ARE YOUR CLIENTS LOSING THEIR MINDS?

IDENTIFYING AND DEALING WITH DEMENTIA IN FINANCIAL PLANNING CLIENTS

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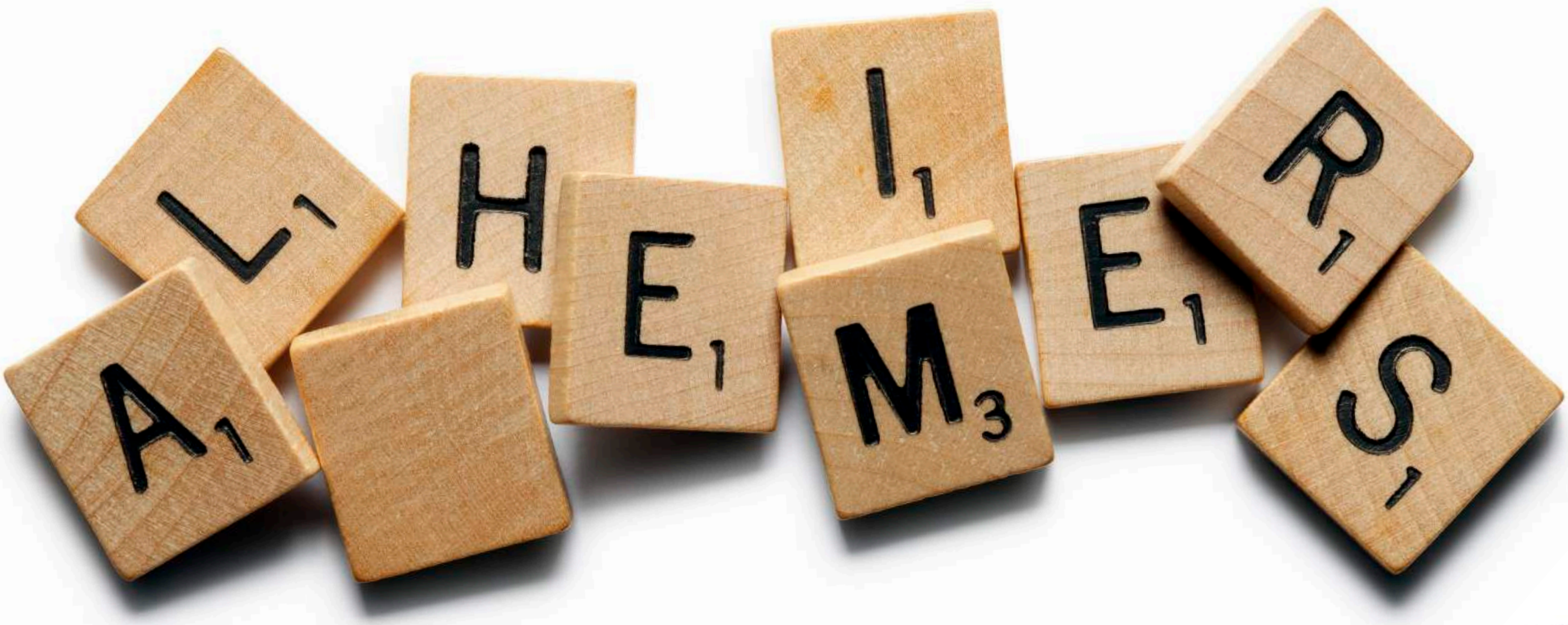
"I'M PROBABLY A PLANNER TODAY because of my dad," says Marguerita Cheng, CFP®, CEO at Washington, DC-based Blue Ocean Global Wealth. Her father, who arrived in America from southern China with $17 in his pocket, taught Cheng her first important lessons about finance – live within your means, do not spend without thinking, do not expect money to buy happiness, but be ready to seize the opportunities it brings. An avid stock trader, Cheng's father managed his own portfolio well into his 70s even after a diagnosis of Parkinson's when Cheng and her mother noticed that he was forgetting his online passwords with disturbing frequency.



