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Aging issues can imperil retirement

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CHICAGO — With age comes wisdom about money — to a point.

Years of handling your own finances and investments sharpen the ability to make sound decisions. But failing to prepare for the day when growing older hampers your judgment can be costly at an age when more is at stake. Seniors older than 65 hold about $18 trillion in assets, according to government data, or about a third of all U.S. net worth.

That's not to say that those in their 70s and 80s can't stay on top of their finances. But they should take precautions.

"Sometimes, the senior's worst enemy is himself or herself," says Andrew Stoltmann, a Chicago attorney and investment adviser. "Poor financial decisions and declining cognitive impairment go hand in hand."

The evidence is compelling, as underscored in a presentation at an investing conference in Chicago last month by Harvard economics professor David Laibson.

Roughly half the population older than 80 suffers from significant cognitive impairment — problems with memory, language, thinking and judgment. That includes one in five who have dementia. And 5.2 million 65 and older have Alzheimer's, according to the Alzheimer's Association, a number that is expected to triple by 2050.

What's more, investment skill has been found to deteriorate dramatically among seniors, particularly after age 70, according to a 2007 study by two finance professors at the University of Miami.

"We have to prepare for this," said Laibson, an expert on how aging affects financial choices.

Retirees and other seniors also are at great risk of being targeted by scammers and rip-off artists.

The Pew Research Center estimated in a 2009 study that elderly victims lose at least $2.6 billion a year to financial exploitation.

And elder abuse only heightens the risks.

Perhaps the most infamous case of financial elder abuse involved Brooke Astor, who died at 105 in 2007. The New York philanthropist's son and lawyer were convicted in 2009 of exploiting her failing mind to steal millions from her nearly $200 million fortune.

AP FILE PHOTO

Preyed upon: Brooke Astor, then 95, is seen in New York in 1997. The New York philanthropist's son and lawyer were convicted in 2009 of stealing millions from her nearly $200 million fortune. Astor died in 2007.

On a smaller scale, elderly investors regularly harm their finances, or their families, through ill-considered decisions they would not have made 10 or 15 years earlier.

Some seniors panic after market plunges and hastily withdraw money from the stock market, locking in losses. Others buy low-quality, high-commission annuities or other investment products with high risks and fees.

Financial advisers relate many examples involving older clients, withholding names and locations for the sake of confidentiality.

- A man in the last stages of his life signed over much of his wealth to a bogus overseas nonprofit.
- A California woman who remarried in her 60s named her husband her sole beneficiary, unintentionally cutting her three children out of an inheritance from the sale of the family farm.
- A once-sophisticated 85-year-old investor neglected his portfolio as he aged, learning later that his account had collapsed due to unauthorized trading and mishandling by an unscrupulous broker.

Safeguards can be put in place to avoid fraud, and seniors can head off many problems by enlisting an adviser or family member to manage their money or at least give guidance.

But perhaps, understandably, there is a great psychological resistance to planning for cognitive decline, as Laibson notes.

"We have a need for control. We procrastinate," he says. "And "we don't like complexity."

Following these basic guidelines can help protect seniors 65 and older from the consequences of declining mental health, irrational decisions and attempts by others to get their money:

1. Prepare an estate plan

Every senior should have an estate plan — a way to manage and protect assets while you are alive as well as to conserve and control their distribution after your death.

The basics: Prepare or update a will, get a living will, establish durable power of attorney and health care power of attorney.

But anyone older than 65 should go beyond the basics to discuss long-term strategies with an adviser, ideally before faculties and memory decline significantly.

"Estate planning is not just tax planning or bequest planning," Laibson says. "Planning for cognitive decline is just as important."

2. Plan financial 'check-ups'

If you're in your 60s and you don't have a financial adviser, it's time to get one. That's no concession to old age; it's just sound financial behavior. Besides putting the necessary protective measures in place, a good adviser can discuss and guide you through the financial pitfalls of aging.

Meet with an adviser at least every two years. The agenda can include reviewing your portfolio, updating the trustee list, verifying that beneficiaries have been appropriately designated and just making sure nothing important has changed. The cost for a comprehensive financial review ranges from $500 on up. But some don't charge for the initial meeting, and the Financial Planning Association (fpanet.org) periodically offers free consultation days in select cities.

Keep the age of your financial adviser in mind as well. You want experience, but that person may also be nearing retirement.

Thomas Balcom, a 39-year-old certified financial planner in Boca Raton, Fla., says one of his new clients is a business executive in his 60s who sought out a younger adviser so they could work together for the next 20 years or more.

3. Set up a living trust

A revocable living trust sets guidelines for how your assets are handled after you die. Unlike a will, however, it carries benefits for you while you are alive.

Creating a living trust calls for you to turn over ownership of your assets to the trust then designate a trustee to manage and administer it.

While you can name any adult as the trustee, it may be wiser to hire a large bank's trust department.

Fees can be as high as 2 percent to 3 percent of your assets, considerably more than with investment firms or mutual funds. But banks generally manage client funds very conservatively, and cases involving investor complaints are rare.

Despite the cost, Stoltmann says they are appropriate for most people with assets of $250,000 or more.

One big advantage of revocable living trusts is they prevent the courts from controlling your assets in case of incapacity. They also should largely eliminate the chances of you making a blunder as you advance in age. The trustee steps in to manage your money and pay your bills if you become mentally or physically incapacitated.

Stoltmann calls it an ideal option for the senior who doesn't have trusted family members who can take charge.

"I can promise you the cases of financial exploitation are virtually nonexistent where a revocable trust is established," he says.