



THE IMPACT OF AGING ON FINANCIAL DECISIONS

The One Risk You Can't Afford Not to Hedge

Our False Belief of Invincibility

Dear Clients and Partners,

The watch I wear belonged to my father. His name is engraved on the back, along with the number six, as it was the sixth one made from that particular collection. Ironically, for a timepiece salesman, *time* was the one thing that unexpectedly got away from him — and us.

Dad was invincible, until the day a seizure drove him off the road at age 65. The cause was stage IV glioblastoma, a malignant brain tumor, and it was his kryptonite. In less than 18 months, he was gone.

When the cancer started to affect his cognition, our family assembled like a protective tribe, assisting and stepping in when needed. My parents had created a financial plan long before the diagnosis, but it did not account for the possibility of cognitive decline. The belief was that time was on our side — they were both healthy and embraced turning 60 as the new 50. So there was a bit of a scramble to put the necessary puzzle pieces in place when life threw us a curveball.

Age is simply a number — it should not represent a constraint. But unfortunately, living the unexamined financial life is far too common — only 39% of investors have a suitable plan in place should their financial decision-making abilities become diminished.

What is preventing the other six out of ten investors from developing a plan to manage the financial risks associated with cognitive decline? And how can we better assist investors to protect themselves and their families from the unpredictable moments in life and the unintended financial consequences, such as loss of control, deterioration of the portfolio, and susceptibility to fraud?

Our study, “Not Just a Number: Perceptions and Behaviors related to Cognitive Decline and Financial Decision Making,” gets to the heart of this defining issue. The prevalence of this avoidance behavior looms large for our industry, particularly as demographics rapidly shift in age and wealth.

We buy insurance today to guard against what could happen tomorrow. Likewise, we should insure against the risks related to cognitive decline today, while we are most able to do so. Everyone hopes that statistics will not apply to their personal situation, but hope is not an investment strategy. Addressing the potential for cognitive decline is a critical form of risk management.

No doubt, this is a sensitive issue. It impacts entire families, and as such, it is an opportunity to demonstrate the value of planning to your clients and their children. A financial advisor helps to shoulder a burden when they are able to say, “We planned for this possibility.”



Brie P. Williams

Head of Practice Management, State Street Global Advisors

Ask 10 investors what risk management means to them and you could get 10 answers that all focus on market risk, even though most have never hedged their exposure to market risk. On the other hand, few investors would mention the potential risks associated with cognitive decline, despite the fact that most fully intend to live long past the time that financial capacity — the ability to manage your money to meet your needs and match your values — starts to decline.

Why are investors avoiding confronting this risk, which will likely impact them, and how might this affect their family members and their financial advisors? We all strive for a long, healthy and meaningful life, but investors rarely plan for how their financial decision-making abilities could change over the long term. Investors who aren't prepared for this change are vulnerable to real threats, including family conflicts, expensive legal action and devastating financial fraud. In other words, their interests may not be safeguarded.

Advisors with clients who are unprepared for changes in their financial decision-making abilities also face risks, including emotionally charged confrontations, loss of business from disgruntled clients and family members, regulatory actions, and even lawsuits.

Fortunately, risks can be managed proactively and even avoided entirely simply by developing a plan before it is ever needed. Investors can't predict the markets, but they can determine how their financial interests will be protected if their own decision-making abilities start to decline.

BUILDING ON STRENGTHS


Investors can often be uninformed or in denial about the realities of how cognitive abilities decline as we age. That can lead to a Catch-22 for advisors who face legal and business risks when clients are experiencing cognitive decline but it's too late to implement a plan because of their diminished state.

Each situation will be unique, but the goal is universal: Empowering advisors, clients and family members to minimize the financial risks related to cognitive decline by planning ahead. We can't predict, but we can better prepare.

Broaching the topic of cognitive decline can be difficult for an investor as well as their advisor. It's important for everyone involved, including family members, to appreciate that age is simply a number. It shouldn't represent a constraint or limitation. Advisors who are mindful of the challenges we all face as we age can apply a strengths-based approach to the conversation, building on the client's own experiences, wisdom, patience, family support and other resources.

