

# A risk-managed approach to age-related financial decisions

## Conversation starters for financial advisors



**Brie Williams**

Global Head of Advisory  
Solutions and Wealth  
Intelligence

Conversations around aging typically focus on retirement income planning and investment risk, but what's often overlooked is a plan to manage the financial risks associated with a decline in cognitive health—when an individual begins to have difficulty making sound financial decisions.

Aging is not only skin deep; it has profound effects on the brain. Researchers are developing a better understanding of the ways age affects financial decision-making and our capacity to plan. Advisors can use these insights to address longevity risk, including how best to plan ahead of aging-related conditions, such as cognitive decline.

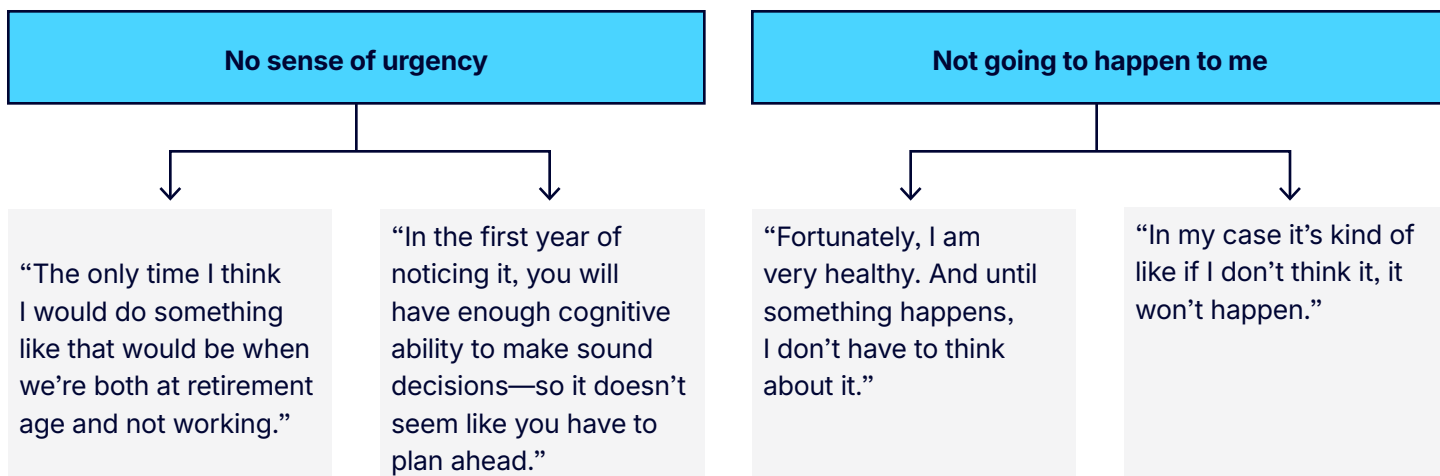
We all age at different rates and with different circumstances. Mild cognitive decline, dementia, and Alzheimer's are related but distinctly different types of cognitive decline. We can think of them as a spectrum of conditions. Some people may only experience mild cognitive impairment, even late in life; for others, this may be a precursor of Alzheimer's disease. There is a boundary between common age-related cognitive decline and dementia.<sup>1</sup>

### Empowering clients—we can't predict, but we can better prepare

Health and financial wellness are intertwined. People are impacted by cognitive decline in different ways, but often financial decision-making abilities start to decrease while confidence levels increase. This puts these investors at higher risk of making poor financial decisions, even though they aren't likely to perceive any differences in their abilities.<sup>2</sup>

The financial advisor may be the first person to broach the subject of cognitive decline with a client. In fact, they may be in a better place to have this conversation than are family members, because it's easier for them to be objective. An advisor can help the client acknowledge the need to plan before the onset of cognitive decline—and to act on it.

**All too often, individual investors are uninformed or in denial about the risks of cognitive decline.**



Source: State Street Investment Management Survey, “Not Just a Number: Perceptions and Behaviors Related to Cognitive Decline and Financial Decision Making”, 2015.

Because most clients view risk through the lens of markets, not personal decision making, reframe the conversation around resilience and planning, not decline. There are major hurdles blocking six out of ten clients from making a plan, including the fear of losing independence and the lack of a sense of immediacy.<sup>3</sup> But avoiding the issue simply means increasing the potential for adverse financial decisions, financial fraud, financial abuse, and the emotional stress on clients and their family members.

