



## Aging and Informed Financial Decision Making: New Tools for the Professional Working With Older Adults

Evaluating an older client's cognitive status regarding financial decision-making is like walking a tightrope, but a new tool is available to help professionals perform this delicate balancing act.

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Next to medical decisions, financial decisions can have the greatest impact on an individual's quality of life. But when it comes to working with older adults, how can professionals be confident that their clients are making an informed financial decision? Are clients no longer able to understand the risks they seem willing to take? Are these adults who appear vulnerable being influenced to make decisions that could be harmful to their financial well-being? Are memory problems creeping in, causing the client to forget what was discussed? Despite specialized training in many areas, financial professionals may struggle to recognize when an older adult is mentally equipped to enter transactions with complete understanding. Up until now, there has been no evidence-based tool that financial professionals could use to get a quick, easy, and effective indication that an older adult appears to be making informed decisions. While there is no substitute for a qualified medical diagnosis, the Lichtenberg Financial Decision Screening Scale (LFDSS) is now available to help guide financial professionals in this sensitive subject.

Striking research findings by a Rush University group, led by Dr. Patricia Boyle, underscore the importance of financial professionals enhancing their skill and expertise to screen for informed financial decision making by older clients. Boyle and her colleagues found that financial decision making may be related to, but separate from, cognition (Boyle et al., 2012; Boyle et al., 2013; Han et al., 2015). This means that watching for dementia symptoms alone will not ensure decision-making ability is adequate in all cases. The researchers examined financial decision making and cognition over a period of time in a sample of more than 400 older adults and found that even modest cognitive decline is related to a decline in financial decision-making ability in some older adults (Boyle et al., 2012). This modest cognitive decline occurs before actual impairment can even be measured. Another study (Han et al., 2015) also found a discrepancy between cognition and decision making in a sample of 689 older adults: in 13 percent of cases, decision-making scores were worse than cognition. It is clear how critical it is for financial professionals to understand these factors and learn how to get an indication of an older adult's ability to make informed decisions and initiate financial transactions.

### **Cognitive decline and dementia lead to vulnerability for financial exploitation**

In mild cognitive impairment, the individual experiences a decline in decision-making ability beyond what is expected for his or her age and education, but not enough to interfere with daily activities or making decisions with informed consent. Dementia accelerates those declines and interferes more significantly until, as the disease progresses, the person is not able to function daily without assistance. Even at the early onset of dementia, these individuals lose financial management skills (Marson, 2001). In both cases, the individuals lose cognitive skills such as executive function and memory, and meta-cognitive skills such as detecting deception, making them more vulnerable to financial exploitation.

Unfortunately, exploiting older adults can include trusted advisors, family and friends, as well as predatory strangers. A 2014 study by the National Adult Protective Services Association found “the rate of financial exploitation is extremely high, with 1 in 20 older adults indicating some form of perceived financial mistreatment occurring in the recent past.” Moreover, a 2010 study of financial exploitation in Utah found that the most frequent financial abuser was a son or daughter (Gunther, 2010).

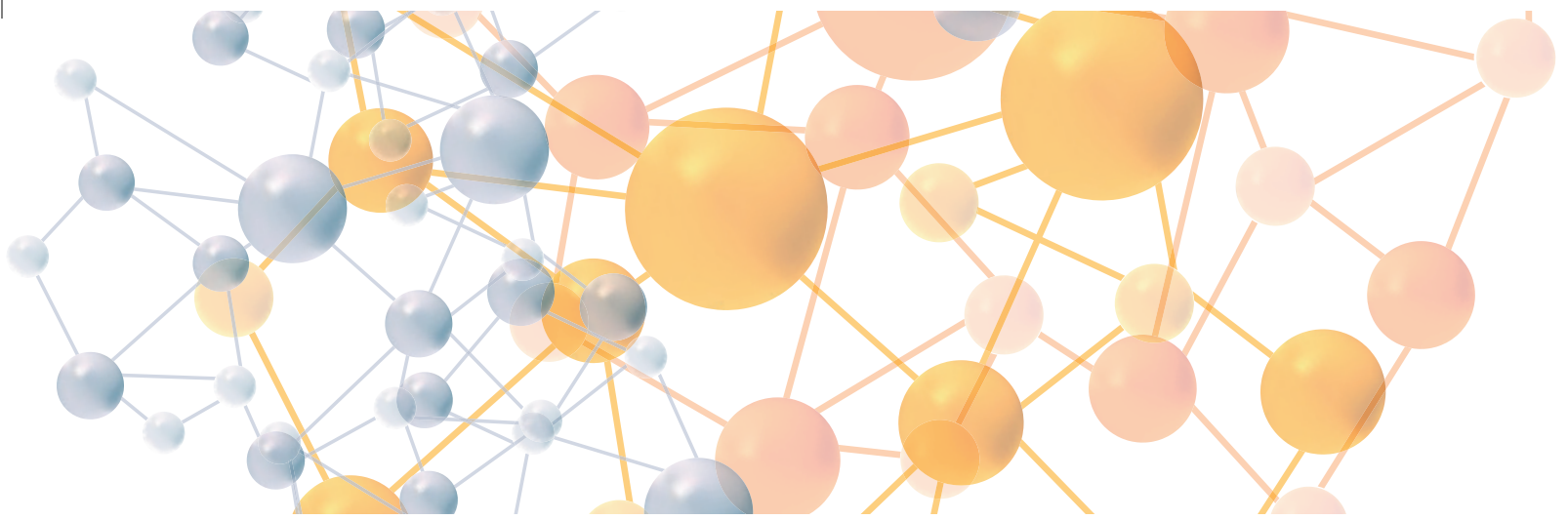
Most financial professionals are in the business

