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AGING AND FINANCIAL CAPACITY

How to Detect Early Changes in Informed Decision-Making

By Peter A. Lichtenberg, PhD, ABPP, James J. Speir, MSW, and Debra A. Peck, CPA

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How to Detect Early Changes in Informed Decision-Making

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I am getting older. You are getting older. America is getting older. In 2018, an estimated 52 million Americans were ages 65 and older. Of those, about 8 million were more than 85 years old. The 65 and older population is expected to grow from 16 percent of the American total today to 19 percent in 2030. By 2060, that share of the population could be upwards of 23 percent. As financial professionals, you already may see this trend in your client base. And although many people continue to thrive and make solid financial decisions well into their golden years, others will begin to decline in their cognitive abilities. We know about dementia and the impact it can have on the ability to make decisions, but research has revealed that cognitive declines can occur long before a diagnosis of Alzheimer's disease or dementia is ever made.

For financial professionals working with older clients, this can present many challenges. When it comes to working with older adults, how can you be confident that an informed financial decision is being made? Are you concerned that your clients no longer may be able to understand the risks they seem willing to take? Do you worry that these vulnerable adults are being influenced to make decisions that could be harmful to their financial well-being? Are memory problems creeping in, causing the client to forget what was discussed? Despite specialized training in many areas, financial advisors often struggle to recognize when an older adult is, or is not, equipped to be fully informed when entering transactions.

Are you concerned that your clients no longer may be able to understand the risks they seem willing to take? Do you worry that these vulnerable adults are being influenced to make decisions that could be harmful to their financial well-being? Are memory problems creeping in, causing the client to forget what was discussed?

FIDUCIARY VERSUS SUITABILITY

As a financial advisor, it is necessary to consider both fiduciary and suitability standards when working with all clients. The fiduciary standard is defined as acting in the best interests of a client when offering personalized financial advice. The suitability standard means to understand a client's situation based on the Financial Industry Regulatory Authority guidelines as to whether an investment or insurance product is suitable for the client.

An investment advisor may recommend a suitable portfolio that is in the best interests of the client by meeting their goals and objectives. However, if a client cannot fully comprehend the purpose or value of the investment or product being recommended, acting in their best interest may mean the transaction should not happen at that time. But as an advisor, how can you know when to move forward—and when to be concerned?

ANN

Ann, age 78, was referred by an associate. At our initial meeting Ann complained, "I'm losing lots of money." She reported wanting to be a conservative investor but was heavily invested in one rather volatile sector—biotechnology funds. Of her $310,000 total portfolio, she had nearly $282,000 invested in biotech. When asked why, she stated she was getting financial advice from a friend who attends her church.

As we continued to talk, she shared that she lives alone but has two adult sons. She appeared to be quite anxious. She seemed to not fully comprehend the types of investment options that are available to her, or the level of risk each involved. At that point, the red flags were raised. Why had she made such a risky investment? Is she able to understand and make these important financial decisions

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herself? Had her friend from church simply not educated her about the details of these investments? Or was this behavior a sign of some cognitive decline? Because we had just met, it wasn't clear what the reasons were, but it was clearly time to be concerned.

At this point, we agreed that it would be beneficial to have one of her sons join us at our next meeting. At our second meeting, Ann's son, Mark, joined us. Mark was shocked to find that his mother was invested so heavily in the biotech sector. We reviewed what a portfolio that focused on conservative growth, principal protection, and liquidity would look like. Together, Ann and her son agreed that such a profile would fit her goals better. The next time we all met the plan was implemented.

Over time, as I got to know Ann better, I found that when her anxiety lessened, her comprehension improved. In this case, education, together with the trusted support of her son, helped Ann take control of her financial well-being.

JOE AND PEGGY

When I first met Joe and Peggy, their investable assets were $1.4 million. Joe was 77 years old and had multiple chronic health problems, but Peggy, age 74, was in overall good health.

Throughout their relationship, Joe had the primary financial responsibility in the household. He was well-informed and concerned about tax on his Social Security, investment returns, and the cost of long-term care. Peggy sat in on our initial meetings, but she eventually stopped attending the meetings. "I'll leave those decisions up to Joe," she said.

Joe wanted some diversity in his overall investment portfolio. He was sharp and handled some of his own investing as well. We set up a portfolio with Joe's goals and objectives and then met nearly every six months for a review.

About five years after we met, I started to notice behavior changes in Joe. He would call or send me emails with a list of questions about his accounts. We would address all his questions and concerns. This seemed to satisfy him—temporarily. Later, he would contact me with the same questions again. What was going on? I suggested that we set up a face-to-face meeting with him, Peggy, and their daughter. He agreed and at this meeting we reviewed all accounts, rates of return, and risk tolerance. We reviewed all beneficiary designations and discussed their current estate plan. By all appearances, the meeting went well and was productive.

I spoke with Peggy about Joe's behavior and she confirmed that she was now seeing this increased agitation in many areas of Joe's life. We agreed that Peggy would attend any future meetings and be involved with any future financial decisions.

