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Prudent Portfolio: Tips on How to Manage Finances for Aging Investors

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By Peter Chieco

Right now, more than five million Americans suffer from Alzheimer's; by 2050, that number could rise to 16 million. In the tristate area alone, there are currently 635,000 individuals living with the disease.

So while we are living longer, and therefore living in retirement longer, the added longevity may come hand in hand with some form of mental decline. In fact, the risk of developing dementia rises significantly as we age and statistics show that fully one in every three seniors will pass away with some form of dementia. This scenario becomes particularly sensitive when it comes to managing money.

As a financial adviser whose clients have been with me for many years and often many decades, I have witnessed older individuals exhibiting signs of cognitive decline. This poses a quandary in that many of them may soon lose, or may already have lost, the ability to make informed financial decisions.

How do you protect loved ones when their judgment is becoming impaired?

It’s a delicate situation. While it isn’t yet mandated by government regulators, having a plan in place to help manage aging investors is strongly recommended. And I think that plan is a two-pronged approach, with the financial adviser and family members working together as a team. It might be a good idea to add to the team the family accountant and perhaps even a lawyer with a focus on elder law.

A key component of this plan should be to establish a timeline. At what point in time will action be taken? When impairment is first suspected? I suggest that the plan is put into place before signs of decline. The responsibility for initiating such a plan does not just rest with the family, of course. The aging individual, I believe, should recognize the possible future needs and act while able to make personal wishes clear.

A next step, then, might be to meet with the individual when you suspect something is amiss – surely an uncomfortable conversation, but a necessary one.

Then, it is important to ensure that the individual’s financial plan is on track and is secure. Now is the time for the adviser to rely on long-term knowledge of the client’s wishes for his or her estate, and for the other team members to voice their beliefs and concerns with respect to the individual’s finances.

In any scenario, you may want to consult with an attorney to help formulate a plan of action. Just as it’s imperative to appoint a health proxy – that is, a person whom is entrusted to make medical decisions in the event an individual becomes incapacitated – it is equally important to appoint someone to help with finances, through a power of attorney.

Many older persons fear the loss of monetary control if they sign a power of attorney. However, it is important to remember that such a document can be tailored to come into effect only if or when the situation warrants.

Waiting too long to sign a power of attorney may put the investor in a tenuous situation. In most cases, identifying a trusted third party means appointing a family member, but it may also be that an unrelated and impartial party will need to be identified – possibly an accountant or attorney, or even a dear friend.

Frighteningly, with advanced age, mental deterioration and memory loss comes the specter of financial abuse, by scammers or even by family members. This is further confirmation that it is not wise to wait until a crisis occurs before intervening.

Ironically, not only can dementia impair an individual's ability to manage money in later years – it also can cost an enormous amount of money – some advisers say it can double the amount of money a couple might need in retirement.

All of this highlights the critical need to plan early, while you still can, and to recognize that while some conversations can be prickly and painful, they are necessary nonetheless.

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