Assessing Financial Capacity: A Brief Overview

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Grant Support:

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Assessment Instruments:

- Financial Capacity Instrument (no royalty)
- Financial Capacity Instrument-SF or F-CAP™ (no royalty)

No Relationships:

- Pharmaceutical industry
- Test publishers
Capacity Assessment Lab--UAB Neurology

- Scientific study of capacities in neurocognitive disorders:
  - Financial capacity
  - Medical decision-making ability
  - Testamentary capacity

- Populations:
  - MCI and AD dementia / Parkinson’s disease
  - Normal older adults
  - TBI
  - Brain cancer

- Activities:
  - Conceptual models
  - Instrument development
  - Empirical studies in clinical populations
  - MRI studies
Outline

- Financial Capacity (FC): Some Concepts
- Conceptual Models of FC
- UAB Conceptual Model and Methods
- Cognitive and Behavioral Abilities Underlying FC
- Assessing FC in Disability Beneficiaries
- Questions
Financial Capacity:
Some Concepts
What is Financial Capacity (FC)?

“the capacity to manage money and financial assets in ways that meet a person’s needs and which are consistent with his/her values and self-interest”

Financial Capacity: Two Perspectives

Performance Perspective:
- FC as the ability to carry out financial activities
- Handle money, understand concepts, pay bills, etc.
- Emphasizes role of performance.

Best Interest Perspective:
- FC as ability to identify and protect financial self-interest
- Emphasizes role of judgment.
Beware of scams targeting elderly

StatePoint Media

The Better Business Bureau is encouraging families to recognize and avoid some common cons targeting seniors.

Roughly 20 percent of Americans aged 65 or older already have been taken advantage of financially by inappropriate investment opportunities, unreasonably high fees for financial services or outright fraud, according to a recent survey by Investor Protection Trust.

Some common senior scams include:

► **Sweepstakes and lottery scams:** Victims usually receive letters stating they have won a lottery or sweepstakes; sometimes claiming to be from Publisher's Clearing House or Reader's Digest. The letters tell victims to deposit an enclosed check and wire a portion back to the company to cover taxes or administration fees. The funds initially appear in the bank account, but are removed when the bank determines the check is fake.

► **Medicare scams:** Scammers claim to be with Medicare and ask for personal information such as Medicare, Medicaid, Social Security, credit card or bank account numbers. Seniors should know Medicare will never call to ask for sensitive personal financial information.

SCAMS:

Know what to look for

*From Page 4C*

► **Bereavement scams:** Scammers call widows or widowers and claim their spouses had outstanding debts that need to be paid immediately. If you are uncertain about owing a debt when collectors call, ask for written confirmation.

► **Investment and work at home opportunities:** Promises of easy money often target older adults because they may be looking to supplement their incomes. The pitch might come in the form of an investment opportunity that promises big returns, or as a way to make money at home for an upfront cost. The victim is offered what sounds like a great opportunity but the extra income never materializes. Always research any work-at-home opportunity with the BBB. Beware of investment or money-making offers that seem too good to be true or use high pressure sales tactics to get you to sign up immediately.

For more advice on avoiding scams and fraud visit bbb.org/us/consumer-tips-scams.

"Having a serious conversation with your elderly parents about how they are managing their money is not easy, but it is extremely important in order to help protect them from unscrupulous crooks," said Alison Southwick, BBB spokesperson. "It's extremely important to keep the lines of communication open so that you can identify suspicious spending habits, as well as educate your elder family members on recognizing the red flags of common cons.”
An Important Capacity

- **economic:**
  - maintaining household and financial independence

- **psychological**
  - critical to self-perception of independence

- **clinical:**
  - marker of MCI and early dementia in aging?

- **legal:**
  - financial competency and conservatorship
  - elder abuse/undue influence
Instrumental Activities of Daily Living

- Instrumental activities of daily living are complex activities that are not essential to self-care, but that enable the individual to live independently within a community.

  - Light housework
  - Preparing meals and cleanup
  - Shopping for groceries or clothes
  - Using the telephone
  - Using transportation (community mobility)
  - Taking medications
  - Health management and maintenance
  - Managing money
A Litmus for Independent Living

“everyday use of money will be highly correlated with general success in independent living”

Melton et al. (1987) *Psychological Evaluations for the Courts*, p. 249
What is Diminished Financial Capacity (DFC)?

