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YOUR MONEY

As Cognition Slips, Financial Skills Are Often the First to Go

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Retiring

By TARA SIEGEL BERNARD

WHEN Helen Clark brought her father-in-law, then 83, to the doctor last year, she knew his mind was slowing, but a mental status exam confirmed it. He knew the year, where he lived and the name of the president. But when the doctor asked him to count backward from 100, subtracting seven from each number — 100, 93, 86, 79 — a look of confusion washed over his face.

Studies show that the ability to perform simple math problems, as well as handling financial matters, are typically one of the first set of skills to decline in diseases of the mind, like Alzheimer's, and Ms. Clark's father-in-law, who suffered from mild dementia, was no exception. Research has also shown that even cognitively normal people may reach a point where financial decision-making becomes more challenging.

"A person can appear to have their wherewithal cognitively, but not have the ability to understand money in the same way anymore," said Ms. Clark, a retired registered nurse and family therapist in Cottonwood, Calif.

The issue looms large, particularly as the number of older people continues to rapidly expand: There are 44.7 million people 65 and older, representing 14 percent of the population, according to the most recent census data, but, within 10 years, they will swell to an estimated 66 million. This group collectively holds trillions of dollars in wealth, but are often left to manage their own finances, even as they become increasingly vulnerable. About half of adults in their 80s either have dementia, or at least some cognitive impairment without dementia, researchers said.

"If you can detect emerging financial impairment early, you can also step in early and protect the person," said Daniel Marson, a neuropsychologist and director of the Alzheimer's Disease Center at the University of Alabama at Birmingham. "It may be if you step in two months from now, they won't be in a position to make a poor decision or be exploited a year from now."

For Ms. Clark's father-in-law, Francis Taylor, the intervention came too late. At 80 years old, he married a woman 17 years his junior, who, over their three-year union, according to the family, cashed $40,000 in blank checks sent by his credit-card issuer and emptied the contents of his $123,000 annuity, leaving him with little more than a giant tax bill.

Mr. Taylor, a former diesel mechanic and Korean War veteran, gave his wife permission to make two annuity withdrawals over the phone. But his wife, who couldn't be reached for comment, made 20 more withdrawals on her own by using her husband's Social Security number and other identifying information, and signing papers to direct money into a joint account, according to documents provided by Ms. Clark. After an internal investigation, MetLife, the annuity provider, concluded that it had followed proper procedures.

Preventing these situations is often difficult. Knowing exactly when to get involved can be fraught, whether you are an adult child or a trusted adviser. There are a series of early warning signs of financial decline, which Dr. Marson identified in a recent study, which is being submitted for publication and was funded by the National Endowment for Financial Education and the National Institute on Aging.

The signs, while perhaps not surprising, are subtle, making them easy to miss: It may become more difficult for people to identify the risks in a particular investment, and they may focus too much on the benefits. Completing various tasks on a financial to-do list may start to take longer, such as preparing bills for the mail. Everyday math may become more laborious or prone to errors, whether that's figuring out a tip in a restaurant or doing a calculation that requires two steps. Financial concepts, like medical deductibles and minimum balances required in savings accounts, may also become harder to grasp. Naturally, these behaviors should represent a significant change: If a person was never adept with personal finances, this won't serve as much of an indicator.

Dr. Marson said he identified these warnings signs as part of a study of 138 older adults over time who were initially deemed “cognitively normal” by a panel of four doctors when they joined the study (and after at least one annual follow-up visit). Participants were also timed as they completed financial tasks in a lab. Twenty-three members of the group later received a diagnosis of mild cognitive impairment, but when the researchers went back and looked at the original results of the financial capacity test — when the group members were deemed cognitively normal — there were already subtle signs of slowing and financial decline.

“The group that would later decline already had some emerging signs,” Dr. Marson said, though they weren’t glaring.

While many people continue to handle their finances with ease well into their later years, even people with healthy brains tend to experience cognitive decline. According to one study, which analyzed participants’ propensity to make financial mistakes, a person’s financial decision-making ability peaks at age 53, or, more generally, in their 50s. This is the sweet spot, the paper said, because they have substantial amounts of experience but they have had only modest declines in their ability to solve new problems.

There is a general tendency for our ability to solve new problems — known as fluid intelligence — to slowly decline over time, starting as early as age 20. But this is at least partly offset by our growing experiences and wisdom, known as crystallized intelligence.

David Laibson, an economics professor at Harvard and co-author of the research, said he believed that crystallized intelligence tended to plateau when people reached their 70s. That plateau, accompanied with declining fluid intelligence, might explain why older consumers made more financial mistakes than middle-age ones in his study.

“At that point, vulnerability increases,” Professor Laibson said. “Our nation’s wealth is disproportionately held by older adults, and they are exactly the group, particularly as they reach their 80s and 90s, that are most vulnerable. But our system has the fewest protections for those people.”

He said he wishes all 65-year-olds would start by simplifying their financial lives, reducing the money clutter to just a few mutual funds at a reputable institution.

Then there are the boilerplate tools, including wills, revocable living trusts, durable financial power of attorney, and health care directives. Financial institutions often want their own powers of attorney filled out, so it helps to put them in place before you need them. If ready access to more credit isn't important, advisers suggested freezing elders' credit files, so criminals cannot attempt to open accounts in their names. Automate bill payments.

If adult children suspect a parent needs watching over, they can also ask financial institutions to send duplicate statements or notices if a parent misses a long-term care insurance payment, for example. Monitoring can also easily be done from afar with online access to accounts, but that sort of access can be disastrous in the wrong hands. If the person does not have trusted family members or friends, a licensed fiduciary can be a good alternative to monitor accounts, said Carolyn Rosenblatt, an elder lawyer and author who counsels families on aging-related issues.

Another financial adviser asks his clients to assemble what he calls a protective tribe, or a handful of people who are willing to step in and assist if and when the need arises. "The protective tribe is important because senior abuse is often committed by a close relative or trusted professional," said Jean-Luc Bourdon, a certified public accountant who specializes in financial planning in Santa Barbara, Calif. "A tribe is needed to have checks and balances."

Many estate planning lawyers and financial planners ask their clients to name a person they can contact if they suspect their cognitive skills may be on the decline. Sometimes called "a letter of diminishing capacity," the document typically authorizes the adviser to raise the issue with a trusted individual the client names.

Bob Rall, a financial planner in Merritt Island, Fla., said it came in handy when a widow with modest assets asked if he could send her $50,000 so she could host an 80th birthday party. "I immediately called her daughter, who the client had previously given me the authorization to speak with," he said. "After a discussion, we decided to send her mom $15,000. She still had a pretty nice party."

For many families, there isn't much margin for error. Ms. Clark's father-in-law still has the equity in his home; she intervened just as his wife was completing the paperwork for a reverse mortgage.

"Although this is tragic for my father-in-law," Ms. Clark said, "what I am even more concerned about is the lack of accountability when fraud occurs across the board for elders in this position."

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