WITH DIGNITY
& GRACE

Helping Clients Prosper as They Age by Minimising the Risks of Cognitive Decline
Investing is all about managing uncertainty. Every decision we make is in light of what we know about the past and the present, and what we think is likely to happen in the future. To cope with that uncertainty, we try to maximise expected returns at an acceptable level of risk.

There is one exception: When it comes to the potential for cognitive decline, the future is entirely unknowable. Despite this uncertainty, we can still manage the financial risks associated with changes in financial capacity.

Investors who add a “what if” component to their financial plan are doing just that, taking the risk from one of life’s most unpredictable events and minimising potential consequences for themselves and their families.

Age is nothing more than a number. It doesn’t define our abilities and it shouldn’t define our relationships or our opportunities. Helping clients take a few basic steps to minimise the risk of cognitive decline will help them focus on the rewards of their hard work in building a career, raising a family and supporting the community. This peace of mind is invaluable, knowing that they will have the opportunity to continue to age with dignity and with grace.
None of us are invincible, nor should we be overwhelmed by fear of the unknown. Advisers who guide their clients to proactively manage the potential risks of cognitive decline are helping these clients maintain control and achieve peace of mind.

The goal here is to avoid living the unexamined financial life. Ignorance is never bliss and, in this case, knowledge is especially empowering. We must motivate the nearly two-thirds of investors who don’t yet have a plan in place.¹ We must inspire them to take action for their own financial future and that of their loved ones.

Above all, we must remember that there are real families dealing with real challenges, including the families introduced in the three case studies presented on the following pages. These scenarios may be useful for advisers honing their own strategies to engage clients on this important topic.

¹ State Street Global Advisors survey, Money in Motion, 2015.
² Center for Retirement Research at Boston College in Association with Rush University Memory and Aging Project, Keith Jacks Gamble et al. (2014)
RISKS OF COGNITIVE DECLINE

Demographic projections appear to raise significant concerns. Longevity continues to increase, which means that cognitive decline and dementia are expected to also climb. Seniors’ portfolios are at greater risk of financial fraud, financial abuse, and poor asset management decisions.³

At the same time, adult children may be less involved in their parents’ finances, compared with previous generations, because of additional work and family responsibilities or because they no longer live near their parents.

Addressing the financial risks associated with cognitive decline is part of a fully comprehensive financial plan. For clients, this is a key part of prudent wealth management; for advisers, it is a key part of practice management; for the industry, it is key to managing liability risk.

⁴ Center for Retirement Research at Boston College in Association with Rush University Memory and Aging Project, Keith Jacks Gamble et al. (2014)
Independent, in a Dependent Kind of Way

Harvey is 82 years old and still working, despite having sold the family business years ago. He’s been a workaholic and a saver all of his life, refusing to give up his customer relationships or his income. His wife Judy is 72 and was diagnosed with terminal lung cancer two years ago. She always took care of the finances, until her first cancer diagnosis. Harvey is not savvy with money, so their daughter Jane now helps with their finances, along with many aspects of their lives. Jane is a stay-at-home mom with two teenagers.

Harvey and Judy started working with a financial planner when they realised a big payday from the sale of the family business. Jane also works with her parents’ financial planner, although she feels he took her on as a favour. Her parents were quite satisfied with the financial planner for years, but recently, her father has been voicing concern that he is leery about the financial planner’s intentions.

Jane sees signs of cognitive decline in her father, and she is concerned. They haven’t talked about her increased role in their lives. The transition has just been happening. She also doesn’t discuss her parents’ investments directly with the financial planner; her father is the intermediary between them. She knows that they have an estate plan, including a trust. Jane greatly respects her parents, and wants to do right by them, yet is unsure of how to approach the subject in a more formal way.

“They’re very independent, but in a dependent kind of way,” says Jane. “If we’re willing to take stuff on and they’re willing to pass it on, I don’t know if it needs to be a full conversation. No one wants to be reminded of their mortality.”

Observations for Advisers

Giving up independence or even accepting help is especially difficult for someone who has always led a productive and independent life. This is often the biggest hurdle to developing a plan in case of cognitive decline, or even hiring an adviser.

It’s important to approach the situation with intention; even the most difficult topics can become less stressful with open and respectful dialogue. For family members and other trusted individuals, ensure that roles, responsibilities and goals are clearly defined. Advisers can work together with adult children to help guide the client and clear emotional hurdles, but these relationships with successive generations must be cultivated. Trust isn’t inherited, it’s built over time.

“When clients know they can talk to their advisers about cognitive decline, it shifts an abstractly trusted adviser to a genuinely trusted adviser.”

— Surya Kolluri, Managing Director for Policy and Market Planning at Merrill Lynch
“I think about it and it scares the hell out of me. That is a concern that could happen. My father had a form of dementia at age 80.”