Fortunately, Cheng had begun to talk to her parents about planning for their later years more than a decade earlier. “I’d just given birth to my second child, and I was worried, how am I going to care for these little kids? And how am I also going to care for my parents?” she explained. “We had the conversation about care. Where do you want to receive care? How are you going to pay for it? And who do you want to give it to you?”

With Cheng’s encouragement, her parents began to plan or old age – buying long-term care insurance, updating their estate plan and right-sizing their living space. Then, as father’s health declined, as he fell a couple of times and became more forgetful, Cheng and her mother and sisters stepped in. The elder Mr. Cheng would still have online access to his accounts, but would no longer be able to trade them. “This was really hard because this was a guy that taught me everything. But I had to protect him from himself,” says Cheng.

Cheng’s experience with her father caused her to focus on late-life planning for other clients — and made her more credible to clients and their families. She now incorporates discussion of trusted family contacts, long-term care planning, and power of attorney and advanced directives into conversations with all her elderly clients.

A growing problem

Cognitive impairment is a growing problem in an aging society. The Alzheimer’s Association estimates that right now about 5.5 million Americans have Alzheimer’s disease – and 5.3 million of them are 65 and older. That means that one person in ten is afflicted with this specific type of dementia, and there are other forms of cognitive impairment as well that also affect financial decision-making.

Just as they are becoming more vulnerable, the world’s elderly are amassing a large share of the world’s wealth. Data released by the U.S. Census bureau finds 584,000 people were potentially liable for the estate tax in 2013. Out of that very wealthy group, the very oldest – people in their 80s and 90s – controlled $1.2 trillion in wealth or 17 percent of the total, despite making up only a tiny slice of the population. People under 50, representing about 43% of the population, accounted for just $1 trillion.[1]

“You have this concerning confluence of two trends, one, the amount of money accumulating over time, and two, people’s ability to make decisions starting to decline,” says Chis Heye, co-founder of Whealthcare, a software platform for assessing impairment and implementing financial planning solutions to deal with it. “Certainly at the personal level, there’s potential for financial abuse, exploitation and just really bad financial decisions because of cognitive impairment. But also at the macro level, you could imagine that if a lot of people are giving money to lotteries and Nigerian as opposed to putting it into promising start-ups, it’s not the best allocation of resources at that level.”

Indeed the combination of these two trends has put elderly people at risk. A 2017 global study from the World Health Organization found that 7% of people aged 60 years and older were subjected to financial abuse (6.8%) across 28 countries. Another survey by the North American Securities Administrators Association found that third-party abuse and exploitation was the most common type of elder fraud, followed closely by unauthorized account distributions and abuses by family members or other trusted individuals (see chart below).

5.5 MILLION

Number of Americans that The Alzheimer’s Association estimates have Alzheimer’s disease – 5.3 million of them are 65 and older.

[1]SOI Tax Statistics, Personal Wealth Statistics, 2013 [Latest data available] https://www.irs.gov/statistics/soi-tax-stats-personal-wealth-statistics

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Financial advisors may be the first to spot decline
Financial advisors see their clients every few months, rather than every day, and because they deal with the types of abstract issues that may become difficult in decline, they may be the first to spot signs of incipient dementia.

Eric Dostal, CFP®, an attorney and financial advisor at New York-based Sontag Advisor, says it may be difficult to distinguish at first between the kinds of ordinary "senior moments" everyone has and a genuine problem. "At the beginning, often it seems like nothing very serious. You may have to repeat yourself a lot or go over points that have already come up multiple times, for instance, which on its own, isn't cause for much alarm," he says. "But the thing that you really need to be aware of is when it happens repeatedly. For instance, you put together an entire financial plan and then somebody suddenly comes in and wants to throw it out the window and do something totally different, or they're fixating on certain things or you're going over the same point over and over."

"A family member will see little things like, mom is getting forgetful or she misplaced her keys again," says Rob DeHollander CFP®, AIF®, CRPC®, a founding partner at South Carolina-based DeHollander & Janse Financial Group. "But, as financial advisors, we sit down and start looking at numerical concepts around investments and returns and cash flow and that sort of thing. Often we'll be the first to notice a decline in that skill set."

