



Decline of Cognitive and Financial Ability with Age

When and why cognitive and financial abilities decline, and steps you can take to prepare for it

Robert Pokorski, MD, MBA

Agenda



1

Three cognitive paths at older ages

2

Financial problems: common, costly, and often undetected

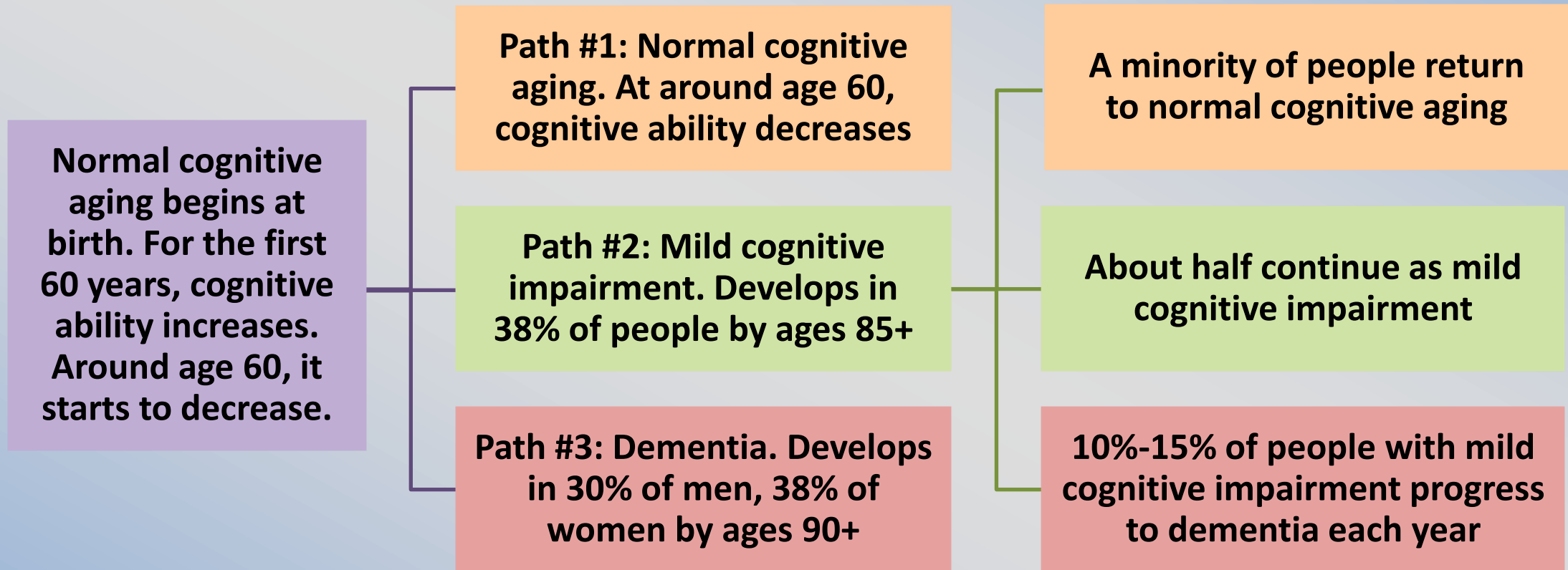
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Next steps

4

Conclusions

3 cognitive paths at older ages (all decline)



Points of engagement

- **Path #1:** Normal cognitive aging only (no mild cognitive impairment or dementia)
- Some people have more serious problems. By mid-80s, over half of adults have mild cognitive impairment (**path #2**) or dementia (**path #3**)

Cognitive path 1: Normal cognitive aging

Experience and expertise can help compensate for declines in cognition

Normal part of aging, not a disease

Involves structural and functional brain changes

**Point of Engagement:
Cognitive ability declines around age 60**

Occurs in everyone, starting early in life

More apparent with technical or fast-paced tasks, or new learning, less apparent in familiar situations

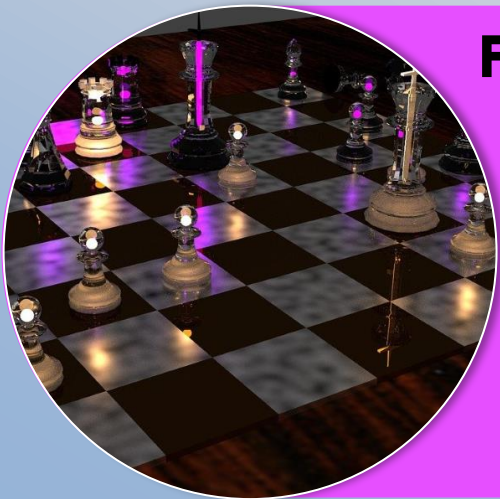
Varies with genetics, culture, education, health, physical activity, health habits

