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Who will make your financial decisions when you are no longer able to?

This article has been brought to you by the BMO Retirement Institute. The BMO Retirement Institute was established in 2008 to provide thought provoking insight and financial strategies for those individuals planning for, or currently in, their retirement years.

Over the past few years, there has been an increase in public awareness of the serious implications of our rapidly aging population for government programs such as health care and public pension plans. As life expectancy continues to climb, and fewer people enjoy defined benefit pensions, individual investors have also begun to appreciate the need to plan ahead for a lifetime of steady income after retirement.

By contrast, the level of awareness of how aging can affect financial decision-making is not as high. At least part of this can be attributed to the "forever young" mentality of the baby boomer generation, similarly the well-publicized phenomenon of successful investors who are well beyond their 60s or even 70s (Warren Buffett comes to mind). The reasoning is that as a person accumulates greater investment knowledge and experience, he or she will surely be more skilful at investing.

However, in recent years, a number of research studies have come to a different conclusion. They have found that the cognitive decline that accompanies aging has a negative influence on a person's investment skill. In the cases where dementia* occurs, there is evidence that in just a one-year period, patients with even mild dementia experience a dramatic decline in their ability to make financial decisions that are normally considered relatively basic (e.g., cheque book management, bill payment and understanding a bank statement). While dementia is not a part of normal aging, it is important to realize that aging is one of its most significant risk factors. Research has shown that the incidence of dementia explodes after age 60, doubling with every five years of age.

Prudent risk management is an indispensable component of holistic financial planning. We tackle the possibility of above-average longevity by making sure that part of our retirement income source includes guaranteed income that lasts a lifetime. We manage the risks of early death and disability by purchasing life insurance and disability insurance. We meet the potential challenges of unexpected health care costs by acquiring critical illness insurance and long-term care insurance. In much the same way, we should also protect ourselves

*Dementia refers to a class of disorders, of which the most common form is Alzheimer's disease, characterized by the progressive deterioration of thinking ability and memory as the brain becomes damaged.

against the potential risk of managing our own financial affairs in a sub-optimal manner.

For many people, the most appropriate tool for incapacity planning is the continuing power of attorney (CPOA). Different terminologies may be used in different jurisdictions to describe a CPOA (such as "enduring power of attorney," "mandate" or "durable power of attorney"), but they all refer to a legal document in which a person (the "grantor") appoints one or more persons (the "attorney(s)") to act in all matters relating to the grantor's financial affairs. The key here is that the CPOA itself must be prepared when the grantor is in full command of his or her faculties, so planning early is essential. Another important consideration in preparing a CPOA is the choice of attorney, since there is potential for misuse if the wrong candidate is selected.

The CPOA is not the only incapacity planning tool available. If you have a large asset base and more complex needs, using a trust structure may be more fitting.

Advance planning for incapacity is crucial. Once incapacity occurs, important financial decisions that you can no longer make include:

- giving instructions to your financial advisor
- making a new will, updating an existing will or revoking a will
- preparing a CPOA, updating an existing CPOA or revoking a CPOA
- designating the beneficiary(s) of your RRSP or RRIF or changing the beneficiary(s)
- designating the beneficiary(s) of an insurance policy that you own or changing the beneficiary(s)

Everyone should make incapacity planning a vital element of his or her overall financial plan. To obtain more information, please have a discussion with your BMO Nesbitt Burns Investment Advisor.

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