



**Diminished Capacity and Financial
Decision Making Forum**

Discussion Summary

**Sept. 10-11, 2012
The University Club
Washington, D.C.**

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The National Endowment for Financial Education® (NEFE), with planning assistance from the Consumer Financial Protection Bureau and other key stakeholders, hosted a forum discussing Diminished Capacity and its implications on personal financial decision making, Sept. 10-11, 2012 in Washington, D.C. The discussion, which began with a salon in September 2011, focused, in more detail, on the role of gaining a better understanding of what is needed in support systems and advance planning. The goal of the forum was to assess immediate needs and define a set of questions and concepts that will clarify areas for additional research and exploration. This discussion summary outlines the scope and themes of the forum.

How is cognitive aging and mild cognitive impairment (MCI) determined?

Forum attendees laid the groundwork for their discussion by determining how to spot cognitive aging in a person. Attendees stated that it is important to first look at a person's current cognitive level. Age and level of education can heavily impact progression of cognitive aging. It is important to note that while lack of education may be a risk factor for some, for others, high levels of education may be a similar risk. Many people overestimate their financial literacy, which leads to vulnerability. Another risk factor to consider is significant life altering events such as a stroke or the passing of a loved one. These types of events can significantly alter a person's cognitive ability or decline.

Attendees observed that victims of fraud, who have a high level of financial capacity, may fall prey to certain schemes that have nothing to do with finances. Many times, those who fall prey to scams are in the process of losing their discernment and judgment. Their frontal cortex is diminishing, and while they may be able to handle basic financial tasks and appear sound in judgment, there may be broader changes happening. For example, a romance scam that is born out of loneliness can morph into a financial scam. Attendees agreed that a typology scan is necessary to understand and map this type of situation.

The field should take note of how both the public and private sector currently handle cognitive aging. For example, some private investment firms require executives to step down at the age of 55. The Affordable Care Act mandates that after the age of 50, one is entitled to a cognitive aging exam; however, there is little direction on which exam to use or where the patient should go to receive it.

What knowledge/skills are correlated with improvements in behavior?

Common thought dictates that world knowledge provides older adults an advantage as they age; however, experts say that knowledge gain levels off in people's 50s and 60s. This misconception creates the problem of older adults believing that they have the benefit of life experience when that may no longer be the case. Additionally, it is important to make the distinction between financial skills and

financial judgment. Older adults may have excellent financial skills but increasingly poor financial judgment as they age.

Conclusions from the discussion:

- **Authority.** Experts agree that people of all ages are responsive to authority. This is helpful for professionals dealing with those experiencing cognitive decline. However, scammers are taking notice of this as well, and are assuming positions of authority in their schemes.
- **Positive Messaging.** Instead of an improvement in behavior, one expert explained that after her clients have been diagnosed with early onset dementia she notices an immediate deterioration in their mental state and behavior. She stressed the importance of positive messaging to those diagnosed with cognitive decline. She recommended communicating the importance of planning ahead and being cautious in a way that does not negatively change the person's reality.
- **Planning Ahead.** All attendees agreed that in order to see future improvements in behavior from older adults diagnosed with cognitive decline, we need to create a different perspective for adults. The general population must see the value of planning ahead and embrace the mindset of "I hope I don't need this, but let's take the extra step now to be prepared for the future."

How can we create the greatest impact for the individual/consumer?

One of the biggest hurdles that financial advisors face concerning diminished financial capacity is the lack of a precipitating event, like a stroke or a heart attack. Dementia is not always the event; it is sometimes a long process that takes years or even decades to spot. A system of licensing and training of professionals who serve older adults is necessary so that they are prepared to spot signs of vulnerability early.

A system of reporting is necessary in order to identify a course of action. A reporting system coupled with a financial checklist could help prevent financial catastrophe later on. A form or checklist of questions required to be administered to older adults at a certain age by trained health professionals would be an excellent way to screen for signs of diminished capacity. As one attendee pointed out, "Defaults are an inexpensive way to change things."

Adding financial education to the workplace is another way to disseminate information about diminished financial capacity. Thinking about financial planning for the next stage of life while still employed helps workers lessen the disconnect between financial decisions now and financial planning for the future.

