WELLSPRING FINANCIAL ADVISORS

How to Help Aging Parents

Financial capacity, the ability to manage your finances in your own best interest, involves everything from paying bills to reading a brokerage statement and weighing an investment's potential risks and rewards. And preparing for the potential decline of that capacity is as important as planning for long-term-care expenses or keeping your estate plan up to date. Declining financial abilities may not only result in a few unpaid bills but can also leave you vulnerable to financial abuse and exploitation, drain your nest egg, and place heavy burdens on your loved ones.

Nobody likes to think about financial decision-making ability declining with age, yet “it's extremely common. In fact, I might say it's inevitable,” says Daniel Marson, a neurology professor at the University of Alabama at Birmingham. While many people assume they'll only need help managing their finances if they develop dementia, the normal aging process can adversely affect faculties such as short-term memory and "fluid" intelligence, or the ability to process new information, Marson says. “Just the fact that you're 70 or 80 years old may be impacting your financial skills,” he says, “quite apart from the fact of whether you have Alzheimer's or any cognitive disorder of aging.”

However, many people remain perfectly capable of managing their own money as they age. According to a study by researchers at University of California Riverside and Columbia University, credit scores increase by an average of 13 points for each decade lived among people ages 18 to 86.

Yet, all older adults should consider organizing and simplifying their finances to make their money easier to manage at an advanced age and prepare for the possibility that someone else may need to step in to help.

As the population ages, regulators, lawyers, doctors and financial advisors are becoming more vigilant (and sometimes the first to notice) signs of diminished financial capacity. More financial advisors are also becoming successor agents within clients’ financial powers of attorney to be able to speak and act on behalf of their finances, if needed. The North American Securities Administrators Association approved a model rule that requires financial advisors to report suspected financial exploitation of seniors to the state securities regulator and adult protective services. And the Investor Protection Trust, a nonprofit investor education organization, is training doctors and lawyers to recognize when older people may be vulnerable to financial abuse.

But seniors themselves, along with family members, close friends, and a trusted advisor, may be best positioned to recognize signs of diminishing capacity. And simply watching for red flags isn't enough. It's best to start planning for possible problems before warning signs appear. When planning for this scenario, it’s best to 1) simplify your finances (where you can), 2) determine, in advance, who will be the “quarterback” of your finances, and 3) have appropriate estate documents in place and conversations with those individuals named in your documents.

Keep It Simple

Your first step: Organize and simplify your finances. Complex investments and scattered bank, brokerage, and retirement accounts raise the odds that you, or someone acting on your behalf, will make costly financial mistakes. Spreading your assets across many different accounts also makes it tougher for financial institutions to detect fraud in your accounts.

Take a hard look at each of your accounts and challenge yourself to describe its purpose in one sentence. Is the account meant to generate income to help cover daily living expenses? Is it an emergency fund? Or is it a legacy you plan to leave to your child? Consider writing that sentence at the top of each of your most recent account statements. That can help you, and anyone who might later help manage your money, think about how to allocate and rebalance those accounts.

To further simplify your financial life, consider automating bill payments and arranging for direct deposit of regular income sources, such as Social Security. To minimize solicitations and reduce the risk of fraud, you should also consider adding your telephone number to the National Do Not Call Registry by going to www.donotcall.gov or calling 888-382-1222. While scammers could still call your phone number, this could reduce the number of calls you receive from telemarketers and solicitors.

Once you've simplified your finances, we recommend making a list of all your assets along with key contacts such as financial advisors, accountants, insurance agents and lawyers. Such a list can be a “lifesaver” after someone has lost capacity and you have no idea how many accounts they have, who their attorney is or where their tax documents are.

A Helping Hand

Next, consider whom you might trust with all the information you've just organized. Which family members, friends or professionals might help you manage your money as you age?

One place to start: If your spouse generally steers clear of all things financial, get them involved now. Financial novices who are suddenly forced to take over household money management – perhaps because a spouse has become incapacitated – are particularly vulnerable to making costly mistakes, according to a recent study by the Center for Retirement Research at Boston College. Make sure your spouse knows how to handle things in case something happens to you.

Next, consider getting another trusted family member or friend involved in your finances. This doesn't mean turning over the keys to your financial life. Instead, you're helping that person learn how you manage your money, in case they need to take some control later on, and getting another set of eyes to help you watch for unpaid bills or suspicious activity.

Planning Ahead

As family members begin to help informally, it may be tempting to add a relative's name to your bank account so that person can help pay the bills. That may work fine as a short-term solution, but it shouldn't be your primary long-term plan for dealing with a potential loss of financial capacity. Joint accounts can easily lead to disputes over misuse of funds, gift tax considerations, inheritance and other issues. If you add your daughter's name to your bank account, for example, that account will go to her when you die, even if you intended to split your money evenly among your children.

Instead of relying on such ad hoc arrangements, all seniors should have a durable power of attorney for finances. With this document, you designate someone you trust, known as your "agent," to manage your finances. The "durable" part is key – that means the power of attorney remains in effect even if you become incapacitated. While you have capacity, you can always change your agent or revoke the document completely.

It's critical to not only choose an agent (and backup agents) whom you trust completely, but also to work with an estate attorney when preparing the document.

To minimize the risk of abuse, the power of attorney can limit the agent's ability to make gifts or transfer assets to a certain dollar amount and restrict changes in life insurance and retirement plan beneficiaries.

The more you trust your agent, however, the more flexibility you'll have to customize the power of attorney to meet your needs. Seniors concerned about planning for long-term-care costs, for example, might grant the agent powers such as the ability to transfer assets to a trust. If you're facing nursing-home costs of $100,000 a year and hoping to rely on Medicaid while preserving some assets for your spouse's living expenses, a power of attorney that grants such broader authority may be critical on continue to qualify for Medicaid.

The time to take all these planning steps, of course, is well before you have problems managing your money.

With our "one phone call approach", Wellspring has acted as the quarterback for clients in this capacity by offering bill pay services, taking notice if there is declined mental and financial capacity of clients, simplifying client assets (where appropriate and possible), tracking their net worth and advising on purpose of all assets and accounts, and coordinating the appropriate estate documents for future planning purposes.

No matter where they are in the planning process, seniors, their advisors, and their loved ones should keep watch for signs that financial capacity is slipping. That may be a signal to accelerate your planning or reach out to trusted family members or your Wellspring advisor for help.

There are at least six key warning signs to watch for: Is it taking Dad/Mom much longer than it did previously to pay the bills or perform other financial tasks? Is he/she having trouble understanding visual financial information, such as reading his/her bank statement? Is he/she having trouble doing mental math, such as figuring the tip in a restaurant? Is there a loss of conceptual understanding, such as confusion about why he/she needs to make his/her mortgage payments? Is his/her once-tidy desk now stacked with old, unopened mail? And is he/she investing more aggressively than he/she did in the past, focusing on the potential benefits of an investment rather than the risks?

Remember, these issues are only warning signs if they represent a change from the person's prior behavior. But once you start seeing warning signs, don't ignore them because usually, bad things happen in their wake. As always, please do not hesitate to reach out with any questions or concerns regarding your unique situation.

Additional Contributions: Bill Ambrogio, CFP®, Senior Wealth Advisor, Managing Director, Wellspring Financial Advisors, LLC
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