— Individual investor

only 39% of investors report having a plan in place in case their decision making is diminished due to mental aging or illness.

State Street Global Advisors survey, Money in Motion, 2015. 400 financial advisers and 560 individual investors were surveyed across the US. The adviser sample is representative across all channels. The investor sample is representative across asset bands and age bands.
CLEARING HURDLES

The adviser may be the first person to broach the subject of cognitive decline with a client. In fact, they may be in a better place to have this conversation than are family members, because it’s easier for them to be objective. An adviser can help the client acknowledge the need to plan and to take action.

There are major hurdles blocking six out of ten clients from making a plan, including the fear of losing independence and the lack of a sense of immediacy. Some clients dread discussing their financial situation with adult children.

State Street Global Advisors survey, Money in Motion, 2015.

CASE IN POINT

Old World Generation

Carlos and Angeline immigrated to the US from Portugal 50 years ago. For half of the year, they live in the family home, which is about 20 minutes from their middle child Ellen; for the other half of the year, they live in a second home in the Azores.

Ellen is responsible for her 69-year-old parents’ finances. She is the middle child of three and a stay-at-home mom. Her siblings are appreciative of her efforts, knowing that she is best suited for the role given that they have full-time jobs and live hours away. She started helping her parents manage their finances because they were overwhelmed by the tasks required for living half the year abroad and by the technology that is quickly becoming a standard for financial transactions.

Carlos and Angeline are grateful to their daughter for helping with their finances, except when she encourages them to do more long-term and estate planning. That conversation broaches the reality of their own demise, which conflicts with their cultural norms. They are hesitant to work with Ellen’s adviser because 1) they think it would be too expensive, 2) they are uncomfortable trusting someone else with their finances, and 3) they have deeply held superstitions about making plans in the event of their own demise. This impasse causes much frustration and stress for Ellen, and it is putting a strain on their relationship.

“I feel like, if it wasn’t for me, they’d be stuffing money under the mattress,” says Ellen. “It can be more frustrating to deal with my ageing parents than with my children. I know how hard it is for my parents to talk about what will happen when they can’t live independently and I don’t want them to think that I feel they’re better off dead than alive. I just want to see that they’re taken care of.”

Observations for Advisers

Even within families, huge cultural differences can exist between generations. Every relationship is unique in terms of financial wants and needs, as well as attitudes and behaviors. Adult children can be a great help in bridging gaps for elderly parents. But family dynamics and heightened emotions may also make it difficult for adult children to have objective conversations with parents. Advisers can be a vital ally, neutralising some of the most emotionally charged topics.

A long-term relationship with an adult child demonstrates the kind of trustworthiness and integrity that an elderly parent expects in an adviser. This can be the spark for a multigenerational strategy that extends from child to parent.
GREAT DISCONNECT

What’s blocking advisers from initiating conversations around creating a plan that manages the risks of cognitive decline? Mainly a fear of backlash from the client. This may also explain why some advisers are more likely to initiate dialogue with the client’s spouse or other family member, rather than with the client directly.

The end result is a disconnect that is keeping clients and their families at risk. Avoiding the issue simply means increasing the potential for adverse financial decisions, financial fraud, financial abuse, and the emotional stress on clients and their family members that goes along with all of this. There is also an opportunity cost for advisers who could be providing valuable guidance to make a difference in the lives of their clients and their families.

We all hope that the risks of cognitive decline won’t apply to us, but hope is not a practical strategy. Information is power and advisers can empower clients by helping them understand the importance of developing a plan to maintain their prudent financial decision making.
The financial adviser may fear offending the client or losing the client altogether if they speak up. The adviser may also face difficulties navigating family issues.”

— Lauree Peterson-Sakai, Elder Strategy Leader at Wells Fargo Advisors

“Because we are working with family members early and integrating them with our firm’s wealth management process, the transition is generally going to have a positive result. Having a relationship with the next generation is critical to maintaining continuity in family wealth planning.”

— Mark Shepherd, Founder and Principle of Shepherd Financial Partners

CASE IN POINT

Qualified, or Not

Marylou is 81 years old and recently widowed. Her son Dave, the youngest of four children whom she relies on for day-to-day finances as well as her investments, is becoming concerned about her cognitive capacity and ability to continue living independently in their family home.

Dave has an MBA from Harvard University, yet he doesn’t feel fully qualified to be handling his mother’s finances. Everything is still in Marylou’s name, she has not assigned power of attorney to Dave or any other trusted family member, and Dave and his mother have yet to discuss what will happen if she needs to move to an assisted living facility. Fear is keeping Dave from starting that conversation and from suggesting that she hire a financial adviser — fear of an emotionally fraught conversation and of letting his mother down.