Explanation of normal cognitive aging



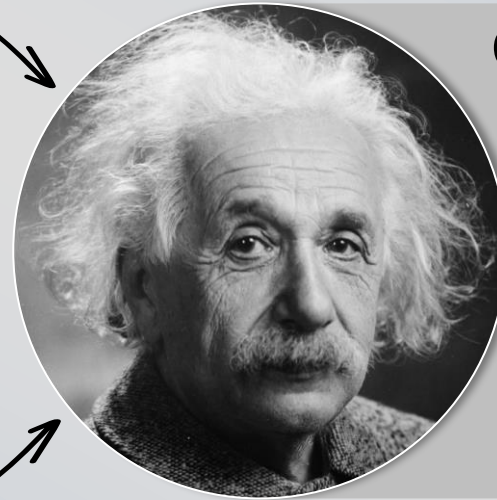
Crystallized intelligence

- Library of knowledge, experience, education
- Long-term memory, language, vocabulary
- Peaks at ages 60-70, then declines



Fluid intelligence

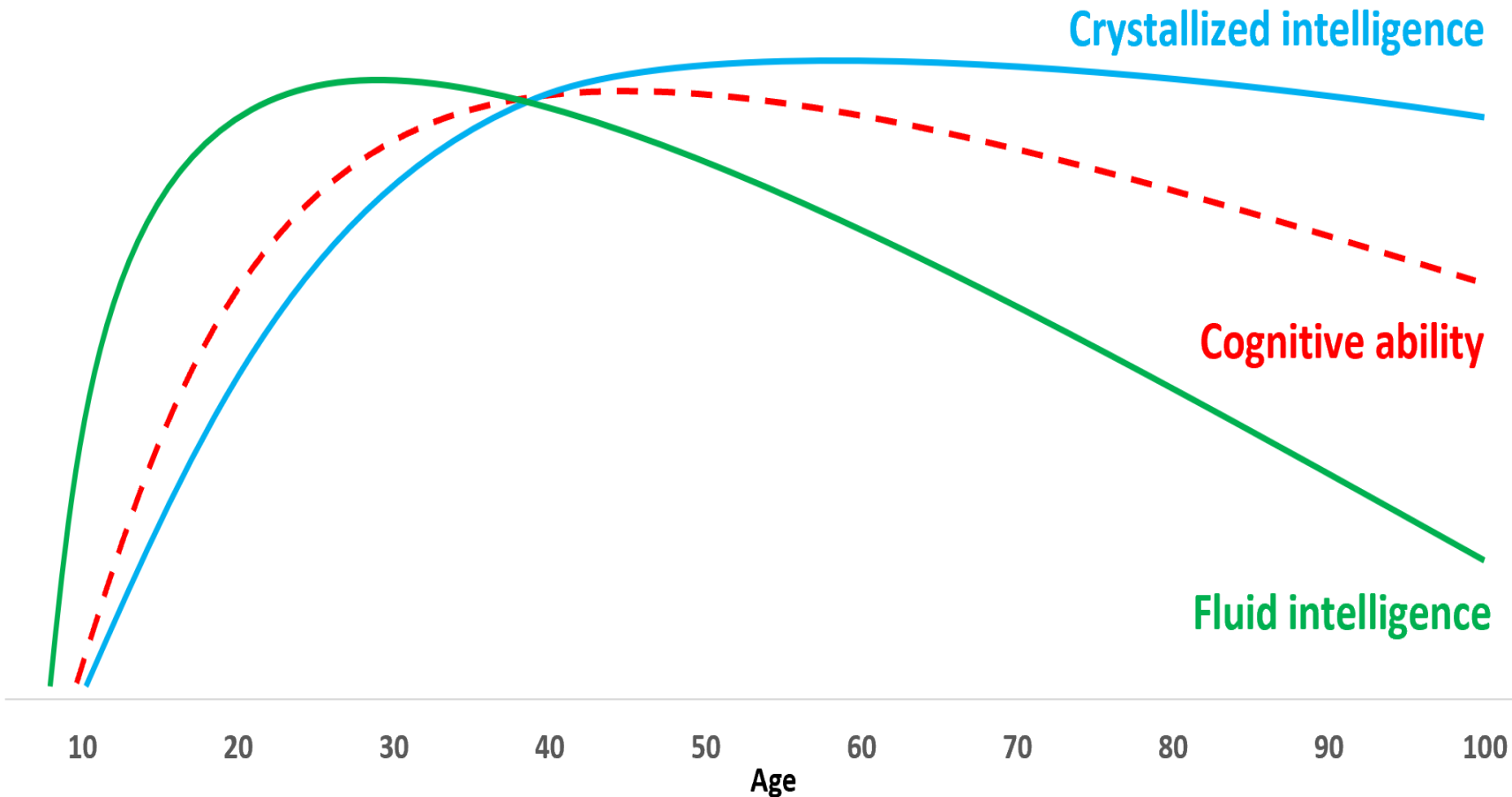
- Learning new information
- Short-term memory, problem solving, logic, thinking quickly
- Peaks around age 25, then declines