In our study, "Taking Control: Perceptions and Behaviors Related to Cognitive Decline and Financial Decision Making," which builds on our June 2015 "Money in Motion" survey, State Street Global Advisors conducted in-depth research by collecting quantitative data and gathering qualitative insights. Our comprehensive approach included surveys and interviews with individual investors, financial advisors and subject-matter experts from the financial services industry and academia who specialize in psychology, healthcare, finance, wealth management, industry regulation and family law.

Our objective was twofold. First, we wanted to understand how investors and advisors believed cognitive decline and the aging process related to investing attitudes and behaviors. Second, we wanted to identify proactive measures for advisors to help protect their clients and better understand the connection between money mistakes and cognitive decline to minimize age-associated financial vulnerability.

A photograph of a woman and an older woman smiling at a baby. The woman on the left is holding the baby, and the older woman on the right is looking at the baby. The image has a green tint.

Deciding to “cross that bridge when I come to it” will leave investors with less-desirable options and outcomes, and their families and advisors with more stress and risk.

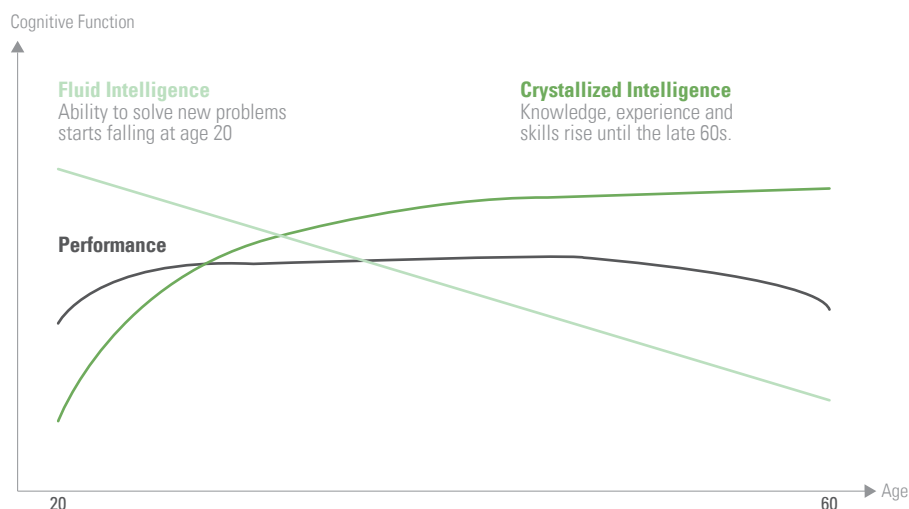
WHEN FINANCIAL DECISION-MAKING GROWS HARDER

As our population continues to age, cognitive decline is set to become one of the most challenging intergenerational issues facing the investment industry. Since the financial crisis, one of the primary focuses of financial advice has been squarely on saving for retirement; little attention has been paid to how cognitive decline could impact investors and their families.

There are approximately 50 million people 65 and older, representing 15% of the US population¹ — and by 2030, this segment will grow to an estimated 73 million.² They hold more than \$100 trillion of wealth worldwide.³ We gained nearly three decades of longevity in the 20th century, mostly through biomedical advances.⁴ Are we prepared for what this could bring in terms of extra years of age-associated financial vulnerability?

Neuropsychology can help us address this question by shedding light on how aging impacts our cognitive abilities, including how we make financial decisions. There are two forms of intelligence — fluid and crystalized.⁵ Cognitive performance consists of these two neural systems.⁵ Fluid intelligence, which generally peaks at around age 20, describes the ability to learn and process information, and to solve abstract problems quickly.⁵ Crystalized intelligence, which is defined as wisdom, experiential knowledge and learning by doing, usually continues to improve before leveling off in a person's late 60s.⁵ This is around the time that the first signs of cognitive decline typically arise.⁵ They become more commonplace in the 70s and even more prevalent in the late 80s.⁵

Figure 1: You're Not Getting Older...Your Intelligence is Crystalizing



Source: Agarwal, Driscoll, Gabaix, Laibson (2009).

The information contained above is for illustrative purposes only.