“She said, ‘I know you’re the youngest, but it seems to me that I should trust your background and education to handle these things,’” says Dave. “I’m nervous about the amount of assets involved and advising my own mother, not to mention the thought of bringing up the possibility of assisted living. Am I really qualified to do all this? Having a third party in on these conversations would make it easier. Maybe not having a dedicated financial adviser for all of her assets, but having a sort of ad hoc financial adviser to help with the big steps.”

Observations for Advisers

Combining the topics of family and money can be overwhelming for even the most open and communicative families. An adviser can help moderate conversations and guide elderly parents to a decision even when adult children are unable to influence their parents. They can act as a sounding board and as an impartial expert. An adviser can also help adult children avoid the potentially uncomfortable situation of a dual relationship within the family.
ONE PLAN, MANY BENEFITS

It’s never too early to plan for and manage the financial risks associated with cognitive decline, but it can become too late. Advisers have a duty to guide their clients toward formalising a plan before it’s too late. The message for clients is clear: peace of mind. Everyone benefits by putting a plan in place — the individual client, their family members, their caregivers, advisers, the financial services industry, and society as a whole.

Advisers and firms cannot afford to sit back and wait for regulators to require a plan. Neither can clients. As an industry, we must do what we can to self-regulate and establish standards that

- Serve clients
- Uphold fiduciary responsibility
- Manage business risk
- Ensure continued relevancy with future generations.

These six tactics are aimed at doing just that.

1 **Foster open communication** among the client, spouse and adult children. Take a client-centered approach, tailoring communication to the individual client circumstances. Consider how the topic might fit into broader conversations about a multigenerational transition plan. Some individuals are very anxious about their situation and ultimately welcome the conversation as a chance to shift some of the burden. For older existing clients who are emotionally blocked, a sense of empowerment can lead to behavioral change: the message should be about taking control and not burdening family members.

2 **Be sensitive to language** and avoid potential stereotypes. Negative self-perceptions and self-stereotyping are insidious — even when we know they are false, we can still be influenced by them. Language matters. For example, complimenting an elderly client as being very lucid or highly functional is a form of stereotyping. Because we constantly use generalisations and stereotypes to navigate the basic challenges in life, we become so good at it that we don’t always know when we’re doing it. Don’t let age define the relationship, each client is an individual.

3 **Incorporate plan development in the annual review** and in the on-boarding process, encouraging both spouses to designate power of attorney. This depersonalises issues around ageing and independence. When planning for potential future cognitive decline, it becomes about risk management. The conversation can be framed not just in terms of the potential for cognitive decline but more broadly around the risk of being incapacitated in any way at any time. Most importantly, this puts in place a predetermined solution before the problems associated with cognitive decline arise — and before it becomes too late to take certain actions, which limits the options available.
Support continued financial literacy and encourage all clients to be life-long students of investing. Remember, the quality of information and the ways in which we use that information are more important than how quickly we learn it. Provide effective tools for increasing financial literacy, including conceptual and product education. Keep in mind that knowledge gained through real life experiences can help offset the decline associated with natural ageing. Embrace the role of educator, but don’t attack misguided beliefs. Focus instead on laying out all the facts, to help clients draw conclusions independently and gain a greater sense of empowerment.

Establish relationships with a set of experts ready to call on as needed, such as a psychologist, an elder attorney, and a social worker. Be prepared to reach out to a client’s primary care physician if necessary. Always be aware of privacy laws and potential liability issues. Maintain a list of options to give clients who don’t have a trusted individual to authorise, such as a professional who can take a fiduciary role. A professional fiduciary can be hired to ensure that basic daily needs are being met, as well as financial needs such as bill payment and estate management. Many different types of situations will call on the adviser’s broad expertise and integrity; these are also opportunities for advisor to add real value for clients.

Watch for warning signs of fraud and abuse, monitoring situations of potential concern. Be familiar with the firm’s protocol for these situations. For example, how does the firm guide an adviser with an elderly client who suddenly has a new personal or professional relationship? Financial fraud and financial abuse appear to be on the upswing, although the statistics vary due to considerable underreporting. The growing number of investors with diminished capacity will likely continue to attract fraudsters. What’s difficult for advisers is that situations are rarely clear-cut, and each must be handled deftly. Some firms are also exploring technology that monitors accounts for suspicious activity.

“She’s doing better at crossword puzzles than she did in her 20s. It might take her longer, but she sure has a lot more information to draw on.”
— Caregiver

“Sometimes the team brings in an outside social worker if additional expertise is needed dealing with a client’s emotions who is not making rational decisions because of cognitive impairment.”
— Ron Kearns, Elder Law Attorney and Registered Nurse at Senior Resource Center, Inc. and Falco & Associates, P.C.

“We think our numbers are only scratching the surface. Very often, financial fraud goes unreported because people are embarrassed to report it, or they don’t know how to report it, they don’t think it’s worth reporting, or they think they won’t be able to recover their losses.”
— Ron Long, Head of Regulatory Affairs at Wells Fargo Advisors
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