

When is it too late to give up control of your finances?

May 25 2023, by Dylan Walsh



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America is getting older. By 2050, one-fifth of the U.S. population is projected to be over the age of 65. And the way we're aging is changing, too. Older people today are more responsible for managing their

finances than they were in the past.

Yet there's no escaping an uncomfortable fact of old age: Nearly 20% of Americans 65 or older have [cognitive impairment](#), and nearly 10% have dementia.

The intersection of these demographic, financial, and health care trends raises difficult questions about how older people should balance their desire to manage their own money with the possibility of cognitive decline. Do they have someone who can step in to help them if necessary? And will they recognize that they need help before making a costly mistake or getting ripped off?

New research by Christopher Tonetti, an associate professor of economics at Stanford Graduate School of Business, finds that older investors are acutely aware of this challenge. "People are very concerned about their future self not handing over financial control when they should," he says.

Preparing for the handoff

Working with John Ameriks of Vanguard and three other academics—Andrew Caplin of New York University, Minjoon Lee of Carleton University, and Matthew Shapiro of the University of Michigan—Tonetti surveyed roughly 2,500 Vanguard clients 55 and older on how they've prepared to manage their finances into the future. (The participants were wealthier and more educated than a representative sample of older Americans, and likely savvier with their money.)

Overall, the respondents had a pretty realistic sense of their likelihood of experiencing cognitive decline. (On average, they put their chances of having cognitive decline for at least five years at 29%; the actual number

is 34%.) Most said they already had a family member or friend waiting in the wings who could take control of managing their money. "A lot of people came back saying they had someone available who they trusted would do a good job," Tonetti says. "That was a bit of a surprise."

Anticipating the timing of this potential handoff, however, is not easy. Understandably, many people do not want to bring in an outside financial agent too soon, sacrificing their ability to make decisions for themselves. Nearly 84% of [survey respondents](#) said they would not want to give up financial control at the onset of cognitive decline, preferring to wait for a moment before they would completely lose the ability to manage their own money. Yet many respondents also realized they might delay transferring control of their finances because they would not recognize their own cognitive decline.

"Most people were concerned that they would hold on to control longer than they should and, by doing this, increase the chance that they would make a big mistake with their finances," Tonetti says. If they were suffering cognitive decline and it got too far along, "they might make poor investment decisions or be more subject to scams and fraud."

The researchers probed how much people would be willing to pay to optimize the timing of this handover. Importantly, Tonetti says, the survey didn't ask this hypothetical question directly, as people would have difficulty answering it. Rather, the survey design made it possible to analytically deduce the figure. The researchers found that one-quarter of the respondents were willing to pay more than \$50,000 to ensure a transfer at the right time. Roughly 15% were willing to pay more than \$100,000.

Considering the risks, why don't older people transfer the management of their finances sooner? That they don't illuminates a key insight from this research: People want to maintain control of their own finances for

as long as possible. What drives this desire, Tonetti says, is not clear. It could be a belief that they'll do a better job than their surrogates. They may enjoy the process, or perhaps they don't want to be a burden to others. Whatever their motivation, "there is this desire to control their finances when capable," Tonetti says. "That wasn't obvious before we wrote this paper."

Timing Is everything

Another key insight is that people have limited awareness of their mental health. The onset of cognitive decline is often slow, and its symptoms can be difficult to recognize. However, people with significantly impaired cognition may be unwilling to hand over the reins of their finances.

"Given people have this limited awareness of their mental health, a desire to stay in control of their finances, and, importantly, a desire to pass control when decline sets in, we ought to have ways to help them understand where they are in terms of decline," Tonetti says.

He suggests three ways to make it easier for [older people](#) to prepare for a financial handoff. First, doctors could offer regular screenings that indicate a person's competence in managing their finances. Second, people could have early conversations with their trusted financial agents (often their children) to plan what a transfer of control would look like and what might trigger it. "This would be guidance—not so much on what to do, but on when to take over," Tonetti says.

Finally, [financial institutions](#) could design tests or procedures, either automated or conducted by employees, that screen customers for early signs of [cognitive decline](#). If symptoms are detected, then a plan would be in place to contact the client's fiduciary.

"Whatever the method, this is a service that people could clearly use," Tonetti says. "Our research points not just toward the elderly finding people who can help them manage their finances late in life, but also toward the importance of getting this help at the right time—an ever more urgent need as the population of retirees grows."

The paper is published in the journal *American Economic Review: Insights*.

More information: John Ameriks et al, Cognitive Decline, Limited Awareness, Imperfect Agency, and Financial Well-Being, *American Economic Review: Insights* (2023). [DOI: 10.1257/aeri.20210711](https://doi.org/10.1257/aeri.20210711)

Provided by Stanford University

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