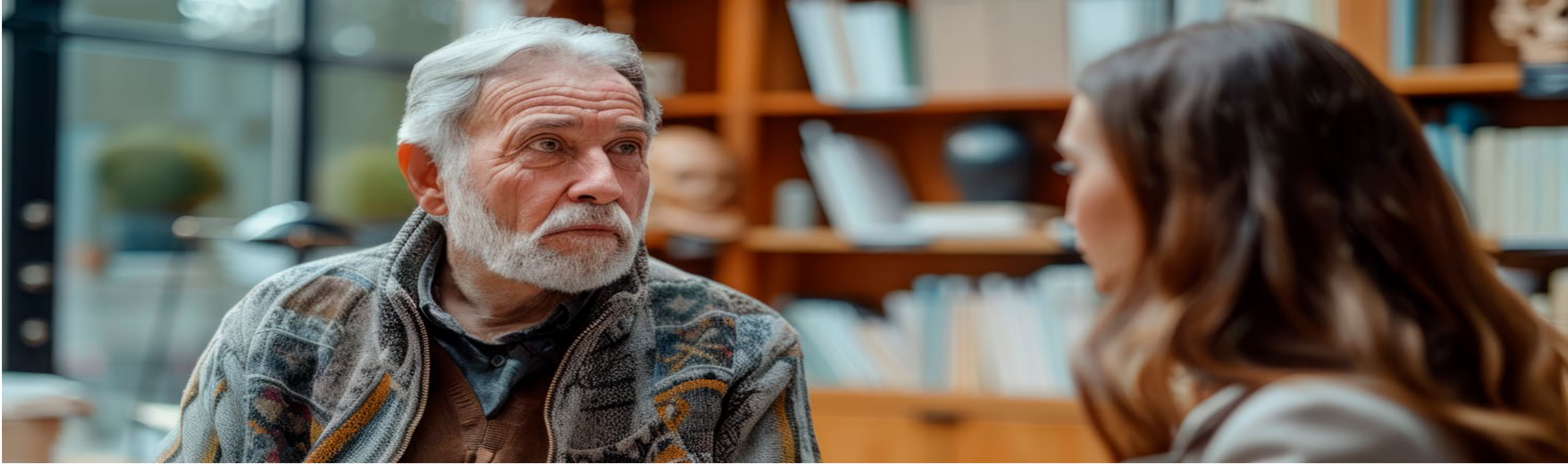

WhealthChat Executive Insight Brief

The Financial Risks Advisors Are Not Pricing In

Why Health Events, Chronic Illness, and Cognitive Decline May Pose a Larger Threat to AUM Than Market Volatility

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Executive Summary

Financial professionals spend enormous time and energy managing traditional portfolio risks like market volatility, inflation, sequence-of-returns risk, and longevity risk. But new evidence shows that **the largest unpriced risk in client portfolios is not market-driven at all. It is the client's own health**. Chronic illness, major medical events, medication effects, and emerging cognitive impairment quietly reshape spending patterns, risk tolerance, liquidity needs, and long-term decision-making. These forces can destabilize financial plans more frequently, and more permanently, than a market correction.

The implications are profound: **between 78% and 87% of a firm's AUM may be controlled by clients with at least one chronic illness**, and **up to one-third** by clients with some level of cognitive impairment, depending on the age-weighted profile of the firm's client base. These risks do not revert over time like markets do. They compound. And ignoring them threatens both fiduciary duty and business sustainability.

Note: The data sources in this brief can be found at Heye, Christopher "The Risks That Financial Professionals Are Not Pricing into Client Portfolios", Journal of Financial Planning, July 2025

What the Data Show

1. Health Events Are the #1 Client Financial Fear — Not Market Declines

Across multiple surveys, **over 50% of Americans say healthcare costs are their top retirement concern**, outranking inflation, taxes, and even outliving their money. Clients perceive health-driven risks as their primary threat to security, and notice when their advisor does not address them.

2. Chronic Illness Is Nearly Universal by Retirement Age

By age 65, **~80% of adults have at least one chronic illness**, and more than half live with two or more. Applying these demographics to a typical advisory firm:

- A firm with a *median age* client base of 65 has **77.8% of AUM** held by clients with chronic illness.
- At a median age of 75, that rises to **87.2% of AUM**.

3. Cognitive Decline Is Rising — and Financial Capacity Declines First

Research shows that financial decision-making is among the earliest abilities to weaken during cognitive decline. Firm-level estimates show:

- Between **14.1% and 32.2% of AUM** may be controlled by clients with Alzheimer's, other dementias, or MCI.
- For clients over age 65 alone, the share rises to **22.8%–36.7%**.

4. These Risks Are Permanent and Behavioral

Market corrections are temporary. **Health events are not.**

Clients with a serious chronic illness or experiencing cognitive decline often:

- Underestimate or misperceive financial risks
- Make impulsive or inconsistent decisions
- Become more susceptible to scams or external influence
- Increase liquidity withdrawals

- Fail to shift financial authority to family or caregivers

These consequences directly and permanently affect AUM stability.

Strategic Implications for Advisory Firms

1. A Fiduciary Blind Spot

If *half* of all clients believe health events are their greatest financial threat, and advisors aren't preparing for them, then fiduciary standards and trust are at risk.

2. AUM Stability Now Depends on Addressing Health-Related Risks

Firms that ignore these risks may see:

- Unexpected withdrawals
- Portfolio drift
- Loss of client engagement
- Household attrition after cognitive or medical transitions

Meanwhile, firms addressing these risks can differentiate meaningfully on value.

3. Advisor Training Must Reflect Reality

Advisors are still trained primarily for market-driven risks. But the data shows:

"For most clients, especially those over 55, it is impossible to separate health risks from financial risks."
Conversation skills, health literacy, and empathy are now core advisor competencies.

4. Firms That Adapt Will Grow Faster

Notably, from 2018–2023, only **hybrid RIAs** outpaced market growth in AUM. Many other channels lagged behind.

Firms that align capabilities with aging clients, and their real fears, are more likely to retain assets as client needs evolve.

The Opportunity: A New Foundation for Risk Planning

This research makes one point unmistakably clear:

Health-driven volatility is now one of the largest and least-managed threats to client portfolios and to advisory firm revenues.

Firms that build processes and tools to address:

- Chronic illness risk
- Health events and costs
- Cognitive decline
- Caregiving responsibilities
- Medication-related behavioral changes

...will be positioned to protect both their clients and their business in ways traditional planning does not.

Call to Action for Leadership

To prepare for this shift, firms should:

- **Integrate health-event planning** into financial reviews
- **Strengthen conversations** around medical, emotional, and caregiving challenges
- **Train advisors** to recognize behavioral and cognitive risk indicators
- **Quantify the AUM at risk** in your firm using age-weighted asset analysis

- **Adopt tools** that assess, track, and support clients experiencing health or decision-making decline

Firms that acknowledge and prepare for this evolving risk landscape will not only fulfill their fiduciary responsibilities. They will win trust, improve outcomes, and drive long-term growth.