Cognitive ability

- Thinking, learning, understanding, attention, decisions, memory, financial ability
- Peaks around age 60, then declines

Normal cognitive aging over a lifetime



- **Crystallized intelligence** peaks at ages 60-70, then declines
- **Fluid intelligence** peaks around age 25, then declines
- **Cognitive ability** peaks around age 60, then declines
- Cognitive abilities (e.g., memory, thinking, financial ability) can decline at different rates

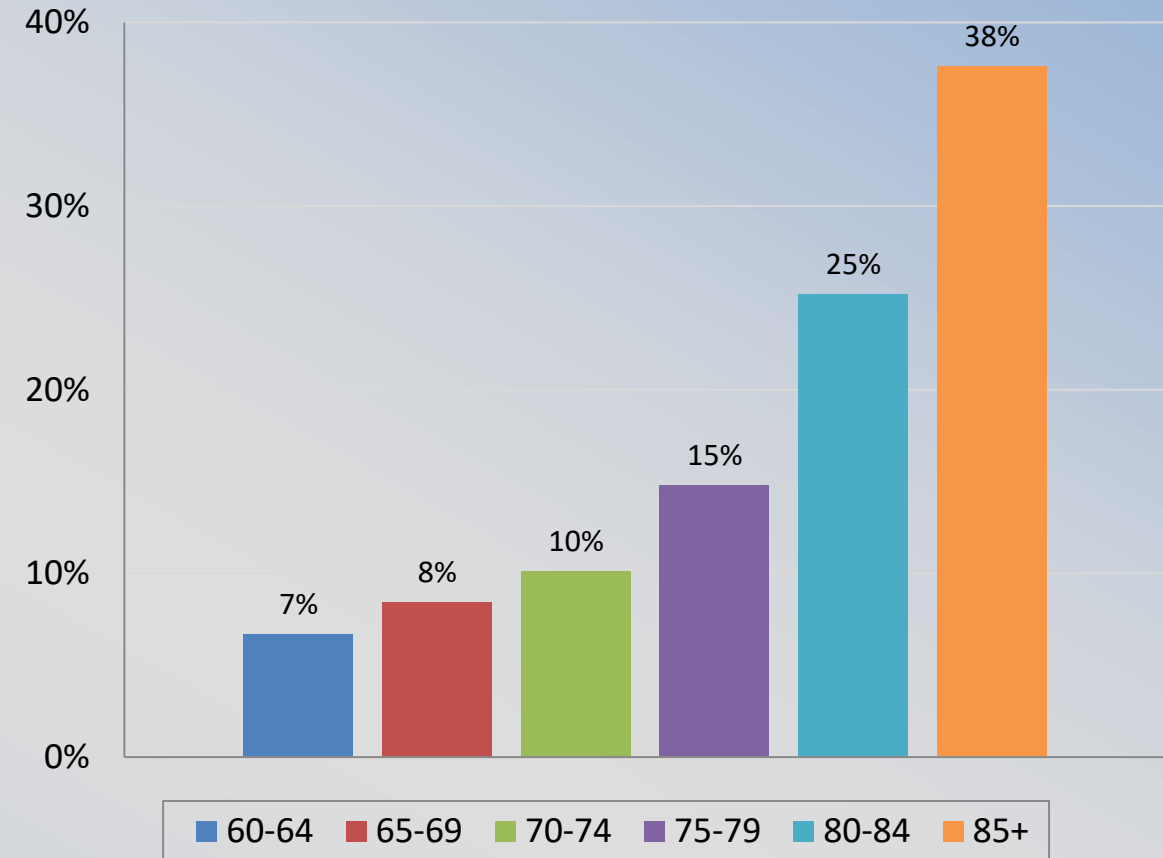
Cognitive path 2: Mild cognitive impairment

- State of cognitive function between normal cognitive aging and dementia¹
- Problems with memory, language, thinking, judgment, finances
- Increased risk of Alzheimer's disease
- Strongest risk factors: age and APOE e4 gene
- Other risk factors: smoking, diabetes, hypertension, high cholesterol, inactivity, obesity, low education level, social isolation