Financial decision-making is one of the first skills to deteriorate as we age and our cognitive abilities naturally decline. In fact, financial decision-making peaks for most people in their early-to-mid 50s.⁵ Investing skills can start to decline sharply in one's 60s and 70s. Regrettably, even as financial literacy and numeracy scores start to go down, self-assessment remains intact. The result is a relative increase in overconfidence.^{6,7} That makes investors doubly vulnerable to adverse financial decisions as they age because their skills diminish but they are not cognizant of the impact.

Financial advisors can help clients be proactive in managing the risks associated with cognitive decline by starting the conversation long before cognitive decline typically begins. This way, clients gain control over a potentially stressful and difficult situation well in advance. The ideal time to develop a plan is when clients are in their early-to-mid 50s when:

- Decision-making ability is at its peak and designs for effective intervention and decision aids across the remainder of the financial journey can proactively be put in place.
- Steps to improve financial literacy can still be taken, as knowledge and experience accumulated from past decisions can help offset age-related cognitive decline.
- They are approaching retirement, planning for decumulation, and anticipating future financial planning needs.
- They are becoming acutely aware of the need to protect their plan — and themselves — because they start to see the impact of cognitive decline on friends and their own family members.

"You need to plan for cognitive decline. Don't assume it's not going to happen to you. There is this assumption that cognitive decline is the result of Alzheimer's disease, but there is natural cognitive decline that can happen to anyone. We want to protect ourselves against the losses we might experience if that cognitive decline occurs."

*—Dr. Michael Finke, CFP,
chief academic officer at The American
College of Financial Services*

The Impact of Aging on Financial Decisions

“Unlike driving, there’s no one to honk at you when your financial reaction time starts to slow down. You don’t get that automatic feedback.”

—Anek Belbase, *research fellow, Center for Retirement Research at Boston College*

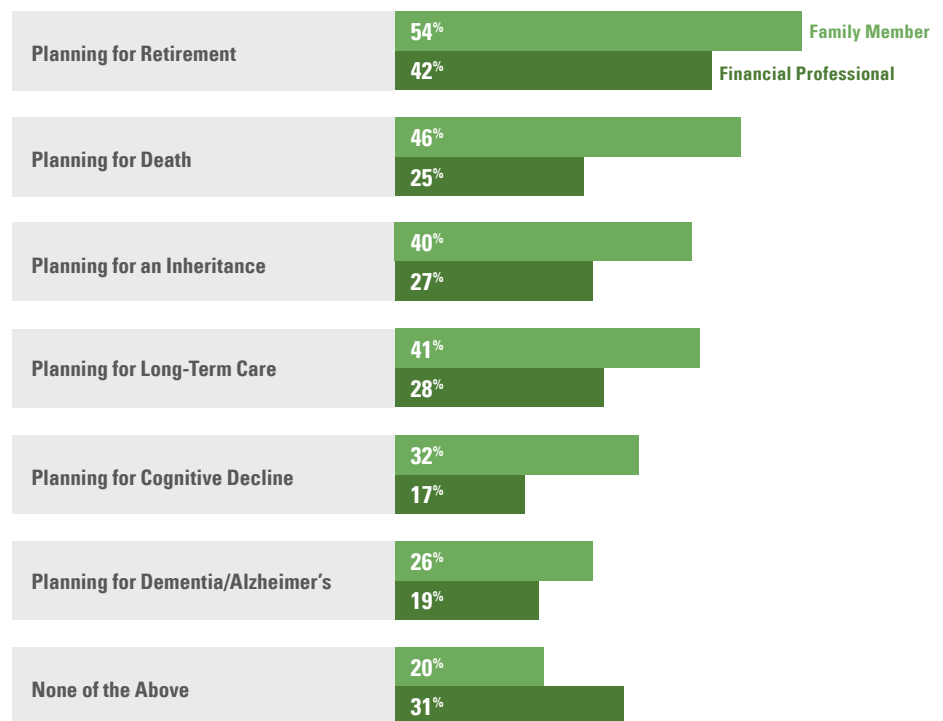
“Some people experience a slow, steady cognitive decline as they age. Some experience a very rapid decline. Certainly, some of it relates to aging, but there are many sources of cognitive decline, which are highly variable. It’s hard to predict how cognition is going to track into the future.”

