

June 9, 2014

Cognitive Aging and Financial Issues: Engaging Stakeholders to Enhance Financial Security in Later Life

Naomi Karp

Consumer Financial Protection
Bureau, Office for Older
Americans

IOM Committee on the
Public Health Dimensions of
Cognitive Aging
Irvine, CA

Disclaimer

- *This presentation is being made by a Consumer Financial Protection Bureau representative on behalf of the Bureau. It does not constitute legal interpretation, guidance or advice of the Bureau.*
- *Note: This document was used in support of a live discussion. As such, it does not necessarily express the entirety of that discussion nor the relative emphasis of topics therein.*

Consumer Financial Protection Bureau (CFPB)

- Created in Dodd-Frank Wall Street Reform and Consumer Protection Act; launched July 2011
- Mission: make markets for consumer financial products and services work for Americans — whether they are applying for a mortgage, choosing among credit cards, or using any number of other consumer financial products
- Core functions: educate, enforce and study

Office for Older Americans (OA)

- **Mission: help consumers 62+ to get the financial education and training they need to:**
 - Prevent unfair, deceptive and abusive practices aimed at seniors
 - Help seniors make sound financial decisions as they age.
- **The only office in the federal government specifically dedicated to the financial health of seniors**

What is financial capacity?

“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”

Marson, D. C., Triebel, K. L., and Knight, A. J. 2012. “Assessment of Financial Capacity: A Neuropsychological Perspective.” In Demakis, G. J., ed. *Civil Capacities in Clinical Neuropsychology*. New York: Oxford University Press. pp. 39–68.

What are the warning signs of diminished financial capacity?

- Memory lapses – forgetting to pay bills; paying more than once
- Disorganization – difficulty staying on top of finances
- Math mistakes
- Confusion – trouble understanding basic financial terms
- Impaired judgment – e.g. interest in investments that don't make sense

Financial performance and age: an inverse U-shape?

- Financial performance regarding, e.g., credit cards, home equity loans, mortgages and car loans, shows an inverted U-shape pattern, with performance peaking in middle age
- The decision-making “sweet spot” is age 53.3

Agarwal, S., Driscoll, J.C., Gabaix, X., Laibson, D. 2009. “The age of reason: Financial decisions over the life cycle and implications for regulation,” *Brookings Papers on Economic Activity*.

http://www.brookings.edu/~media/Files/Programs/ES/BPEA/2009_fall_bpea_papers/2009b_bpea_agarwal.pdf

Declining financial capacity and the trajectory of dementia

- Financial capacity is one of the first abilities to go
- Declines in money management skills occur early in clinical disease process, may precede diagnosis of Alzheimer's disease. (Triebel et al, 2009; Griffith et al, 2003)
- Diagnosis of Mild Cognitive Impairment or mild AD should raise red flags about probable financial capacity impairment
- Rapid decline in financial skills over one year in mild AD (Martin et al, 2008)

Diminished financial capacity and vulnerability to financial exploitation

- A core element of financial capacity: maintaining judgment to act prudently and avoid financial exploitation
- Tests of financial judgment, indicating vulnerability to financial scams and other types of exploitation, show marked and rapid decline among people with mild Alzheimer's disease

Elder Financial Exploitation

- **Definition:** Illegal or improper use of an older adult's funds, property, or assets.
- The **most common form** of elder abuse—but only a small fraction of incidents are reported.
- **Perpetrators** include family members, caregivers, scam artists, financial advisers, home repair contractors, fiduciaries and others.
- **Attractive targets:** significant assets or home equity
- **Vulnerable** due to: isolation, cognitive decline, physical disability, health problems, recent loss of partner/family member/friend

Implications of diminished financial capacity for policy and practice

- Family conversations about finances and diminished capacity
- Daily money management help
- Need for advance planning/fiduciary arrangements
- Prevention of and early intervention in elder financial exploitation and fraud cases
- “Age-friendly” banking

Roles of stakeholders

- Aging and disability organizations
- Attorneys, especially elder law practitioners
- Financial services providers
 - Recognizing decline in financial capacity
 - Spotting and reporting financial exploitation
 - Age-friendly banking
- Primary care providers
 - EEIFE
- Long-term care providers
- Researchers

What is the CFPB doing?

- Managing Someone Else's Money
- Money Smart for Older Adults
- Interagency Guidance
- Manual for assisted living/nursing facilities

MANAGING SOMEONE ELSE'S MONEY

Help for agents under a
power of attorney

cfpb

Consumer Financial
Protection Bureau

Bibliography

- Agarwal, S., Driscoll, J.C., Gabaix, X., Laibson, D. 2009. “The age of reason: Financial decisions over the life cycle and implications for regulation,” *Brookings Papers on Economic Activity*.
http://www.brookings.edu/~media/Files/Programs/ES/BPEA/2009_fall_bpea_papers/2009b_bpea_agarwal.pdf
- Karp, N. and Wilson, R. 2011. *Protecting Older Investors: The Challenge of Diminished Capacity*. AARP Public Policy Institute.
- Griffith, H.R., et al. 2003. “Impaired Financial Abilities in Mild Cognitive Impairment: A Direct Assessment Approach.” *Neurology* 60: 449-57.
- Martin, R.C., et al. 2008. “Declining Financial Capacity in Patients with Mild Alzheimer Disease: A One-Year Longitudinal Study.” *American Journal of Geriatric Psychiatry* 16: 209-19.

Bibliography, cont'd.

- Sabatino, C.P. 2011. “Damage Prevention and Control for Financial Incapacity.” *Journal of the American Medical Association* 305: 707-8.
- Triebel, K.L. et al. 2009. “Declining Financial Capacity in Mild Cognitive Impairment: A One-Year Longitudinal Study.” *Neurology* 73: 928-34.
- Triebel, K.L. and Marson, D.M. 2012. “The Warning Signs of Diminished Financial Capacity in Older Adults.” *Generations* 36: 39-45.
- Widera, E., et al. 2011. “Finances in the Older Patient with Cognitive Impairment: ‘He Didn’t Want Me to Take Over,’” *Journal of the American Medical Association* 305: 298-706.

Contact

Naomi Karp - naomi.karp@cfpb.gov

Office for Older Americans:

consumerfinance.gov/older-americans