Diminished Financial Capacity in Older Adults

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- **Assessment Instruments:**
  - Financial Capacity Instrument (no royalty)

- **Consultation:**
  - Financial services industry

- **No Relationships:**
  - Pharmaceutical industry
  - Test publishers
Outline

- What is Financial Capacity?
- Diminished Financial Capacity in Elderly: Two Causes
- The $18.1 Trillion Dollar Problem
- Early Warning Signs of Financial Decline in the Elderly
- Aging and the Senior Financial Advisor
What is Financial Capacity?
What is Financial Capacity (FC)?

“the capacity to manage money and financial assets in ways that meet a person’s needs and which are consistent with his/her values and self-interest”

Financial Capacity: Two Perspectives

Performance Perspective:

- FC as the ability to carry out financial activities
- Handle money, understand concepts, pay bills, etc.
- Emphasizes role of performance.

Best Interest Perspective:

- FC as ability to identify and protect financial self-interest
- Emphasizes role of judgment.
What is Diminished Financial Capacity (DFC)?

- Declining abilities from a prior higher baseline of financial activity:
  - to manage money and financial assets to meet needs, self-interest, values

- Causes of DFC:
  - Cognitive decline is major cause
  - Mental illness, behavioral and emotional problems
  - Medical illness, sensory losses, physical frailty
  - Educational disadvantage
Diminished Financial Capacity in the Elderly:

Two Key Causes
Normal Cognitive Aging

“...the decrease in performance on various measures of cognitive functioning associated with increasing age in the adult portion of the lifespan.”

Normal Cognitive Aging

- Declines normative with aging—not disease based
- Multiple cognitive abilities **decline:**
  - Short term memory
  - Processing speed
  - Executive/planning abilities
  - “Fluid” intelligence
  - Numeracy and arithmetic skills

- Age related cognitive **improvement:**
  - Experience and pattern recognition
  - “Wisdom”
“If the chance of getting a disease is 10 percent, how many people out of 1,000 would be expected to get the disease?”

Adapted from D. Laibson, Age of Reason Lecture, June 2011 Morningstar Conference
To those seniors and especially elderly veterans like myself, I want to tell you this: You are not alone and you have nothing to be ashamed of…If elder abuse happened to me, it can happen to anyone.

Mickey Rooney
Testimony to Senate Special Committee on Aging, March 2, 2011

• In March 2011 Rooney stated that he was financially and emotionally abused by unnamed family members.

• Control of Rooney's finances was subsequently assigned to a court appointed conservator.
Cognitive Disorders of Aging

- **Mild cognitive impairment (MCI):**
  - Focal cognitive deficits
  - Insufficient functional change to support dementia diagnosis
  - Transitional in many cases to dementia

- **Dementias of aging:**
  - Alzheimer’s disease
  - Parkinson’s disease
  - Lewy body dementia
  - Frontotemporal dementia
  - Vascular dementia
• Brooke Astor in 1953 (age 51) and as an elderly lady with AD (died in 2007 at age 105).

• Son Anthony Marshall and a lawyer Francis Morrissey had her sign a series of codicils to her 2002 will, allowing Marshall to redirect her fortune to his own foundation.

• Marshall and Morrissey prosecuted by the Manhattan district attorneys’ office. Found guilty in 2009 of grand larceny, fraud, and other charges. Marshall sentenced to 1-3 years, imprisoned for 2 months in 2013, then granted medical parole.
Error type examples from the Wide Range Achievement Test-3 Arithmetic problems.

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Beware of scams targeting elderly

StatePoint Media

The Better Business Bureau is encouraging families to recognize and avoid some common cons targeting seniors.

Roughly 20 percent of Americans aged 65 or older already have been taken advantage of financially by inappropriate investment opportunities, unreasonably high fees for financial services or outright fraud, according to a recent survey by Investor Protection Trust.

Some common senior scams include:

- **Sweepstakes and lottery scams:** Victims usually receive letters stating they have won a lottery or sweepstakes; sometimes claiming to be from Publisher's Clearing House or Reader's Digest. The letters tell victims to deposit an enclosed check and wire a portion back to the company to cover taxes or administration fees. The funds initially appear in the bank account, but are removed when the bank determines the check is fake.

- **Medicare scams:** Scammers claim to be with Medicare and ask for personal information such as Medicare, Medicaid, Social Security, credit card or bank account numbers. Seniors should know Medicare will never call to ask for sensitive personal financial information.

**SCAMS:**

Know what to look for

From Page 4C

- **Bereavement scams:** Scammers call widows or widowers and claim their spouses had outstanding debts that need to be paid immediately. If you are uncertain about owing a debt when collectors call, ask for written confirmation.

- **Investment and work at home opportunities:** Promises of easy money often target older adults because they may be looking to supplement their incomes. The pitch might come in the form of an investment opportunity that promises big returns, or as a way to make money at home for an upfront cost. The victim is offered what sounds like a great opportunity but the extra income never materializes.