of ethically assisting and protecting older adults. But there is potential for even the most upright financial professional to be accused of taking advantage of an older client. The Elder Investment Fraud and Financial Exploitation Survey garnered data from 2,022 individuals in the United States, including 590 adults age 65 and older, and 706 adult children with at least one parent age 65 or older. The study found that one in five older adults reported being taken advantage of financially by a professional advisor in terms of an inappropriate investment, unreasonably high fees for financial services, or outright fraud (The Investor Protection Trust, 2010). But how much of this is actual exploitation and how much is simply the result of poor decision-making and lack of understanding by the client? How can the vast majority of financial professionals that are ethical and trying to do right by their clients manage the risk of perceived predation by some older clients? Can the professional be viewed as liable for not stopping a client from making a harmful decision? New tools to protect not only older adults, but also the professionals who advise them, are needed.

### **Screening for Informed Financial Decision Making: A New Approach**

The concept of informed decision making involves the ability to make a choice, to understand the choice one is making, to appreciate the potential risks and benefits of that decision, and to describe the purpose of that decision. For example, these elements are all present when someone agrees to receive major medical treatment, such as undergoing surgery. In those instances, a medical professional explains the treatment, and notes the risks and benefits. In turn, the patient signs a consent document. Generally, the more serious or involved the treatment or surgery, the more time is spent explaining it to the patient. In cases where there is suspected cognitive impairment, the physician may ask the older adult to explain both what she heard and how she is going about making her decision. This informed decision making, or informed consent, is the industry standard in medicine. Similarly, the financial industry has fiduciary standards of practice for revealing the terms of investments, along with cautions regarding what may happen in the future. Financial advisors consult with their clients, explaining the pros and cons of a decision and soliciting client questions and feedback.

Like major decisions regarding health care, financial decisions can also have a sobering impact. Medical doctors may feel comfortable assessing patients' cognition, but other professionals have typically had to depend on their gut feeling regarding client



competency, and whether or not further assessment is indicated. We know of no empirically validated informed decision-making assessment tool previously available for financial professionals. That has now changed with the advent of the Lichtenberg Financial Decision Screening Scale (LFDSS). A simple, 10-item financial decision tracking tool, the LFDSS allows a financial professional to elicit information about the ability of an older adult to make an informed decision when facing a significant financial decision or transaction, before a document is signed (Lichtenberg et al., 2016). Expert panels consisting of mental health, social service, health, financial and legal service industry experts developed the scale questions. Although financial professionals are not qualified to diagnose cognitive abilities, as a screening tool, the LFDSS provides extremely useful feedback to determine whether further assessment of a client is indicated. Created for the use of financial professionals, the LFDSS may be equally useful for a broad array of professionals in law, retirement living communities, health care, and more.

### How the LFDSS Tracks Financial Decisions

The LFDSS is a short, structured, multiple-choice questionnaire. The questions are designed to grant insight into the older adult's ability to make a choice, understand the options, appreciate the risks and rewards, and provide a rationale for the choice made. When introducing the LFDSS to the older adult, the interviewer is instructed to read this one-sentence explanation aloud to the older adult: "I am going to ask you a set of questions to better understand the financial transaction/decision you are making or have already made. Please answer these as best you can and feel free to elaborate on any of your answers." The LFDSS consists of ten questions with multiple-choice responses. The older adult is encouraged to choose one of the responses, but in an interview style, can further explain any of the answers selected. This provides the interviewer with greater perspective into the individual's current cognitive state than the

multiple choice answers alone, and a more objective measurement than open-ended questions.

Questions from the scale ask such things as:

- What is the purpose of your transaction?
- What is the primary financial goal?
- How will this transaction impact your financial situation now and over time?
- How much risk is there to your financial well-being?

The scale represents an empirically-validated, evidence-based, efficient way of detecting when an older (or younger) adult may not be making informed decisions. Similar to how a physician ensures informed medical decision-making, a financial professional can now screen for informed financial decision making. Sometimes the LFDSS results highlight that the older adult still needs more education on the financial transaction in question. The professional can then provide further knowledge, which may enable the older adult to answer questions without any trouble. It is also possible that the client's mental acuity could be impaired by a lack of sleep, an infection, grief, medication or even trauma. Only a qualified physician can accurately diagnose the cause of perceived problems with cognition, which may be reversible. However, the LFDSS results may uncover cognitive and decision-making difficulties that warrant caution. Using very stringent statistical techniques, excellent results (an 88 percent overall correct classification rate) for both the reliability and validity of the scale were obtained on a sample of 213 older individuals (Lichtenberg et al., 2017).