While those responses are understandable, research confirms that many older adults underestimate or overlook the impact of cognitive changes that can emerge with age. For example, up to 80% of individuals with significant memory loss believe their memory is stable or improving.<sup>4</sup> Those with historically high cognitive functioning—often self-directed investors—may also be most prone to overconfidence and less likely to seek advice.<sup>5</sup> These findings underscore the importance of preparing for age-related decision-making risks early, before confidence outpaces capacity.

**Fear of loss of independence:** “I want to keep making my own decisions”

**Lack of self-awareness:** “I still make good financial decisions”

**Anxiousness about mortality:** “I don’t want to think about it”

**Aversion to counterparty risk:** “I can’t trust someone else to make these decisions”

Source: State Street Global Advisors’ Survey, “Not Just a Number: Perceptions and Behaviors Related to Cognitive Decline and Financial Decision Making”, 2015.

## Where to begin—addressing cognitive skills as risk management

Cognitive decline can be a sensitive issue, but failing to address the topic directly with clients can impact entire families and underscore the point that an individual’s financial wellness goes beyond portfolio performance.

Advisors who are mindful of the challenges investors face as they age can apply a strength-based approach to the conversation, building on the investor’s own

experience, wisdom, patience and family support. Take cues from your clients, but approach the conversation with intent; even the most difficult topics can become less stressful with open and respectful dialogue. Clearly understand privacy laws and encourage clients to prepare documentation that outlines their plan to address potential cognitive impairment. Informed consent is an essential part of the planning relationship. Experience can serve clients well—but even the wisest investors benefit from a plan that anticipates a future where decision making may shift.

## Conversation starters for financial advisors

Our research, in-depth interviews with individual investors and their families, financial advisors, and a range of leading experts in their respective fields helped inform our conversation examples below. These are hypothetical examples based on practice techniques and two modes of communication—one is proactive communication (to help clients avoid potential risk), the other is compassionate communication (to help clients take action). Each situation is unique, but the goal is universal: *Empower clients to minimize the financial risks related to cognitive decline by planning ahead.*

### Proactive client communication: Planning ahead for a long life well lived

#### 1. Inform and educate: Help clients understand the important of “why now”

##### CLIENT

*“In the first year of noticing it, I will still have enough cognitive ability to make sound decisions, so it doesn’t seem like I have to plan ahead.”*

##### ADVISOR

*“None of us knows what tomorrow holds. Developing a contingency plan today can protect you and your family in the future. If you were to ever become unable to make financial decisions independently, you would need to have a plan in place. Like buying insurance, it’s never too early, but it could become too late. Let’s think of this as a proactive measure. This is about taking action today to protect your assets and your wishes in the future.”*

Just as we can’t forecast the markets for investing, no one can “time” the need for a contingency plan. It’s very difficult to detect small changes in ourselves and in others. Advisors can motivate clients to avoid challenging situations in the future by engaging in plan development now. A proactive approach is a risk-managed approach, and it helps neutralize the discussion.

#### 2. Listen and demonstrate empathy: Help clients clear emotional hurdles

##### CLIENT

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

##### ADVISOR

*“We’ve talked about your long-term retirement goal. You’ve worked hard, saving and investing for that goal. Now let’s talk about how we can protect your assets in case you are ever unable to make financial decisions on your own. I’m a firm believer in being proactive, and planning for longevity risk always works best when it’s not done under duress. Let’s work on this together, so I can be right there with you to help simplify and organize the process.”*

Inertia is a powerful force. It can block clients from acting on how best to manage uncertainty. Advisors can reinforce the right behaviors with goals-based communication. Tone is important, to convey support while avoiding a sense of doom. Take a collaborative approach in developing the plan to give clients the structure they need to complete the task.

#### 3. Appeal to their practical side: A clear protocol helps clients management longevity risk

##### CLIENT

*“We really need to make a plan, in case anything was to happen to either of us. It’s just not something we ever make the time for.”*

##### ADVISOR

*“We’ve talked about what risk management means to you, and our last meeting was squarely focused on market risk. For today’s discussion, I want us to address*

*longevity risk, including how best to plan ahead of aging-related conditions. Let's take a risk-managed approach to give you both peace of mind should either of you ever become incapacitated in any way. We'll start with some discovery and then take a few basic steps today to help us organize a plan and a process that's right for you and your family. We'll cover the legal aspects, including any documents needed, plus the communication process, to make sure that everyone is on the same page."*

Sometimes a client just needs a small behavioral nudge to move them from intent to action. It's not just about protecting portfolios from market risk—it's also about protecting clients from decision-making risk. Research shows that individuals unaware of shifts in their cognitive abilities are more likely to make costly mistakes, particularly in investment decisions.<sup>6</sup> It can be as simple as reserving time during a regularly scheduled meeting and developing a personalized, comprehensive checklist to facilitate action and organize next steps.

