Wealth Planning **Update**

The health and wealth connection

Three ways to incorporate health into your wealth plan, and prepare for the unexpected.

A strong correlation exists between your health and your financial well-being. With good health, you may work longer, travel more, and engage in activities that improve your quality of life and personal well-being. These things, in turn, affect your earnings power and savings potential.

However, even if you have a healthy lifestyle, an unexpected health event could derail your financial plans. That's why planning ahead for a medical event is just as important as striving to remain healthy. This article highlights the effect that health decisions can have on long-term wealth and offers three strategies to help protect your wealth plan in case there is a turn in your health or the health of a loved one.

Start by aiming for a healthy lifestyle

Building wealth affords you the opportunity to pursue interests you enjoy, and good health helps make that possible. For example:

- **Lowering financial stress** results in less risk of a heart attack,[1] while reducing debt can reduce the risk of depression and anxiety disorders.[2]
- **Getting adequate sleep** can lead to stronger decision making, memory and reaction time.[3]
- **Exercising regularly** improves cognitive function and drive.[4]

It makes sense then that good health may help you to perform better at work, which may lead to advancement opportunities and higher lifetime earnings. One study showed that those who exercise regularly tend to earn about $25,000 more per year than those who don't exercise regularly.[5] Another concluded that a higher body mass index led to lower pay, particularly among women.[6]

Meanwhile, the cost of poor health can add up over a lifetime and can greatly reduce overall wealth. For instance, a study revealed that among 65-year-old males with a high school diploma, the median wealth of the healthy is almost twice that of the unhealthy.[7]

Also, poor health was associated with a reduction of more than $200,000 in household net worth over a 16 year period.[8] One reason could be that declining health leads to more doctor visits, which can mean lower productivity and less career advancement, resulting in lower earnings and higher debt levels. This is wealth that you could have used to support your lifestyle or passed down to your family or community.

Be prepared by planning ahead

While good habits can help prevent negative health events, nothing is guaranteed. It's important to have plans in place to mitigate the stress that can result from a change in your physical or mental condition. Here are steps you can take to be better prepared.

1 Assign Powers of Attorney.

Who do you trust to manage your finances if you become incapacitated? Have you told anyone how you would want your affairs managed? Powers of Attorney (POA) are documents that appoint someone to make decisions on your behalf if you are unable to do so. There are two types of POA that may be in place: Financial POA and Health Care POA. A Financial POA designates someone to make specific financial decisions, while a Health Care POA names an agent to make health care decisions and can provide direction around your wishes for your care.

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The powers can be as broad as you decide and can cover many aspects of your personal and financial life. For example, you can name an agent to:

- Manage your investment and bank accounts
- File tax returns
- Manage your real estate
- Make gifts on your behalf to loved ones or charities you support
- Make health care decisions for you

When choosing an agent, consider the person's physical location, particularly for health care decisions in an emergency. For financial agents, consider someone who is financially responsible and who will execute your wishes. Work with your attorney to put documents in place that conform to your needs and to your state's statutes.

② Protect your business.

If you're a business owner, have you named someone to keep your business running if you have a serious health event? Oftentimes, life and disability insurance, when strategically designed, can be used as an effective funding vehicle for buy/sell agreements and key person coverage. They provide a smooth transition of power at agreed upon terms to ensure your business continues to operate without significant disruption if you are unable to carry out your responsibilities.

Buy-sell agreements spell out terms to transfer ownership of a business in the case of specific triggering events, such as death, disability or incapacity. For example, if you become ill and could no longer make financial decisions, the buy-sell terms could "trigger" and other owner(s), or key employees, could purchase your interest ("cross purchase") or the company could do so ("entity purchase"), at the agreed upon price and terms in the document. This allows the company to continue to run smoothly.

Think carefully about what circumstances would cause a buy-sell agreement to trigger for your business and clearly outline them. For example, define the length of any incapacity that would place the agreement in force and whether it applies to mental health, physical health or both. Review the conditions with your attorney and business partners to ensure everyone is in agreement.