### Counseling the Older Adult with Diminished Decision-Making Abilities

When it becomes clear that a financial professional is working with someone who has lost some of his or her decision-making abilities, a deeper, careful look



into the client's needs and desired outcomes must be taken. Advance planning is the best way to prepare for these situations, when the client identifies a trusted person the professional can contact if worried about the client's mental acuity. Ideally, advance planning is done during the client orientation process, but it is not always possible.

In these cases, professionals may wish to use a technique called Motivational Interviewing. Motivational Interviewing is a brief (10-15 minute) intervention model where the professional partners with the older adult client to create a plan to identify various ways of addressing a problem. The approach is not a lecture or prescription, but a shared conversation, using a combination of education and motivational techniques. At a very broad level, it starts with education. What does the older adult know about cognitive changes across a lifespan? Does the client know anyone who has had cognitive problems in older age? What were the first symptoms? How did the person and family adapt to those? These questions offer an opening for the professional to also impart information.

The next level is to explore what steps the older adult is taking to protect their own financial safety. What will happen if the person experiences the onset or progression of cognitive impairment? Is the client aware of the primary need for a medical expert qualified in dementia to perform an exam and make a diagnosis? Who should then be brought into the decision-making team?

A goal may be to work with the older adult to identify an adult child, companion, or trusted advisor to come to appointments with the professional and assist with finances. The professional can then obtain written authorization from the client to adhere to fiduciary rules for client confidentiality. Older adults, even those with diminished abilities, want to be in control of their own lives. Thus, it is critically important to allow older adults to express their wishes and help develop a plan to the extent of their ability to do so. Finally, ask for a commitment from the older adult to initiate the plan and agree on a timetable for follow-up. Motivational interviewing, by directly and respectfully involving older adults in their own decision making and outcomes, is an excellent approach to make communication and planning non-threatening and effective.

### Being on the Forefront of Client Care

With the aging of the population, professionals interact with a greater number of older clients. A portion of the older population is at risk of developing mild cognitive impairment or dementia, typically in later

## TIPS FOR COMMUNICATING WITH CLIENTS WHO MAY HAVE DEMENTIA

People with dementia, including Alzheimer's disease, communicate differently than those without. Professionals can use these guidelines, distilled from a list prepared by the Alzheimer's Association, to enhance their interactions with clients who may be experiencing reduced cognition.

- Be patient and supportive. Try not to interrupt.
- Use short, simple words and sentences. Ask one question at a time.
- Repeat information or questions as needed.
- Avoid confusing, vague statements.
- Treat the person with dignity and respect.
- Convey an easygoing manner through words and posture.

Avoid the use of "elderspeak", using slowed speech, elevated pitch and volume, and simplistic vocabulary and grammar to talk to older adults. Such infantilizing speech can precipitate a breakdown in communication with older adults, whether or not they have cognitive impairment.

Source: *Working with Older Adults*, Society of Certified Senior Advisors, 2015

years. Studies indicate that watching for the more obvious signs of possible dementia alone will not always ensure an older client has an adequate mental ability to make decisions with informed consent, because small declines in cognition that cannot be measured can affect financial decisions by older adults (Boyle et al., 2012). Given this, financial professionals need new and better methods to recognize diminished financial decision-making abilities and have steps in place to take if reduced capacity is suspected. If there is a screening scale score of one or more inaccurate answers, key things to consider include:

- Did the older adult fail to understand part of the transaction and needs further counseling?

- Should the older adult be referred for a cognitive and decision making ability evaluation before proceeding with the transaction?
- Should the financial professional bring in a trusted family member or friend to help insure the older adult's financial protection?

The LFDSS helps financial professionals screen the financial decision-making ability of their older adult clients based on the elements of informed consent. The client's answers to the 10 multiple-choice questions help a professional know if the client needs more education or information, or whether the client may have diminished cognitive capacity. When cognitive impairment is suspected, the Motivational Interviewing strategy gives professionals a way to talk and plan next steps with their older client. Alone or together, the LFDSS and Motivational Interviewing help financial professionals demonstrate and maintain the highest possible ethics and standards of performance.

Financial professionals are encouraged to partner in their community with geriatric specialists (e.g. physicians, psychologists) who are qualified and regularly perform cognitive assessments and, in particular, capacity assessments. Working together, these professionals can help protect older adults from vulnerable decision-making that can carry significant financial consequences. Learning how to effectively work with older clients who are having trouble making informed decisions is not an easy task. The best practice requires patience, support and reassurance for the client.

To this end, the LFDSS can help put financial professionals on the forefront of client care. For more information or to receive online, interactive training in using the LFDSS that allows professionals to receive feedback about the perceived decision-making abilities of an older client, visit <https://olderadultnestegg.com> or contact co-author Peter Lichtenberg ([p.lichtenberg@wayne.edu](mailto:p.lichtenberg@wayne.edu); 313-664-2633). •CSA



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