—Keith Jacks Gamble, *associate professor of finance and chair of the Department of Economics and Finance, Middle Tennessee State University*

Starting early can also help depersonalize the conversation, since both the advisor and the investor can speak more objectively. The conversation is about “potential cognitive decline” and is focused on the distant future. Because it’s not a reflection of the client’s abilities, there isn’t the same stigma attached.

It is important to understand that these age benchmarks are generalizations, including the broad range of basic cognitive skills and financial knowledge that they reflect. The age at which cognitive decline begins varies by individual, and it progresses at different rates.⁸ And, while it’s never too early to manage the potential risks related to cognitive decline, the age at which it becomes too late may be sooner than expected.

Figure 2: Investors Have Had Some Planning Conversations with Family Members, but Few Have Had Them with Their Advisor



Q: Which of the following topics, and how it concerns or affects you, have you discussed with a family member/financial professional?
Source: State Street Global Advisors' Multigenerational Wealth Management Toluna Omnibus survey, 2015.

UNDERSTANDING COGNITIVE DECLINE

Mild cognitive decline, dementia and Alzheimer's disease are all related but distinctively different types of cognitive decline. We can think of them as a spectrum of conditions, all of which are diagnosed symptomatically. Some people may only experience mild cognitive impairment; for others, this condition is a precursor to dementia.

Anyone experiencing changes in memory, decision-making or other thought processes should be evaluated by a physician. If diagnosed with any form of cognitive decline, they should be reevaluated regularly to determine whether their symptoms are changing and whether there are any treatments that could slow the progression of the condition. Assessment typically includes medical history, memory tests, mood assessment and other measures.

It's important to remember that discussions of cognitive decline can be fraught with anxiety — whether the condition is mild or more severe, age related or the result of an illness. Advisors and family members should be sensitive in approaching the topic. Alzheimer's disease and dementia are ranked as the scariest among six age-related debilitating conditions (compared with arthritis, diabetes, heart disease, stroke and cancer), regardless of the age of the respondent.⁹

Fortunately, there are often treatment programs. And, certain lifestyle changes can lower an individual's risk, improve existing symptoms and slow down the progression of the condition. These include exercise, adequate sleep, diet, stress management, mentally stimulating activities, and social engagement.¹⁰ There are also abundant resources on the topic, including the Alzheimer's Disease Center, The Center for Healthy Aging, the National Institute on Aging, alzheimers.gov and the Alzheimer's Association.

"We know that some older people with Alzheimer's disease are unable to make financial decisions or care for themselves, but there are also many older people who don't have Alzheimer's disease and yet have great difficulty with financial and other important decisions."

—Dr. Patricia Boyle, *neuropsychologist at Rush University Alzheimer's Disease Center*

Mild Cognitive Impairment describes the minor lapses in short-term memory (such as misplacing an object or forgetting a word) or the need for an extended period of time to process information. It occurs in roughly 15-20% of people in the US who are 65 and older.¹¹

Dementia is likely present when an individual's cognitive decline actually interferes with their daily life. Symptoms are significant, including confusion and disorientation. There are different types of dementia with various underlying causes, and the symptoms vary according to these causes. For example, vascular dementia is a result of the brain being deprived of oxygen during a stroke (although not all strokes result in vascular dementia).









Alzheimer's Disease may be the most progressive and debilitating form of cognitive decline, and it is certainly the most common type of dementia. More than 5 million Americans currently are diagnosed with the disease. In 2017, Alzheimer's and other dementias will cost the nation \$259 billion. By 2050, these costs could rise as high as \$1.1 trillion.¹² These projections, along with the debilitating nature of the disease and how it impacts families, have prompted governments around the world to fund research on treatment and prevention. The United States created the National Alzheimer's Project Act in 2011.

FEAR & UNCERTAINTY BLOCK THE PATH

Research among individual investors reveals an overall lack of concern and planning. Only about 39% of investors report that they believe they have a suitable plan for if and when their decision-making becomes diminished.¹³ What is preventing the other six out of ten investors from developing a plan to manage the financial risks associated with cognitive decline?