In addition to buy-sell agreements, review Operating Agreements (which govern the operations of a business and may include the terms of a buy-sell agreement), Trust Documents and POAs with your attorney to ensure they are in alignment and named Agents and Trustees are the most appropriate to take over your duties. If you have a Revocable Trust in place, discuss with your attorney if your Trust should be named as owner of your business interest, which could allow for smoother transition to your heirs through your estate plan. Additionally, if you are a sole proprietor, your Trust or POA is much more applicable, as the named agents, or successor Trustees would take over the management of your business if you could no longer do so.

③ Understand the impact of changes in your income.

Could you manage the loss of income and increased expenses caused by a health crisis? The steps below can help you determine if you can adequately cover additional expenses or lost income, or if you need to explore alternatives to avoid a significant disruption in your lifestyle.

Both your physical health and your financial well-being are connected to good habits and hard work, as well as access to information and support from professionals.

First, calculate how much your lifestyle costs today and then identify all sources of income to support it, including employment wages, earnings from investments, business income, etc. Work with a wealth planner to project costs and income for the long term, being sure to adjust for inflation, along with the anticipated growth of your savings and investment assets.

Next, earmark which assets would be available to support your needs and how you would spend those down. Consider these strategies to ensure you spend down assets tax efficiently:

- **Tap health care policies first,** then after tax accounts, and finally retirement or other tax-preferred accounts.
- **Work with your wealth planner and CPA** to determine the optimal time to access Health Savings Accounts. These accounts continue to grow tax deferred, but can be withdrawn tax-free when used to pay for qualified medical expenses. Depending on your tax situation, assets available and level of expenses, you may want to pay for medical costs with a balance of tax-free and taxable money, or let these accounts grow and use after tax money. This can also change year to year depending on circumstances.
- **Work with your CPA to manage tax deductions** and the timing of expenses. You may be able to maximize the deductibility of medical expenses by paying them in one year, when possible, instead of spreading them over multiple tax years.
- **Focus on prudent savings,** creating a balance between pre-tax retirement, Roth and taxable accounts, to ensure you have the means to support any other unknowns that life may present.

Finally, if you determine that your asset base is significant enough to support a loss of income, consider the impact to your heirs. Perhaps you had planned to provide education funding for your children or grandchildren. Or you may have wanted to support your community through philanthropic endeavors. Would the loss of income that is currently supporting growth of your assets, along with additional health-related costs of potentially $50,000–100,000 per year, impact your ability to help these individuals? If yes, you may want to consider other ways to bolster that part of your savings.

Both your physical health and your financial well-being are connected to good habits and hard work, as well as access to information and support from professionals. As you take steps to protect your health, it's just as important to have a clearly defined plan that can give you peace of mind knowing that you're prepared for any event. Ask a financial professional whether your wealth plan adequately incorporates provisions for your health.

Do you need long-term care insurance?

Although seniors are most often affected, the need for long-term care can come at any age due to illness or an accident. For couples, a serious health event that requires nursing home or assisted living care for one person may result in the need to budget for two households.

The average annual cost of assisted living is $54,000, while a private room in a nursing home costs $108,405 per year. These costs continue to rise by 3–4% per year and vary among states.[9]

Long-term care (LTC) insurance policies can help manage these costs. Policies include:

- **Permanent life insurance with a LTC rider.** Leave a legacy but also have a cushion of cash value to use for health care costs, if necessary.
- **Hybrid LTC policies.** Pay a single sum or a series of payments into a policy that provides an immediate pool of funds to cover qualified health care costs. There is also a death benefit if you don't use the LTC coverage in your lifetime.
- **Traditional LTC coverage.** Pay annual premiums to a policy that will cover solely long-term care needs. There is typically no death benefit. The number of insurers providing this type of policy is decreasing.

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