

# Financial Decision Making as We Age

Francis J. Niehaus, December 2011

This summer, several financial publications ran articles about age and money, raising concerns about individuals' ability to manage their financial affairs as they grow older.<sup>1</sup>

My parents were blessed with longevity, and remained mentally sharp into their early nineties. Other relatives, however, experienced declining mental abilities in their seventies. Most of us know people who have retained their cognitive abilities for an extraordinary length of time, and people who begin to decline at a relatively young age.

Although we all hope to retain full mental competency and decision-making abilities throughout our lives, it is important to understand the possibility that we will begin to slip mentally, and to plan accordingly.

## Cognitive Decline

According to recent studies, approximately 53% of adults in their eighties suffer from either dementia or significant cognitive impairment.<sup>2</sup>

Moreover, researchers have found that people reach peak financial reasoning in their fifties, when they have gained wisdom from significant life experience and their brains are still sharp. As people progress beyond middle age, their financial reasoning abilities decrease.<sup>3</sup>

## Much at Stake

A person's financial situation often becomes more complex as he or she grows older. A typical retiree household might have a collection of bank accounts, various retirement accounts, and other investment accounts held with several institutions. Mortgages, car loans, and credit cards may need to be managed. Income can come in several forms: pension and Social Security, as well as withdrawals from investment accounts (how these are taken may require some analysis, as accounts may be treated differently for tax purposes).

Surveys have found that most households have accumulated significant assets by retirement age. These assets must last for the rest of one's life, so there is a lot at stake. Careful attention is required in order to make sound decisions.

## What to Do

It is important to acknowledge that mental decline is a possibility for anyone, and that a person's financial affairs may be too complex to manage alone in a diminished state.

By taking certain steps now, older adults can help protect their finances in the future should their mental abilities ever become compromised.

### *Build a team.*

It is common for our older clients to bring a trusted family member or friend to our office for the regular review meetings we have. This is usually the person named in their power of attorney document. This applies to those who are single as well as married. Spouses may be used to providing

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this kind of support for each other, but as both get older it may be wise to draw a younger person into the process.

By involving another person, older adults gain an additional set of eyes and ears to take in the information being considered, and to help them think through any decisions at hand. This also helps ensure that their plan will continue to be carried out effectively if and when they are less able to handle the details on their own.

People shouldn't wait until a crisis situation. We recommend that our older clients be proactive and invite someone to accompany them while they are still healthy. Age seventy would be a good target beginning date for this, if not sooner.

Letting anyone, even a trusted family member or friend, into one's "business" may be uncomfortable, but can be easier when done in the context of a review meeting facilitated by a professional financial advisor. Such a meeting can provide a starting place from which to continue a conversation.

Follow-up topics that can be addressed without the advisor present include budgeting, bill paying, and shopping (at least when it comes to more expensive items). These regular activities of money management can get overwhelming as one gets older, especially when combined with other responsibilities like maintaining relationships, staying healthy, and keeping up a home.

### ***Consolidate and simplify accounts.***

Consolidating accounts can help simplify one's financial affairs. Taking time to clean out what often becomes a "junk drawer" of

accounts can reduce the number of statements and tax forms that are received, and shorten one's list of contact names and numbers, making one's financial affairs easier to manage both now and in the future.

There may be other benefits to consolidation, depending on one's situation. For instance, if someone owns many individual stocks and places them in a single brokerage account, beneficiaries can be added or changed easily, and shares can be sold promptly. Similarly, if an individual has several retirement accounts from past jobs and rolls them to a single IRA, any required distributions can be managed through that one account.

Ultimately, a more streamlined estate transfers to heirs with less time, trouble, and expense.

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To have what one needs in the future requires planning ahead. By taking steps now to establish a contingency plan in the case of mental decline, older adults can give themselves a gift for the holidays!

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- <sup>1</sup> Mark Miller, *Eight Steps to Wealth Protection for Aging Investors*, WWW.MORNINGSTAR.COM (July 15, 2011); Jonathan Burton, *Older but Wiser: Middle Age Is a Prime Time for Finance*, WWW.WSJ.COM (October 5, 2011).
  - <sup>2,3</sup> See Sumit Agarwal, John C. Driscoll, Xavier Gabaix, David Laibson, *What is the Age of Reason?*, 10-12 CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE (July 2010).