Some investors simply may not be aware of the potential impact of cognitive decline, including how prevalent it is, how it affects financial decision-making and at what age it is likely to occur. That may be especially true for younger investors. For most investors, however, there is psychological resistance to planning for cognitive decline, triggered by personal and potentially deep-seated issues, such as a fear of losing independence.

Figure 3: Psychological Hurdles to Dealing with Cognitive Decline

	Fearing Loss of Independence	"I want to keep making my own decisions."
	Anxious About Mortality	"I don't want to think about it."
	Averse to Complexity	"I don't know where to start."
	Lacking Self-Awareness	"I still make good financial decisions."
	Overly Optimistic	"Cognitive decline doesn't run in my family."
	Procrastinating	"I'll do it when I see the first signs of decline."
	Averse to Counterparty Risk	"I can't trust someone else to make these decisions."
	Overconfident	"I'm one of the lucky ones; I won't have cognitive decline."

For illustrative purposes only.

Source: State Street Global Advisors' Survey: "Taking Control: Perceptions and Behaviors Related to Cognitive Decline and Financial Decision Making", 2015.

The fundamental problem is that avoiding the issue only increases risk for both the investor and their advisor. Investors who live a long life will almost certainly experience some form of cognitive decline, and they probably won't be aware of when it's starting. When they do begin to experience cognitive decline, investors are often overconfident in their financial decision-making abilities, possibly because the decline tends to be gradual. They are less likely to perceive the need to make a change.¹⁴

There is a clear need for strategies and protocols that formalize the planning process to be adopted across the industry. Taking this comprehensive view, we see three dimensions to addressing the challenges of planning for cognitive decline from a broad industry perspective. First, there is a disconnect between the investor and their advisor. Second, there is a pattern of avoidance. Finally, there is significant risk of inaction.

1. Investor-Advisor Disconnect

The disconnect between investors and advisors seems to be a problem of perception. Advisors say that it is the investors' refusal to recognize the onset of cognitive decline that is preventing conversations about diminished capacity. On the other hand, investors report that their fear of losing independence is blocking them from action. This disconnect is a perpetual barrier to communication.¹⁵

Experience proves this to be true, as 85% of advisors say they encourage their clients to have a plan in case of cognitive decline, while only 41% of investors think they need a plan.¹⁶ The majority of investors believe that they will be able to make changes even after they start to experience symptoms of diminished capacity.

The situation can deteriorate quickly when conversations are deferred, as not all advisors — especially those who don't have a client experiencing cognitive decline — know the signs of diminished financial decision-making capacity. Not surprisingly, we see roughly the same result when it comes to talking with family members: 91% of advisors agree that their clients need to talk more with their families about the potential impact of aging on financial decision-making, but only 46% of investors agree that they need to do so.¹⁷

There is an even greater disconnect when it comes to the level of support provided. While 72% of advisors say that they provide clients with sufficient information and support regarding the potential impact of aging on their financial decision-making, only 27% of investors are satisfied with the level of information and support provided.¹⁸ The silver lining here is it appears that investors want to be more fully informed which is an opportunity for a behavioral shift.

"Like the ability to drive, nothing signals the loss of independence like losing control of your own finances. It has huge implications for your independence."

—Dr. Patricia Boyle, *neuropsychologist at Rush University Alzheimer's Disease Center*

"In the first year of noticing it, you will have enough cognitive ability to make sound decisions, so it doesn't seem like you have to plan ahead."

—Individual investor

Figure 4: Advisors and Investors Not Aligned on Support Provided



Q: Which of the following do you agree with?/ Please indicate if you agree or disagree with the following statements.
Source: State Street Global Advisors' Survey, "Money in Motion," June 2015.

“In my case, it’s kind of like if I don’t think about it, it won’t happen.”

— Individual investor

“The financial advisor may fear offending the client or losing the client altogether if they speak up. The advisor may also face difficulties navigating family issues. Family members aren’t always the good guys. Sometimes they’re actually the exploiters. This puts the advisor in the tenuous position of being in the middle of that.”