How you can help clients with dementia

If you do not already have clients with cognitive decline, you likely will in the future, when as many as one in ten elderly people will have some form of impairment. Here are some tips and best practices from financial advisors about how to serve them.

What kinds of elder fraud are most common?

ISSUE	PERCENTAGE OF CASES REPORTED
Third-party abuse/exploitation	27%
Account distributions	26%
Family member, trustee or power of attorney taking advantage	23%
Diminished capacity	12%
Combined diminished capacity and third-party abuse	12%
Fraud	6.30%
Elder exploitation	5.70%
Friend, housekeeper or caretaker taking advantage	<1%
Excessive withdrawals	<1%

SOURCE: North American Securities Administrators Association

1. Have discussions early
Most people do not want to think about dementia until it happens, but an early, frank discussion of these issues can head off problems later. Encourage clients to think about who will help make decisions about finances and health care if they, themselves, were to become incapacitated. Ask them to begin discussions about what kind of late-life care they prefer and how they would like to pay for it. "We encourage families to have that conversation while everybody is still happy. It is more of a Thanksgiving conversation.

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Ten ways to tell if your clients are losing it

Concerned about your clients? The Alzheimer's Association highlights ten early signs of dementia:

1. Memory loss that disrupts daily life. This does not mean losing your keys once in a while or blanking on a name, but consistently forgetting recently acquired information.

2. Issues with planning or solving problems. If someone is suddenly having problems paying bills or following recipes, they may have an issue with cognitive impairment.

3. A difficulty with familiar tasks. Family members may notice that the house is dirty or that routine responsibilities like cooking, making beds, or taking care of a garden go undone.

4. Confusion about time and place. The distant past may seem more real to people with dementia than the here and now.

5. The trouble with visual cues and spatial relationships. People with Alzheimer's often have problems judging distance, so a spate of fender benders may be an early clue.

6. Problems with words. Inability to think of the name of a common object – or calling it something else—can indicate early stage cognitive decline.

7. Misplacing things and not being able to retrace steps. Be on the alert if elderly people can not find things by thinking about where they saw them last.

8. Decreased or poor judgment. This is a big one since it makes elderly people vulnerable to fraud and bad financial management.

9. Withdrawal. When people are not doing things they love or connecting with long-time friends and loved ones, it can be a sign of cognitive decline.

10. Changes in personality. Paranoia, irritability, impatience, and fearfulness can all be indicators of mental impairment.

Have that conversation while everybody's hopped up on tryptophan and it's a happy time and not in an emergency situation," Hollander says.

2. Talk about the worse-case scenario
"The default, especially for men, is to say, well I'm never going to a nursing home. I'll put a gun to my head first. Women tend to say, I'll live with my kids. They'll take care of me," says DeHollander. "But the burden, the emotional burden, especially in a dementia case is staggering. People don't understand it unless they've had some experience with it."

3. Enlist trusted family members
Many financial services firms—and some states—now require older clients to fill out forms designating relatives or other representatives who can be contacted in the event of questions about their own decision-making capabilities. Getting the client to name these trusted individuals is a critical step in planning for financial security in later life. On a more informal basis, several advisors work with their clients to bring spouses and grown children into meetings, so that they can serve as a memory aid to their older relative about what happened and help in the eventual transition. If the client's mental or physical health declines, these representatives are then in place to take on decision-making responsibilities.

4. Get basic planning in order
Much of planning for dementia is just good planning. Make sure your older clients have updated wills, estate plans, and advanced health care directives. But if cognitive decline appears likely to become an issue, you will need to spend time and care on one more document: the durable power of attorney. "The durable power of attorney is one of the best tools for dealing with cognitive decline, but there's some danger, frankly, because you're really giving somebody else the authority to act as you," says Dostal. "A lot of elder abuse comes from people who are in positions of trust. So it's always a very good idea to be very careful with the person that you're nominating as your attorney under a durable power of attorney and that they know you, and that they understand the responsibility that they're taking on. The earlier we can get that person into the picture and start working with them, the better the situation is going to be."