Finally, we should take a lesson from the domestic violence field and leave behind the term "victim" in favor of more positive terms such as "target" or "survivor." We should consider stronger messaging to declare that if you are diagnosed with dementia or diminished capacity, it is not the end of your world. Attendees recommended providing people with a way to overcome or slow down the effects of their diagnosis and letting them know that they can be proactive about their next steps.

Broader Questions and Implications

The last component of the forum posed open-ended questions in order to capture a broader scope of themes and interests about diminished capacity and financial decision making. Additionally, NEFE generated these questions to spur deeper conversation beyond the forum and to identify potential themes for researchers, practitioners, and others interested in the field.

Question: *If you had a chance to ask the American public about this topic, what would you ask?*

Answer:

- Whom do you trust in the event of an emergency?
- What triggered you to do this planning?
- What would have to happen to get you to care about this diminished capacity?
- Are you in favor of regulations to protect older adults from fraud?
- How much independence and money are you willing to give up to get protection against elder abuse and fraud?
- Do you want to be in charge of making these decisions today (at 60, 70, 80...)?
- Is diminished financial capacity a national problem? If so, how big is the problem?
- Is there someone you wholeheartedly trust to make your decisions?
- Do you realize that if you're over 70 your risk is much greater for fraud?
- Have you been defrauded and if so, describe?
- Would you be willing to complete a financial checkup?
- Why don't you plan for your financial future?
- What is the probability that you will be diagnosed with Alzheimer's in your lifetime?
- Do you know what diminished capacity looks like? What's the first sign?
- Where can you get reliable information about financial capacity and aging?
- What would you want your bank or financial advisor to do to protect your money from fraud?
- How do you define diminished capacity?
- Are you aware that you may be at risk of being financially exploited?
- If you know you've been scammed, whom do you report to?

Question: *What one thing would you change right now to insist that consumers had better options?*

Answer:

- I would provide every American citizen with an hour of time when they turn 60 to meet with a counselor and receive detailed information about diminished financial capacity.
- I would provide them with a sense of future self or time.
- I would change every payment system that we use to have the same level of protection that our credit card system uses.
- I would invest more money and human power in advanced planning and dealing with financial exploitation.
- I would grant unlimited funding for psychological research and support.
- I would create one number for everyone to call in instances of fraud or suspected fraud.
- I would require that every financial institution create algorithms for fraud screenings.
- I would create a coherent message for the general population.
- I would require training of all financial professionals in diminished financial capacity. I would ask our political leaders to educate the American people about the need to make choices and sacrifices about resource allocation.

- I would allow every person to see their potential and be aware of the risk they could avoid by meeting with a professional advisor.
- I would mandate annual cognitive physical exams with capacity recommendations embedded in them. Also, I would mandate provisions in all estate planning as to how diminished financial capacity should be recognized and dealt with should it arise.
- I would create a one-stop checkup center (legal, medical, and financial) for people.
- I would make the path as easy as it could be for the adult child to deal with.
- I would create peer pressure at 50. If you've got friends all about the same age, you all pressure yourselves at 50 so that everyone gets a plan. Peer pressure can be a really positive thing.
- At some age, simply ask "what are you going to do with your finances?" Give them choices. Have it be a mechanism for change.
- I would provide public education in every community framed from the standpoint of empowerment instead of a standpoint of vulnerability. Make a plan and stay in control.
- I would have a place to educate people. Where do you go? Have a place that's trusted for people to go. How do people sort and figure out trustworthy sources of information?

Themes for Consideration

During the course of the conversation, key themes emerged and were frequently mentioned.

- This has implications for education
- It's in people's self interest to prepare for diminished financial capacity
- Having access to assessments to measure change in a person's financial life is an important step
- The "I'm the exception" issue is a problem because many people feel like "it won't happen to me"
- Think about shelf space for an assessment and give it the "seven-minute test"
- Give people the tools to spot signs of diminished capacity.

NEFE will draw from these themes as we continue to work toward a more robust understanding of diminished financial capacity and how to best meet the needs of those who live with it. In that same spirit, the questions and themes presented here should be used by stakeholders to address their own work within this topic. By taking the topics presented in this summary, progress can begin to be made toward a better understanding of how to help consumers become more prepared to deal with diminished capacity and the implications it has on financial decision making.