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 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."

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

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 advisers are becoming more vigilant in watching for signs of diminished financial capacity. More financial advisers are getting advance written permission from older clients to speak with a trusted family member or friend if concerns arise about the client's financial decision-making. The North American Securities Administrators Association approved a model rule that requires financial advisers 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 and close friends, 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.

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, automate bill payments, and arrange for direct deposit of regular income sources, such as Social Security. To minimize solicitations and reduce the risk of fraud, put your telephone number on the National Do Not Call Registry by going to www.donotcall.gov or calling 888-382-1222.

Once you've simplified your finances, make a list of all your assets along with key contacts such as financial advisers, 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 him or her 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 she needs to take some control later on – and getting another set of eyes to help you watch for unpaid bills or suspicious activity.

If you need additional help, and no close friends or relatives are up to the task, consider hiring a daily money manager to help pay the bills, deal with creditors and organize tax documents, among other services. Expect to pay anywhere from $50 to $150 per hour or more, depending on where you live and the level of service provided.

The profession is essentially unregulated, so it's critical to vet a daily money manager carefully. Ask how long they have been working as a daily money manager, whether they carry errors and omissions insurance, and whether they have any professional certification. The American Association of Daily Money Managers offers a "professional daily money manager" certification, which requires a criminal background check and passing a written exam, among other requirements. You can search for managers who have earned that designation at www.aadmm.com. The money manager should also be able to provide references and send regular reports to the client and trusted family members detailing all financial activity.

Planning Ahead

As family members begin to help out 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, 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.

Placed in the wrong hands, a poorly crafted power of attorney leaves the door wide open for financial abuse and exploitation. So, it's critical to not only choose an agent--and backup agents – whom you trust completely, but also to work with a lawyer well-versed in elder law when preparing the document. Find elder-law attorneys in your area at the National Academy of Elder Law Attorneys website.

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 extraordinary 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.

Having power of attorney does not give your agent the authority to handle your Social Security benefits. If the Social Security Administration is alerted to the fact that you may need help managing your money, it will investigate; a family member or friend can request such an investigation. Then, if necessary, the agency will select a "representative payee" to manage your benefits. Payees are generally family members or close friends, and the administration says it will consider the wishes of beneficiaries when making the selection. But in practice, many people never need a representative payee because their benefits are directly deposited into a bank account that's accessible to their agent under a financial power of attorney.

The time to take all these planning steps, of course, is well before you have problems managing your money. But no matter where they are in the planning process, seniors 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 for help.

There are at least six key warning signs to watch for. Is it taking Mom much longer than it did previously to pay the bills or perform other financial tasks? Is she having trouble understanding visual financial information, such as reading her bank statement? Is 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 she needs to make her mortgage payments? Is her once-tidy desk now stacked with old, unopened mail? And is she investing more aggressively than 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.