— Lauree Peterson-Sakai, *elder strategy leader at Wells Fargo Advisors*

2. Pattern of Avoidance

For many investors, fear and uncertainty are preventing them from discussing the possibility of cognitive decline and developing a plan.

It’s not just investors who are avoiding the reality of cognitive decline. Advisors may also be apprehensive about initiating the conversation early on or confronting their clients who have started to present symptoms.

More often than not (54%),¹⁹ advisors will contact their client’s spouse or partner rather than talk with the client directly.

Lack of a plan can also lead to conflict among adult children. The onus may fall on the advisor to bridge generation gaps and to resolve any escalating power struggles among parents and adult children.

All of this makes clear that, even though this may be a difficult conversation to have when a client is still operating at their full cognitive abilities, it can only get more difficult after the client starts to experience cognitive decline. At that point, the options are also more limited and more burdensome for both the advisor and the investor’s family.

When adult children step in to help their parents manage family finances and investments, it’s typically triggered by some event that overwhelmed or confused the parent. The added stress from these unexpected situations makes the whole transition much more anxiety provoking than it needs to be.

Many adult children with parents who have been through this difficult situation have been able to learn from it and are already focused on minimizing the stress on their own children. This family history can have a positive impact: 49% of individuals with a family history of cognitive decline have discussed plans for cognitive decline with other family members, compared with 24% of those with no history.²⁰

Observations for Advisors

Combining the topics of family and money can be overwhelming for even the most open and communicative families.

- ☐ Focus on giving the client peace of mind.
- ☐ Adult children can act as a sounding board and as an impartial expert.
- ☐ Moderate conversations and guide elderly parents to a decision even when adult children are unable to influence their parents.
- ☐ Help advisors avoid the potentially uncomfortable situation of a dual relationship within the family.

3. Risk of Inaction

The third dimension brings to light the real consequences of not planning ahead. Investors risk making poor financial decisions or having financial decisions made in a way that doesn't reflect their preferences. That may include some of the most complicated financial decisions, which are faced later in life during the decumulation phase of retirement planning; any deterioration of the investment portfolio at this point due to poor decisions probably cannot be recouped.

Worse yet, investors who are experiencing cognitive decline are especially vulnerable to fraud, which can have a devastating effect on their quality of life. Family members often aren't aware that their loved ones are being swindled. Sometimes, the investors themselves are unaware of what's going on or are too embarrassed about the scam to ask for help. Sadly, some family members may also try to take advantage.

Family dysfunction is a common fallout from the added stress that comes when adult children suddenly have to provide care and oversight but may not have the time or resources.

All of this increases the risk of expensive and time-consuming legal actions. It's painfully ironic that investors who avoid planning for cognitive decline because they fear losing independence actually put themselves more at risk of losing control over their assets.

Advisors, on the other hand, are in a "damned if I do, damned if I don't" situation when they have a client who begins to show signs of cognitive decline but does not have a plan in place. They face legal risks if they take orders from a client who has diminished capacity; they face potential loss of business if they don't. When the investor starts to experience cognitive decline without having established a plan for their financial decisions, there can be an emotional backlash against the advisor.

Even in situations that are ultimately successful, the advisor is likely to put in considerably more time and effort to implement a plan retroactively.

"I feel, as a caregiver, it's more frustrating to deal with my aging parents than my children."

—Adult child of an individual investor

"Without a plan, often discussions don't happen until someone reaches the breaking point, when they're exhausted, they're overwhelmed, and they don't know how to cope anymore."

—Dr. Patricia Pitta, board-certified family psychologist

"This should be a heads-up to the planning industry that, when you are advising folks, you have a fiduciary relationship and you need to be really careful. You need to be sure you're doing the right thing, not only to protect your clients, but also to protect yourself."

—Michael Gilfix, elder law attorney and principal at Gilfix & La Poll Associates, LLP

Observations for Advisors

Giving up independence or even accepting help is especially difficult for individuals who have always led a productive and independent life.

- ☐ Understand that loss of independence is often the biggest hurdle to developing a proactive plan — or even hiring an advisor.
- ☐ Approach the situation with intention; even the most difficult topics can become less stressful with open and respectful dialogue.
- ☐ Ensure that roles, responsibilities and goals are clearly defined.
- ☐ Work together with adult children to help guide the client and clear emotional hurdles, but remember relationships with successive generations must be cultivated.