5. Line up long-term care options
Care for a parent with dementia can be expensive and heartbreaking, so it is important to start the planning process early when you have more options. Cheng says that her elder care conversations often start around the issue of long-term care, but are never focused on products like long-term care insurance. "The conversation should

start by asking, how are you going to pay for your care? Where do you want your care? Most importantly, who do you want to give it to you? Usually, people just talk about insurance, but my clients really like how we're not talking about insurance. We're talking about lots of decisions. And I don't force people to make a decision. I nudge them along the way."

6. Consider Medicaid trusts
If your client is still many years away from needing long-term care, you may have an opportunity to use Medicaid trusts to shelter income and assets and preserve Medicaid eligibility. In order to avoid the look-back rule, your clients will need to place assets in trust at least five years before they apply for Medicaid benefits.

7. One thing at a time
As clients age, you may need to dial back the complexity and detail of the information you present to them, or at least break it up into manageable pieces. "If you can stay on one topic for a short period of time, you've got a better chance of them grasping and remembering it," says Patti B. Black, CFP®, a partner at Bridgeworth Financial in Alabama.

8. Give them as much control as they can handle
"Elderly clients are trying to hold onto whatever control they can because there's so much in life that they do not have control over," says Black. "So being mindful of that and being respectful of that, to the extent that they're capable of participating in meetings and having conversations, we need to do that. We need to let them, where it is responsible, maintain that control."

Cutting edge platforms for serving clients with dementia

While lots of financial advisors are putting together their own ad hoc responses to the challenge of dementia, a couple of companies in finance and technology have developed more comprehensive approaches.

TransAmerica, for instance, began developing its Financial Planning for People with Dementia program in 2016, working in conjunction with the MIT Age Lab, to develop a strategy. "At the time, there were books, there were a few speakers and authors you could turn to, but nobody had put together a comprehensive package," says Dave Paulsen, executive vice president and chief distribution officer at the firm. "Our goal was to help advisors understand how prevalent or prominent the cognitive decline could be within their customer base and then more importantly, what to do about it, giving them tools or even a tool kit on how they could ultimately better serve their customers."

TransAmerica developed an integrated set of educational materials and planning tools, designed to get advisers up to speed on the cognitive challenges some of their clients faced. "The minute we started to publicize it and utilize the tools we put together in broker/dealer meetings in coaching forums that we provide, in our one on one meetings with financial advisors through our wholesalers, that's when the advisor community really latched onto it," Paulsen adds. "They said, this is of value beyond just the product, the solutions that we bring. It's something that helps them get closer to each of their customers."

WhealthCare Planning provides another innovative solution to the cognitive decline conundrum, using technology to both assess and address gaps in decision-making capabilities. Building on research conducted at Mass General Hospital, co-founder Chris Heye developed a detailed questionnaire that measures decision-making ability.

Combining this research with the tools and best practices developed by fellow co-founder Carolyn McLanahan — a long-time financial planning expert who had also worked as an emergency room doctor—WhealthCare Planning developed an integrated, software-based solution. Growth has been rapid. "We rolled out a WhealthCare planning platform in the summer of 2017, and now we have about 60 financial advice firms using it," Heye said. "Our current clients are mostly the smaller, financial planning firms, but we're also seeing interest from larger firms – Raymond James, Fidelity, Commonwealth."

WhealthCare is the only provider to offer behavioral assessment. The assessment emphasizes executive function which is the ability to control impulses, focus attention, and understand the consequences of actions. It is a set of abilities that he says has proven far more critical to financial decision making than memory loss. "I'm not saying that memory loss is not a threat.

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It is. But the way I like to put it is that it's probably a bigger problem if your client gets lost coming to your meeting than if they just forget. And we all know people who have great memories but they still make poor financial decisions," says Heye.

The behavioral test is combined with a robust set of planning tools that guide a consistent process with each client—and a cloud-based record of client interactions that provides back up in case of any questions about fiduciary responsibility. It is an intensive process that asks lots of personal questions, but Heye says the feedback they have gotten from advisors and clients has been overwhelmingly positive. "In general, there's a sense of release. The client has wanted to have these discussions and or has been concerned about some of the issues that our questionnaires raise, but they don't feel comfortable talking about them," he explains. "One of my favorite lines is, one client, said, 'I hated answering some of those questions, and thank you so much for asking them.'"