Insurance policies
- Stock and bond certificates
- Social Security payment information
- Rental income paperwork
- Deeds, mortgage papers, automobile titles or other statements of ownership
- Monthly or outstanding bills
- Prior years' tax returns (going back at least three years)
- A marriage license
- Children's birth certificates
- Veterans' discharge papers

Create a written or electronic master document that lists the following items along with any usernames, passwords, personal identification numbers (PINs) and contact information required to gain access to more details about the items:

- Bank and investment accounts
- Retirement assets (employer-provided plans, IRAs and Keoghs)
- Real estate
- Assets held in trust
- Liabilities (mortgage, car loans, credit cards and other debts)
- Business interests
- Insurance policies
- Financial or investment advisors

Keep your master document in a safe deposit box at a bank or wherever you store your other essential financial and legal documents. In addition to this document, you can use a password manager, either in the form of software or a web-based service, to store and organize passwords and PIN codes.

At least once a year, you and your spouse or partner should review the master document and any data stored in a password manager to keep all information current.

Consider long-term care insurance

With life expectancy on the rise, chronic diseases such as diabetes and Alzheimer's are increasing the need for long-term care, which is comprised of services to help a person carry out essential, daily activities like eating, bathing and dressing. The high cost of long-term care can pose a significant threat to your financial security and quality of life. Employee health insurance doesn't cover long-term care and generally, Medicare doesn't either. Medicaid does cover it, but only after the patient—and in many married-couple cases, the patient's spouse—has spent or transferred away almost all assets other than a home and car.

Long-term care insurance helps defray the costs of such care, so you should consider such protection, particularly as you near retirement.

Consider working with a professional financial advisor

A trusted, professional financial advisor can offer valuable guidance on safeguarding your finances and investments from the risk of incapacity. If you're not already working with such an advisor, read **Choosing and using a financial advisor.**

Don't put it off

Incapacity isn't something pleasant to think about, let alone plan for. But it's an essential part of sound financial planning. And knowing that you've safeguarded your finances from the risk of incapacity will provide you with peace of mind, particularly as you move closer to retirement and then continue through that life stage.

Explore further

Visit **tiaa-cref.org** for broader Financial Education, including a variety of resources to help you improve your financial well-being.