- Declining abilities from a prior higher baseline of financial activity to manage money and financial assets to meet needs, promote self-interest, pursue values

Causes of DFC:
- Cognitive decline due to neurocognitive disorders
- Cognitive decline due to normal aging
- Mental illness, behavioral and emotional problems
- Medical illness, sensory losses, physical frailty
- Educational disadvantage
What is Financial Literacy?

“ability to use knowledge and skills to manage resources effectively for a lifetime of financial well-being”

President’s Advisory Council on Financial Literacy. From Herd, P. (2011) The challenges with more choice: Cognition and late life financial literacy. NEFE Diminished Capacity Salon

“…knowledge of basic financial investment concepts such as inflation and risk diversification and the capacity to do calculations related to interest rates”

Models of Financial Capacity
FC as an IADL

- Based on work of gerontologist Dr. M. Powell Lawton
- IADL = independent activity of daily life
- Higher order fxl skills necessary to independent living
- Include finances, medication management, driving, cooking

FC as an IADL:

- Model encompasses the broad range of financial skills necessary to manage one’s overall financial affairs and to live independently
- Measures simple/complex performance skills, and decisional skills
- Examples: UAB FCI and FCI-SF measures (Marson)
FC as a Decisional Capacity

- Based on decisional capacity work of Dr. Paul Appelbaum, Dr. Thomas Grisso, and others
- Evaluate decisional capacity via analysis of decisional abilities of choice, understanding, reasoning, appreciation.
- Used to evaluate treatment and research consent capacity
- Applicable to other decisional contexts, including financial

- **FC as a decisional capacity:**
  - Ability to make decisions about financial matters in different settings
  - Examples: purchase of car, weekly budget, bill payment problems
  - Example: Penn ACED instrument (Karlawish)
    
    Interview assessment of decisional abilities re $ problems
FC as Money Management Skills

- Grounded in setting of disability beneficiaries and benefits
- Evaluate capacity to manage vs. mismanage disability and other household funds
- Can translates directly to judgments of need for a representative payee in disability context
- Relevant to charge of IOM committee
- Examples: Yale SCIMM and CAFI (Rosen)
UAB Studies: Financial Capacity in Older Adults with AD
In 1996--Huge Research Gap

- No operationalized definitions of FC
  - “financial management skills” but no definitions or detail

- No conceptual models of FC in everyday life

- No empirical studies of FC:
  - In the elderly
  - In patients with dementia
  - In patients with schizophrenia and mental illness
  - In any clinical group
UAB Conceptual Model of FC

Model:

- Clinically informed
- Focus on functional abilities for FC as IADL

Three levels:

- **Tasks**—specific financial abilities
- **Domains**—broader financial activities that each have clinical relevance to independent function
- **Global**—overall financial capacity
Financial Tasks

- Naming coins/currency
- Coin/currency relationships
- Count coins/currency
- Understanding concepts
- Applying concepts
- Conduct cash transactions
- Make change for vending
- Tipping
- Understand checkbook/register
- Using checkbook/register
- Understand bank statement
- Using bank statement
- Awareness of mail fraud
- Awareness of phone fraud
- Understand bills
- Prioritizing bills
- Preparing bills for mailing
- Investment decisions
Financial Domains

- **Domain 1** Basic Monetary Skills
- **Domain 2** Financial Conceptual Knowledge
- **Domain 3** Cash Transactions
- **Domain 4** Checkbook Management
- **Domain 5** Bank Statement Management
- **Domain 6** Financial Judgment
- **Domain 7** Bill Payment
- **Domain 8** Knowledge of Personal Assets/Estate
- **Domain 9** Investment Decision Making
Methods of Evaluating FC

- Assessment of premorbid financial capacity
  - patient and collateral report

- Assessment of current financial capacity:
  - patient and collateral report
  - psychometric assessment
  - clinical interview
Psychometric Assessment of FC

- Direct assessment of performance in a controlled setting
- Standardized, objective scoring, norm referenced
- Finely grained measurement versus global, vague informant report
- Verify patient and family report of financial abilities
- Useful clinical addition to traditional NP test battery

Disadvantages:

- Ecological validity—difficult to replicate community setting in clinic
- Requires trained administrator, time consuming
Financial Capacity Instrument (FCI-9)