A short time later, Joe again repeated the same questions, but now he became increasingly agitated by what appeared to be his inability to integrate the information. Despite this, Joe wanted to continue to make new investment decisions. I spoke with Peggy about Joe's behavior and she confirmed that she was now seeing this increased agitation in many areas of Joe's life. We agreed that Peggy would attend any future meetings and be involved with any future financial decisions.

These cases illustrate common challenges for financial advisors working with older clients. How do you know when a client is able to make informed financial decisions, and perhaps more importantly, when they cannot? When is the time right to bring in another trusted family member? What would have happened if Ann or Joe were resistant to bringing another party into our meetings?

FINANCIAL MANAGEMENT SKILLS AND AGING: WHAT DO WE KNOW?

Data from a large national probability sample reveal both good news and bad news. The good news is that unless there is significant cognitive decline, older adults are just as good at handling bills and debt as are younger and middle-aged adults. Once significant cognitive decline creeps in, however, there is a clear decline in financial management skills for many older adults. Angrisani and Lee (2019) reported some sobering findings. When an older adult declined by as little as 10 percent in cognitive test scores across two years, the older adult's wealth declined by 15–18 percent. In addition, nearly two-thirds of those who experienced decline had not sought out any assessment or treatment for this condition—in fact, it is likely that most did not know they were declining more than would be expected by aging alone.

ASSESSING OLDER CLIENT INFORMED DECISION-MAKING

In the cases of Ann and Joe, the basic issue was the ability to make informed financial decisions. How should advisors determine this? We know of no empirically validated informed decision-making assessment tool previously available for financial professionals. That has changed with the availability of the Lichtenberg Financial Decision Screening Scale (LFDSS), a simple, 10-item financial decision tracking tool. The LFDSS allows a financial professional to evaluate the ability of an older adult to make an informed decision or transaction, before a document is signed. Expert panels consisting of mental health, social service, health, financial, and legal services professionals developed the questions. Financial professionals are

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not qualified to diagnose cognitive abilities, but the LFDSS, when used as a screening tool, provides useful feedback to determine whether further assessment of a client is indicated.

HOW THE LFDSS TRACKS FINANCIAL DECISIONS

The LFDSS is a short, structured, multiple-choice questionnaire (Lichtenberg et al. 2017). The questions are designed to grant insight into an older adult's ability to make a choice, understand options, appreciate risks and rewards, and provide a rationale for the choice made. When introducing the LFDSS to the older adult, the interviewer is instructed to read this brief, two-sentence explanation aloud: "I am going to ask you a set of questions to better understand the financial transaction/decision you are making or have already made. Please answer these as best you can and feel free to elaborate on any of your answers." The LFDSS consists of 10 questions with multiple-choice responses. The older adult is encouraged to choose one of the responses, but in an interview style can further explain any of the answers selected. This provides the interviewer with more perspective regarding the individual's current cognitive state than the multiple-choice answers alone, as well as a more objective measurement than open-ended questions.

Questions from the scale ask such things as:

- What is the purpose of your transaction?
- What is the primary financial goal?
- How will this transaction impact your financial situation now and over time?
- How much risk is there to your financial well-being?

The scale represents an empirically validated, evidence-based, efficient way of detecting when an older (or younger) adult may not be making informed decisions. Similar to how a physician ensures informed medical decision-making, a financial professional can now screen for informed financial decision-making. Sometimes the LFDSS results highlight that the older adult needs more education about the financial transaction in question. The professional can then provide further knowledge, which may enable the older adult to answer questions without any trouble. It is also possible that the client's mental acuity could be impaired by a lack of sleep, an infection, grief, medication, or even trauma. Only a qualified physician can accurately diagnose the cause of perceived problems with cognition, which may be reversible. However, the LFDSS results may uncover cognitive and decision-making difficulties that warrant caution. Using very stringent statistical techniques, excellent results (an 88 percent overall correct classification rate) for both the reliability and validity of the scale were obtained on a sample of 213 older individuals and cross-validated on an additional 105.

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Some of the questions the financial advisor may want to consider if there are inaccurate responses on the LFDSS include:

- Does the older adult fail to understand part of the transaction and need further counseling?
- Should the older adult be referred for a cognitive and decision-making ability evaluation before proceeding with the transaction?
- Should the financial professional bring in a trusted family member or friend to help ensure the older adult's financial protection?

Financial professionals are encouraged to partner in their community with geriatric specialists (e.g., physicians, psychologists) who are qualified and regularly perform cognitive assessments and, in particular, capacity assessments. Working together, these professionals can help protect older adults from vulnerable decision-making that can carry significant financial consequences. Learning how to effectively work with older clients who are having trouble making informed decisions is not an easy task. The best practice requires patience, support, and reassurance for the client.

To this end, the LFDSS can help put financial professionals on the forefront of client care. For more information or to receive online interactive training in using the LFDSS that allows professionals to receive feedback about the perceived decision-making abilities of an older client, visit https://olderadult-nestegg.com.

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