Always research any work-at-home opportunity with the BBB. Beware of investment or money-making offers that seem too good to be true or use high-pressure sales tactics to get you to sign up immediately.

For more advice on avoiding scams and fraud visit bbb.org/us/consumer-tips-scams.

"Having a serious conversation with your elderly parents about how they are managing their money is not easy, but it is extremely important in order to help protect them from unsavory crooks," said Alison Southwick, BBB spokesperson. "It's extremely important to keep the lines of communication open so that you can identify suspicious spending habits, as well as educate your elder family members on recognizing the red flags of common cons."
Diminished Financial Capacity in Older Adults:

The $18.1 Trillion Public Policy Problem
% U.S. Household Wealth Across Age Group

Adapted from D. Laibson, Age of Reason Lecture, June 2011 Morningstar Conference
All U.S. Households Balance Sheet
[Federal Reserve Flow of Funds—2009]

Total = $53.1 Trillion

From D. Laibson, Age of Reason Lecture, June 2011 Morningstar Conference
Adapted from D. Laibson, Age of Reason Lecture, June 2011 Morningstar Conference
$18.1 Trillion is at Risk!!

- Why?
  - Normal cognitive aging
  - Cognitive disorders of aging
  - Older adults as a group have accumulated the most wealth but also have the greatest vulnerability to poor financial decisions and exploitation
Early Warning Signs of Financial Decline in Cognitively Normal Elderly

Study supported by:
National Endowment for Financial Education (NEFE)
National Institute on Aging (NIA)
FCI Task Completion Times Over 7 Year Study Period

B: Completion time for using a checkbook/register task

Follow-up visit (years)

Completion time (in seconds)

Green = Cognitively Stable Controls
Red = Cognitively Declining Controls

\[ p = 0.0011 \]
\[ G \times T = 0.053 \]
Financial Capacity Instrument - 9 (FCI-9)

Administration Packet

© 2002 UAB Research Foundation
Warning Sign #1: 
Slowness in Completing Financial Tasks

Is the person taking longer to complete everyday financial tasks?

Examples:
- Slower preparing bills for mailing?
- Slower completing check and check register?
- Slower completing annual income taxes?
Warning Sign #2: Missing Key Details in Financial Documents

Is the person showing reduced attention to key details in financial documents?

Examples:

- Difficulty identifying overdue bill needing prompt attention
- Difficulty scanning/finding details in a bank statement
- Difficulty completing sections of a check register
Warning Sign #3: Problems with Everyday Arithmetic

Is the person showing declines in everyday arithmetic skills related to his/her finances?

Examples of new difficulty:
- Calculating a return on an investment
- Calculating a medical deductible
- Doing two related calculations at same time
- Figuring a tip in a restaurant
Warning Sign #4:
Decreased Understanding of Financial Concepts

Is the person showing decreased understanding of financial concepts?

Examples of new difficulty:
- Understanding health care concepts like *medical deductible*
- Understanding bank statement terms like *interest rate, minimum balance, checks cleared*
- Understanding checkbook concept of *payee*
Warning Sign #5:
Identifying Risks in Investment Opportunities

Is the person having new difficulty identifying risks in an investment opportunity?

Examples:
- Trouble identifying key risk in investment proposal
- Tendency to emphasize benefits/return and to minimize risks
Call for Further Research

Scientific research into loss of financial skills in aging and dementia will help guide and inform educational, regulatory, and public policy approaches to protection of older investors.

*Generations*, Summer 2012, Vol. 36, Number 2
Aging and the Senior Financial Advisor
Graying of the FA Profession

- The “silver tsunami” has not spared the financial services field

- Aging of profession:
  - Average age of FAs in U.S. is 50.9 years
  - 43 percent are older than 55
  - Nearly 1/3 plan to retire or leave industry in next decade.
  - About 8,600 advisers will leave profession nationally in each of next 13 years
  - FA ranks reduced by 1.7% annually
  - Only 5% of brokers are < 30 years and numbers are not increasing

- The National Association of Personal Financial Advisors
  - The average age of association members is 51
  - 25% of its members are over 60

The Impaired Senior FA: Challenges for Firms

Potential Impact on Clients:
- Poor financial services to clients
  - Unsuitable investments
  - Increased financial risks
  - Lack of succession planning
- Poor communication and client interactions

Potential Impact on Firms:
- Departures from firm protocols, poor documentation of transactions
- Loss of clients
- Law suits and legal liabilities, damage to firm reputation
- Regulatory review
NIH Support

Functional Change in Mild Cognitive Impairment
(5 R01 AG021927) (COINS 1 and COINS 2)
NEFE Support

Early Warning Signs of Impaired Financial Skills in Older Adults (National Endowment for Financial Education (NEFE))