Advisors should allow time for consideration but also prepare in advance the relevant information to help keep clients on track. With investors living longer and often managing assets later in life, the need for durable, well-communicated contingency plans has never been greater. This should include both the legal and psychological aspects, from completing documents and directives to identifying roles and responsibilities. (For more on this, see "An Action Plan for Every Client" on page 5.) It's not just about protecting portfolios from market risk—it's also about protecting clients from decision-making risk. Research shows that individuals unaware of shifts in their cognitive abilities are more likely to make costly mistakes, particularly in investment decisions.<sup>7</sup>

## **Compassionate client communication: When it may require a team effort**

### **1. Facilitate communication: Help clients start the dialogue at home**

#### **CLIENT**

*"We tried to talk about it with our kids. It just got so emotional and upsetting—we haven't brought it up since."*

#### **ADVISOR**

*"Elaine, I know you and Jack have been through a lot with your father. When we first met, you shared with me the helplessness you felt, being unable to safeguard a loved one from the financial risk associated with Alzheimer's. I can see that you deeply understand the importance of planning ahead and shielding your children from the same burden. Let me help you engage your daughters, especially now that they're in college and have demonstrated maturity with their own financial responsibilities. This can be an empowering conversation, helping them understand the purpose and importance of contingency planning."*

Family dynamics are often complex, and open dialogue about money and aging can be difficult. In some situations, challenges among older generations may be a cautionary tale that motivates the next generation. Advisors can provide a safe place for family members to speak openly without getting stuck emotionally. In other situations, advisors can explore partnering with non-financial experts to move the family forward. Consider bringing on a social worker or wealth counselor to enable a more constructive process and to help shield the advisor from emotional hazards.

### **2. Structure and document the process: Prepare for action and reassure clients who feel vulnerable**

#### **CLIENT**

*"I'm so embarrassed to tell you, but I was almost fooled by one of those phone scammers."*

#### **ADVISOR**

*"Fraudsters can target anyone, but many prey on older folks. Financial fraud is now the most common form of abuse among older adults and some of these scams are really sophisticated. Education and awareness are an individual's first line of defense against investment fraud. Let's bring up the action plan we developed a few years ago just in case you were ever put at risk. I want to ensure that you are informed, protected and comfortable with any actions we might need to take."*

Older clients are especially vulnerable to financial fraud and abuse. It's important that clients and their trusted contacts stay alert and in regular communication

with advisors so that any questionable transaction comes to light and is addressed promptly. The rate of financial exploitation targeting older adults has more than doubled in recent years, with financial institutions reporting over \$27 billion in suspicious activity between mid-2022 and mid-2023.<sup>8</sup>

The choice of the trusted contact should also be revisited on a regular basis in case a more appropriate person should be substituted or added.

A well-defined protocol can help destigmatize the process for clients if there is suspected fraud or abuse. That should include established communication among the client's financial fiduciary team (including anyone with an advisory role and/or direct access or oversight to client funds, such as legal counsel, accountant, banker, etc.). Advisors should stay up-to-date on new or expanding schemes, but also be aware that on average, family members steal twice as much money from victims than strangers do.<sup>9</sup> The best defense against financial fraud and abuse is a good offense.

### **3. Appeal to their practical side: A clear protocol helps clients management longevity risk**

#### **TRUSTED CONTACT**

*"I'm worried about Dad. He's been having a tough time managing basic financial tasks that he's done for years, like paying the bills. Charlie and I tried to talk with him about it but he got very upset and defensive. I think he's afraid to acknowledge that he's starting to need some help."*

#### **ADVISOR**

*"I'm glad you reached out to me now so that together we can suggest a strategy to help him manage his financial life without any added stress. It's possible that he may be starting to experience some cognitive decline. Fortunately we created a plan years ago just in case he were to ever have difficulty managing financial decisions on his own and to protect him from any related risks. Let's look at that now and see what steps we need to take."*

The very nature of long-term and multi-generational relationships calls for attention to the risks related to cognitive decline. It's important to be direct,

compassionate and supportive, emphasizing the goal of protecting the client's interests. With a contingency plan already in place, there is a process to follow with signs of cognitive decline or suspected financial fraud or abuse.

