



The Importance of Advanced Directives

One outcome of the pandemic is to highlight healthcare for the elderly and has brought renewed attention to an important, but often overlooked part of a person's estate plan – the advanced directive.

Advance directives are generally comprised of a living will and health care power of attorney. These are legal documents that lay out your wishes when you cannot tell the doctors whether to prolong your life or proceed with that expensive medical intervention. A living will dictates to medical providers what kinds of medical care you want at the end of your life, should you be unable to communicate these things yourself. A health care power of attorney allows you to designate someone to make your medical decisions for you if you're not able to communicate. Most people should have both, since not all medical situations will trigger a living will.

If you know someone who doesn't have these important documents, there are some easy resources. The websites sponsored by AARP and a company called Everplans offer links to free forms that conform to the laws in each state. Five Wishes offers an interactive version of these documents for a modest \$5 fee. Prepare for Your Care, a site founded by a geriatrician and college professor, helps you focus on the quality of life you want, what would make you want to go on living (or not). This is preferable to trying to list medical procedures that you may not fully understand.

With the health care power of attorney, it is important to select the right person to make your health decisions -- someone who you know will follow your wishes, rather than simply tell the doctors to do whatever they can to preserve a life whose quality was already lost. And make sure you have designated a backup in case that person is not available. In addition, people who are creating these documents might want to explain their thinking, so that loved ones will understand the point and purpose of the directive.

Of course, the documents will have to be available when needed. People can store the originals in a secure place in the home (perhaps where the will is located), and they should make sure the family knows where to find them. The documents should also be on file with the doctor and perhaps the attorney as well. And the best practice is to carry a card that has the health care agent's name and contact information and tells where you stored the originals and copies.



Declining Mutual Fund / ETF Fees

Many investors never see or pay attention to the expense ratios of their mutual funds and ETFs. However, financial planners know that these costs add up, and, as a result, generally seek the lowest cost share class for their clients.

A recent industrywide review by the Morningstar found that, on a asset-weighted basis (meaning that funds with more assets were weighted proportionately more heavily), investors pay an average fee of 1.10% a year in actively-managed U.S. equity funds, down from 1.21% in 2015. Investors in passively-managed U.S. equity funds (including ETFs) paid an average of 0.49% a year, down from 0.62% in 2015. Actively-managed international stock fund costs came down from 1.39% to 1.22% over the same time period; and for passively-managed funds, the drop was from 0.60% to 0.49%.

Morningstar predicts that fund fees in both active and passive categories will continue to drift lower, as consumers and advisors put their money into increasingly less expensive funds. And it notes that there are now a handful of zero-fee index mutual funds and ETFs. Who knows – maybe in 50 years from now, some funds will pay investors to invest in their funds.



Future Health Care Costs

Every year, the Milliman insurance industry consulting firm issues a report that estimates the average cost of health insurance and copays across the American population. The most recent study looked at couples who are assumed to live to age 88 and 90, and takes into account premiums and out-of-pocket expenses for a Medicare Part D plan and Medicare Supplement Plan G. In addition, the study assumes that medical costs will rise 4.9% a year.

The result? A healthy 65-year-old couple retiring in 2020 would be projected to spend \$351,000 in today's dollars on healthcare over their lifetime -- \$535,000 in future dollars. A healthy 45-year-old couple would be projected to spend \$505,000 in today's dollars -- \$1.4 million in future dollars.

It is important to note that this is an average, which means for people who experience significant health conditions, the numbers will be higher. And for people who manage to stay healthy until the day they die in their sleep without requiring extensive medical care or hospitalization, the costs could be much lower. It might come as a bit of a surprise that healthcare costs, using the average expense figure, may consume 34% of a couple's Social Security benefits during the early years of their retirement.



Millennials Now Dominate

As of July 1, 2019, the U.S. Census Bureau reports that millennials age 23-38 now outnumber the Baby Boom generation (previously the largest) age 55-73 by just under a million individuals. The actual numbers came to 72.1 million for Millennials vs. 71.6 million for the Boomers.

In addition, as young immigrants come into the country, the Millennial generation continues to grow. As a result of deaths exceeding immigration, Boomers are seeing declines in their population size.

The Millennial population is projected to peak in 2033 at 75.9 million individuals. After that, when the oldest Millennials turn 52, mortality will start to outweigh net immigration.

Generation X-ers, currently age 39 to 54, are not projected to outnumber Boomers until 2028, when there will be 63.9 Gen Xers and 62.9 million Boomers. The Gen X population peaked at 65.6 million in 2015. Generation Z, meanwhile, is still ramping up. The post-Millennial cohort was born anywhere from 1997 onward, so the Z generation is still being born while its oldest members are turning 22.



Spending and the Brain

Many people will spend money irrationally – and for a variety of reasons. Maybe to make themselves feel better, satisfy a mid-life crisis, or to “keep up with the Joneses”. What is less commonly known is that these behaviors are embedded in our brains? But, what is the actual reason why spending money feels so good?

The Gizmodo science website recently posed this question to several researchers, and their answers were interestingly different and diverse. One pointed to ‘acquisition utility’ which many of experience when we see something we want priced below what we expected the price to be. This could be renamed the bargain hunting syndrome, the satisfaction of finding or negotiating a bargain. The pleasure that comes from finding something at a bargain price seems to be hard-wired into the human mind -- perhaps generating the same feelings that a hunter-gatherer might have felt when she found ripe fruit on the ground, without having to expend the usual energy to feed herself.

The researcher also explained “retail therapy”—where depressed people will go on a shopping spree to cheer themselves up. Buying and making purchase choices helps restore a sense of personal control over your life at times when life may seem out of control.

Another researcher addressed the ‘keep up with the Joneses’ behavior by saying that paying for an expensive bottle of wine or a high-end brand item can send positive social signals about ourselves, boosting others’ opinion of our wealth, and therefore reflecting positively on our personal social esteem.

Another respondent dug deeper into the human mind, noting that the reward centers of our brains are tightly connected. If you want something, these regions begin secreting dopamine, and you experience a ‘gotta have it’ feeling. The same brain centers are closely linked to our memory banks, so our mind recalls that we felt good the last time we made a purchase.

Yet another researcher noted ‘present bias,’ which is the simplest explanation of all. When you buy something with your credit card, you are immediately rewarded with the acquisition of something you want. The commensurate pain of losing the money you paid is deferred into the future, when the bill comes. Research shows that we tend to discount feelings in the future by a surprisingly high factor, so the immediate gratification is far more likely to win out over the deferred discomfort of making the payment.

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Toward the end of the report, a researcher noted that individual human psychology and culture play a role in all this. Some people are natural misers; that is, they would prefer to hide their money under the mattress than part with it through a purchase. Others seem to be more likely to succumb to the various brain patterns that encourage spending. It depends on who we are.