- Standardized measure with scoring system and norms
- Directly tests performance on:
  - 18 financial tasks
  - 9 financial domains
  - Global (overall) financial capacity
- Trained administrator
- Research measure taking 60 minutes+ to administer
Group Differences on FCI Total Score

Controls > MCI > Mild AD

p = .0001

Griffith et al. 2003 Neurology
Task 7c: Preparing Bills for Payment

C, MCI > AD

p = .0001

Controls n=36, MCI n=35, Mild AD n=53
Task 7c: Preparing Bills for Payment
Time to Completion (in seconds)

\[ C \ < \ MCI \ < \ AD \]

\[ p = .0001 \]

Controls \( n=36 \), MCI \( n=35 \), Mild AD \( n=53 \)
FCI Findings in MCI

- MCI patients show deficits in complex financial skills (Griffith et al. 2003)

- MCI patients not fully aware of financial skill deficits (Okonkwo et al. 2008)

- Problems w checkbook predict MCI transition to AD (Triebel et al. 2009)

- Written arithmetic predicts financial skills in MCI / AD (Sherod et al. 2009)

- MRI volume loss in angular gyrus predicts FC in MCI (Griffith et al. 2010)
FCI Findings in AD Dementia

- Financials skills substantially impaired in mild AD (Marson et al. 2000)

- Financials skills globally impaired in moderate AD (Marson et al. 2000)

- Rapid decline in financial skills over 1 year in mild AD (Martin et al. 2008)

- Volume loss in frontal cortex predicts FC in mild AD (Stoeckel et al. 2013)
Financial Capacity Measure
Short Form

(FCI-SF) or F-CAP™
FCI-SF

- Performance measure designed to detect financial skill declines in early phases of AD

- Directly tests **performance** on:
  - monetary calculation
  - financial conceptual knowledge
  - use of checkbook/register
  - use of bank statement

- Six variables measure **task completion time** (in seconds)
FCI-SF

- Developed from FCI (long form)
  - Takes 15 minutes to administer to normal older adults.
  - Well-operationalized scoring system.

- Sensitive to all phases of AD:
  - Preclinical phase (biomarker positive normal elderly)
  - Patient with MCI (prodromal AD)
  - Patients with mild and moderate AD

- Has broad potential clinical use in other populations

- May not be suited to full range of disability beneficiaries
Cognitive and Behavioral Abilities
Underlying Financial Capacity
Hypothesized Knowledge Sources
Underlying FC

- **Declarative** financial knowledge
  - Arithmetic knowledge
  - Semantic knowledge of financial terms and concepts

- **Procedural** financial knowledge
  - Overlearned motor based tasks: counting coins/currency, writing check
  - On line banking procedures

- **Judgmental** financial knowledge
  - Identifying risk and detecting fraud
  - Weighing outcomes in making self-interested choices

- **Episodic** financial knowledge
  - Personal historical memory of everyday / sentinel financial experiences
Hypothesized Cognitive and Behavioral Abilities Underlying FC

- Intact FC likely involves both cognitive & behavioral abilities
  - FC is exercised over time and variety of settings

- Probable core cognitive abilities linked to FC:
  - Arithmetic (written and mental)
  - Semantic memory of financial concepts and terms
  - Executive function
  - Short term memory
  - Judgment

- Probable key behavioral abilities linked to FC:
  - Absence of severe thought disorder (hallucinations, delusions)
  - Absence of severe mood disorder (bipolar, depression)
  - Absence of severe interpersonal pathology
  - Impulse control
  - Judgment
Cognitive Predictor Models of FCI Total Score

Written arithmetic (WRAT-3) key multivariate predictor across all groups.