That includes promptly informing the client's trusted contact(s), attorney if appropriate, and possibly a recommendation to bring in the client's physician for a proper evaluation—early diagnosis and intervention of cognitive decline can make a significant difference in reducing the rate of decline. It's also essential to be aware of how family members experience seeing their loved one decline and whether caregivers have the resources to provide needed support. Caring for a loved one in decline can be emotionally, physically, and financially taxing.

### **An action plan for every client**

A comprehensive checklist of financial and legal items is a critical tool to help protect clients from risks associated with cognitive decline. All clients should be able to identify the location of legal documents, all financial accounts, and the passwords to access critical information. This information should be held in a secure environment and be accessible to an appointed family member or professional fiduciary. Document personal preferences regarding considerations that fall outside of the specified direction provided in a will or trust document.

Living wills and medical directives can provide guidance for handling certain medical situations. A durable power of attorney for health care appoints a person to make health care decisions and can be structured to become effective only upon incapacity. A durable power of attorney for property can provide continuity of decision-making for business and/or personal affairs.

Legacy planning should focus on the client's wishes and be communicated with the family. It's about respecting the wealth creator's wishes, not those of a family member or caregiver who may be influencing their loved one.

Ideally, financial goals, personal preferences and estate plans are prepared and shared long before cognitive decline impairs financial decision making. That may be

easier said than done—combining the topics of family and money can be overwhelming for even the most open and communicative families.

**Review the list of services that will produce to-do lists in any of these areas:**

- **Goal setting** in the context of their personal situation
- **Estate planning** including asset transfer and gifting strategies to carry on philanthropic goals
- **Budgeting** to properly manage cash management
- **Tax planning** when they start to receive Social Security, pension benefits, 401(k) payouts or IRA income
- **Insurance planning** including long-term care insurance, life insurance (when to buy, where to purchase, how much is needed, etc.)
- **Health care planning** such as special assistance for beyond what insurance will cover (for example, spousal care or special needs children)
- **Contingency planning** toward long-term care and other assistance needs in home or outside the home; end-of-life planning (e.g., terminal illness, proverbial bus; natural end of life)

## **Integrated, methodical planning plus active communication**

None of us are invincible, nor should we be overwhelmed by the fear of the unknown. And while everyone hopes that the statistics will not apply to their personal situation, hope is neither a plan nor a strategy. Advisors who guide their clients to proactively manage the potential risks of cognitive decline are helping them maintain control and achieve peace of mind. Approaching the topic of planning in a way that is both direct and empathetic can help protect clients and their families from added stress and risk, ultimately taking the client relationship to the next level.

## Endnotes

- 1 For mild cognitive impairment, see Alzheimer's Association. For how this relates to dementia and Alzheimer's disease, see "Is Mild Cognitive Impairment a Precursor of Alzheimer's Disease? Short Review," Central European Journal of Public Health, 2015, 23(4): 365–367, accessed at [alz.org/alzheimers-dementia/what-is-dementia/related\\_conditions/mild-cognitive-impairment](http://alz.org/alzheimers-dementia/what-is-dementia/related_conditions/mild-cognitive-impairment).
- 2 Keith Jacks Gamble, Patricia Boyle, Lei Yu, and David Bennett, "The Causes and Consequences of Financial Fraud Among Older Americans," Center for Retirement Research Working Paper 2014–13. Center for Retirement Research at Boston College in association with Rush University and Aging Brain Project, November 2014.
- 3 State Street Global Advisors' Survey, "Not Just a Number: Perceptions and Behaviors Related to Cognitive Decline and Financial Decision Making", 2015.
- 4 Mazzona, F. & Peracchi, F. (2020). Are Older People Aware of Their Cognitive Decline? Misperceptions and Financial Decision Making.
- 5 Mazzona, F. & Peracchi, F. (2020). Are Older People Aware of Their Cognitive Decline? Misperceptions and Financial Decision Making.
- 6 Mazzona, F. & Peracchi, F. (2020). Are Older People Aware of Their Cognitive Decline? Misperceptions and Financial Decision Making.
- 7 Ibid. The study links unawareness of cognitive decline to measurable financial wealth losses, especially among those who actively manage their own investments.
- 8 U.S. Department of the Treasury, Financial Crimes Enforcement Network (FinCEN). FinCEN issues analysis on elder financial exploitation. [FinCEN.gov](https://www.fincen.gov), April 18, 2024.
- 9 Gunther, Jilenne. The Thief Who Knows You: The Cost of Elder Exploitation Examined. Washington DC: AARP Public Policy Institute, March 2020. [doi.org/10.26419/ppi.00095.001](https://doi.org/10.26419/ppi.00095.001).

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