GUARDING AGAINST FINANCIAL FRAUD & ABUSE

Older Americans are more likely to be targeted by fraudsters and are more likely to lose money once they are targeted.²¹ In the US alone, financial fraud among the elderly is estimated at nearly \$3 billion, although it's possible that even this massive figure is understated because of underreporting.²²

The broad category of financial fraud includes financial scams (perpetrated by strangers) and financial abuse (committed by friends, family, neighbors and service workers). Investors who begin to experience cognitive decline but have no plan for financial decision-making are the most vulnerable to financial fraud. Some research suggests that susceptibility to fraud may be more directly related to overconfidence (which can be a function of cognitive decline and age) than it is to age.²³

The Financial Industry Regulatory Authority and the US Securities and Exchange Commission are two organizations in the United States that are examining the advisor's responsibility in situations of financial abuse, from developing training programs to help advise and protect clients from financial fraud to the protocols in place for what to do when a client is victimized. For example, one model is to have an aging specialist within the firm who is the go-to person for issues related to cognitive decline and financial fraud.

There are also several organizations dedicated to this issue, including the National Center on Financial Elder Abuse and the National Council on Aging, the latter of which has developed a list to help increase awareness and protect individuals.

Top 10 Scams Targeting Seniors

	Medicare/health insurance fraud		Internet fraud
	Counterfeit prescription drugs		Investment schemes
	Funeral and cemetery scams		Homeowner/reverse mortgage scams
	Fraudulent anti-aging products		Sweepstakes and lottery scams
	Telemarketing		Grandparent scams

For details on these scams, go to <https://ncoa.org/economic-security/money-management/scams-security/top-10-scams-targeting-seniors/>.

COMPONENTS OF THE PLAN

Advisors can help clients clear these hurdles by developing a holistic financial plan that takes into account the potential for cognitive decline. Addressing the risks of cognitive decline early on and before the onset of any symptoms enables the advisor to neutralize what could have become a sensitive topic that's difficult to discuss. From the client's perspective, the advisor is providing an important additional level of risk management.

From the advisor's perspective, managing the risk of cognitive decline is critical to every aspect of practice management. The financial services industry needs to see this as a strategic issue, taking steps to self-regulate by establishing certain standards that:

- ☐ **Serve the client's needs.**
- ☐ **Manage related business risks.**
- ☐ **Uphold the firm's fiduciary responsibility.**
- ☐ **Ensure continued relevancy with future generations.**

Each advisor and each firm should develop their own approach that can be tailored to the client's specific situation. This might include standard documents, such as durable power of attorney, and firm-specific documents, such as a diminished capacity letter. What's most important is for the firm to provide the necessary resources and protocols to support advisors and their clients

"Waiting until you notice signs of cognitive decline can be dangerous. For some people, the process is like falling off a cliff. We've had cases where a daughter will come in and say 'Can you put me on the account? My father just got moved into the Alzheimer's ward.' At this point, it's too late to make an uncomplicated transition."

—Ron Long, *Director of Regulatory Affairs and Elder Client Initiatives, Wells Fargo Advisors*

THE NEXT GENERATION OF WEALTH MANAGEMENT

Investors who are aware of the realities of cognitive decline can protect themselves and their families.

While it is the advisor's professional responsibility to help clients prepare for uncertainty in the future, clients also shoulder some responsibility, at the least having up-to-date directives on file with their advisor and also keeping copies in a safe place that is known and accessible to key family members. That could mean putting the documents in a safe deposit box or keeping them on file with an attorney or an accountant. A good place to start this process is during the on-boarding process for new clients and as part of a regular account review for existing clients. Firms with simple and straightforward policies and procedures for advisors to initiate dialogue around these documents are models of best practices.

Besides specific documentation, advisors and their firms should consider guidelines that go beyond the standard estate planning protocols. For example, that could include defining a multigenerational transition for the client as part of a regular review that typically reevaluates investment concepts, such as risk tolerance. This is essentially an extension of a holistic, client-centered approach to wealth management.