<table>
<thead>
<tr>
<th></th>
<th>Controls</th>
<th>aMCI</th>
<th>Mild AD</th>
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<tbody>
<tr>
<td>Written Arithmetic R2</td>
<td>27</td>
<td>55</td>
<td>46</td>
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<tr>
<td>Total Model R2</td>
<td>38</td>
<td>66</td>
<td>65</td>
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<tr>
<td>Delayed Memory R2</td>
<td>71%</td>
<td>83%</td>
<td>71%</td>
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Sherod et al. JINS 2009

N = 85  N = 113  N = 43
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<thead>
<tr>
<th>NUMBER</th>
<th>DATE</th>
<th>DESCRIPTION OF TRANSACTION</th>
<th>PAYMENT/DEBIT</th>
<th>FEE (IF ANY) (¢)</th>
<th>DEPOSIT/CREDIT (+)</th>
<th>BALANCE</th>
</tr>
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<tbody>
<tr>
<td>162</td>
<td>5/29</td>
<td>Winie Dipier</td>
<td>30.15</td>
<td></td>
<td></td>
<td>$100.00</td>
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<tr>
<td></td>
<td></td>
<td>Deposit</td>
<td></td>
<td></td>
<td>450.00</td>
<td>79.85</td>
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Error type examples from the Wide Range Achievement Test-3 Arithmetic problems.

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<th>Operation Substitutions</th>
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<tbody>
<tr>
<td>6 + 2 = \text{Wrong}</td>
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<tr>
<td>\frac{7}{3} \times 6 \frac{8}{13} - 4 = \text{Wrong}</td>
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</table>

<table>
<thead>
<tr>
<th>Borrowing Error</th>
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<tr>
<td>\frac{33}{17} - 17 = 16</td>
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<table>
<thead>
<tr>
<th>Carrying Errors</th>
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<tbody>
<tr>
<td>\frac{17}{13} \times 4 = \text{Wrong}</td>
</tr>
<tr>
<td>\frac{9}{17} \times 4 = \text{Wrong}</td>
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</tbody>
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<tr>
<th>Factual Errors</th>
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<tbody>
<tr>
<td>\frac{7}{3} \times 6 \frac{3}{5} \times 4 = 28</td>
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<tr>
<th>Zero Error</th>
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<tr>
<td>9 \sqrt[4527]{45} = 27</td>
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<th>Perseverations</th>
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<tr>
<td>2 + 7 = \text{Wrong}</td>
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<tr>
<td>\frac{2}{7} \frac{724}{597}</td>
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<th>Positional Errors</th>
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<tbody>
<tr>
<td>\frac{9}{17} + 3 \frac{1}{2} = \text{Wrong}</td>
</tr>
<tr>
<td>2 + 7 = \text{Wrong}</td>
</tr>
</tbody>
</table>
Assessing Financial Capacity in Disability Beneficiaries
Some Thoughts

- To determine whether or not an adult beneficiary has the financial capacity to manage his/her disability benefits?

- Adult beneficiaries represent a full range of age, education, SES, and neuropsychiatric/developmental and other disorders.

- Does the individual have the performance and judgment financial skills and knowledge to manage adequately his/her finances in their context?

- Can the individual consistently make financial decisions that meet their particular needs and protect their self-interest?

- Are there easily available means to enhance and support the financial capacity of the individual?
Levels of Client Diminished Capacity (DC)

- **Intact**—no or minimal evidence of DC; no rep payee needed
- **Mild problems**—some evidence of DC, but usually insufficient to require rep payee. Capacity testing may or may not be involved.
- **More than mild problems**—substantial evidence of DC sufficient to warrant strong consideration of need for rep payee, and need for capacity testing and/or other formal capacity evaluation.
- **Severe problems**—client lacks financial capacity and needs rep payee.

Adapted by DCM from Assessment of Older Adults with Diminished Capacity: A Handbook for Lawyers, pp. 19-20
Means to Enhance Client Capacity

- Important consideration

- Can client capacity to manage money be enhanced?
  - Improve vision or hearing?
  - Hydration, nutrition, and medication needs being met?
  - Allowing sufficient recovery period from illness before deciding capacity
  - Emotional support
  - Financial support programs?
Collaborators

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UCSD Alzheimer’s Disease Cooperative Study
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Gus Jimenez, MBA

UAB Dept of Education
Scott Snyder, Ph.D.
NIH Support

Studies of Financial Capacity in Alzheimer’s Disease
(1 R01 MH55247)

Alzheimer’s Disease Research Center (1P50 AG16582)

A Longitudinal Study of Loss of Financial Capacity in Alzheimer’s Disease (ADRC Project 2)

Functional Change in Mild Cognitive Impairment
(5 R01 AG021927)
NEFE Support

- Early Warning Signs of Impaired Financial Skills in Older Adults (National Endowment for Financial Education (NEFE))
Questions