Financial literacy is also a key component of this approach. Financial education, when delivered frequently, regularly, and with real-world experiences or examples can stick with an investor and be improved upon throughout their lifetimes.²⁴ A solid understanding of

financial concepts and products can help offset the decline in other areas of intelligence.²⁴ Additionally, using financial literacy to prepare younger generations to support their parents and grandparents and, later, themselves as they encounter important financial decisions, pays dividends across the generations.

Establishing a holistic plan that manages the financial risks associated with cognitive decline is also an opportunity to build trust and deepen relationships across generations. Trust requires empathy — understanding how we all evolve as investors, and the strengths and challenges that unfold as we enter the “Age of Wisdom.” We can empower younger generations by helping them plan for these challenges. We can empower today’s elderly generation by helping them age with dignity and feel a sense of security, purpose and connectedness.

Family members who have felt the helplessness of being unable to shield a loved one from the financial risks related to cognitive decline know deeply the importance of planning ahead and shielding others of the same burden. As trusted partners, advisors can share this wisdom with clients who have yet to prepare, helping them to also safeguard the financial future for themselves and their families.

“Everyone hopes that statistics will not apply to their personal situation, but hope is not an investment strategy. We buy insurance today to guard against what could happen tomorrow. Likewise, we should insure against the risk related to cognitive decline today, while we are most able to do so. Addressing the potential for cognitive decline is a critical form of risk management. No doubt, this is a sensitive issue. It impacts entire families, and as such, it is an opportunity to demonstrate the value of planning to your clients and their children. A financial advisor can help shoulder a burden when they are able to say, “We planned for this possibility.”

—Brie P. Williams, *head of Practice Management, State Street Global Advisors*

Survey Methodology:

Taking Control: Perceptions and Behaviors related to Cognitive Decline and Financial Decision Making and Money in Motion

During the first quarter of 2015, State Street Global Advisors and CoreData Research conducted a study among a representative sample of 400 financial advisors and 560 individual investors to explore their perspectives on multigenerational wealth management in the areas of wealth transfer, philanthropy, family education and the aging investor.

The advisor sample is representative across different channels: independent broker/dealer, multi-platform/direct, national broker or wirehouse, private bank; and registered investment advisor. The investor sample is representative across both net asset bands (below \$1 million in assets; \$1 million to \$5 million; and above \$5 million) and age bands (ages 25 to 32; 33 to 48; 49 to 67; and 68 or older).

The surveys explored nearly identical themes, which allowed us to compare advisors' assumptions regarding their clients with actual investors' attitudes and behavior. Questions were grouped into six discussion areas:

- Are advisors encouraging their clients to make wealth transfer plans?
- Have clients already made concrete plans, or are they seemingly more intent on doing so at some undefined point in the future?
- What role do advisors play in the conversation regarding multigenerational wealth planning? Are clients' children or other stakeholders involved?
- What are clients' expectations regarding philanthropy and other distributions of inheritance?
- How can advisors thoughtfully engage clients on the topic of mental health and aging?
- What awareness do clients have for how their advisors can advise them on these and other multigenerational wealth planning issues?

The data collected from this survey were segmented and analyzed to extract insightful and actionable opportunities. The quantitative data has a 95% statistical significance.

In addition, we conducted an omnibus survey in August 2015. The sample consists of 912 adults who are responsible for investment decision-making of a portfolio of \$200,000 or more.

To further contextualize our learning, we also conducted in-depth interviews with a range of leading industry, business and economic experts to help inform our key findings and practice techniques.

Acknowledgments

We would like to express our deep appreciation to the industry experts, financial advisors and investors who participated in our survey as well as our in-depth interviews. Your insights guided our thinking and inspired our tactical recommendations. We would also like to thank a2bplanning, CoreData Research and Marcia Roitberg for their invaluable contributions.

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- ²⁰ State Street Global Advisors’ Multigenerational Wealth Management Toluna Omnibus survey, August 2015. Q: Which of the following topics, and how it concerns or affects you, have you discussed with a family member (e.g., spouse, child) and with a professional (e.g., financial advisor, lawyer)?/ Do you have a family history of cognitive decline, including dementia and/or Alzheimer’s?
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