Points of engagement

- Occurs in 38% of people by ages 85+
- 10%-15% progress to dementia each year

Share of people with mild cognitive impairment²

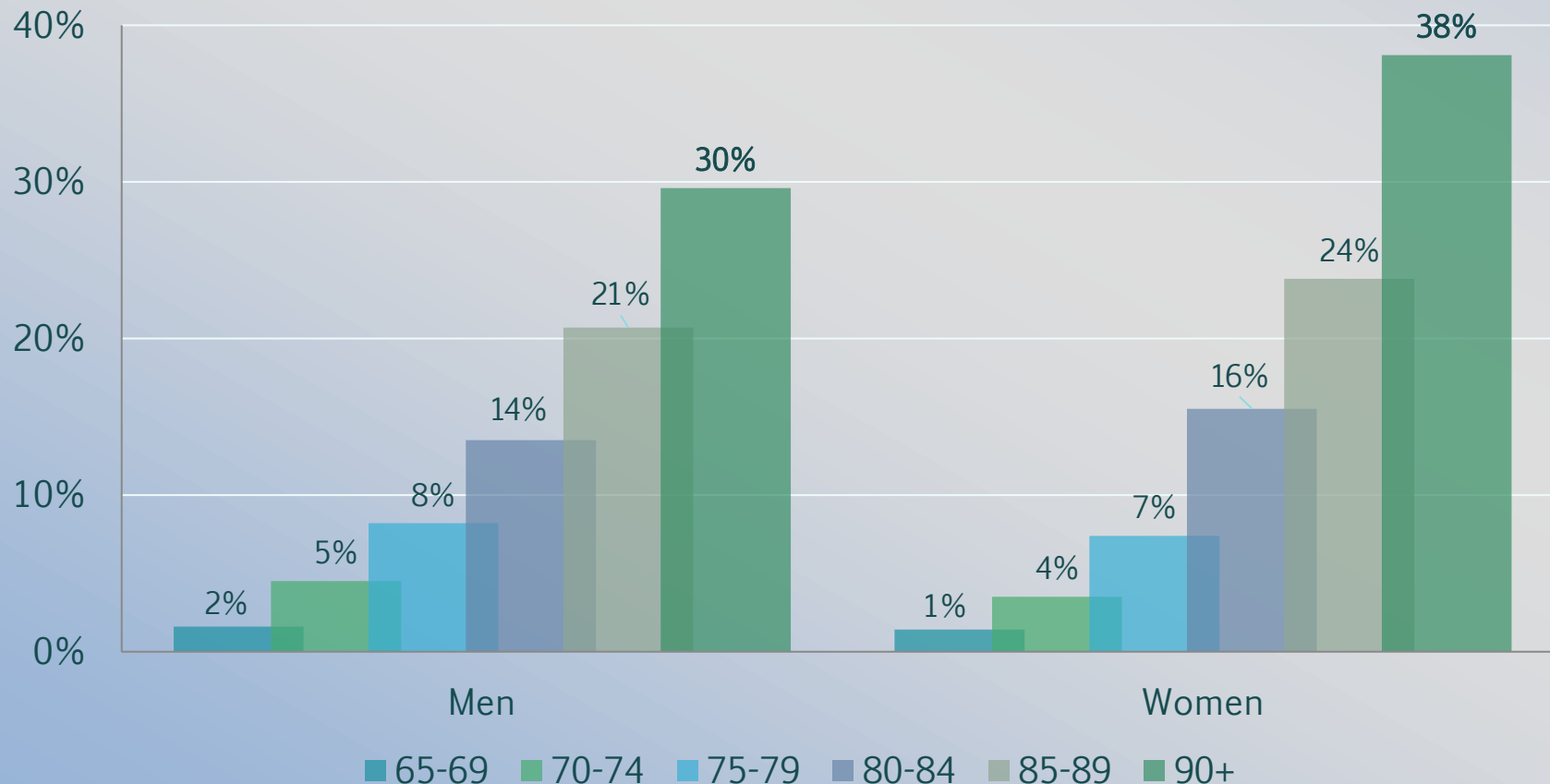


¹ Mayo Clinic. Mild cognitive impairment (MCI). <https://www.mayoclinic.org/diseases-conditions/mild-cognitive-impairment/symptoms-causes/syc-20354578> [Accessed June 28, 2021].

² Practice guideline update summary: Mild cognitive impairment. Neurology. January 16, 2018.

Cognitive path 3: Dementia, including Alzheimer's

Share of people with severe dementia



Points of engagement

- Severe dementia is
 - Inability to use language, recognize people, etc.
 - Requires long-term care
- At ages 90+
 - 30% of men
 - 38% of women
- 7 in 10 cases of dementia due to Alzheimer's disease

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Financial ability declines early, often undetected

**Information retrieval
does not guarantee
appropriate
financial decisions**



Normal cognitive aging

“The ability to retrieve financial terms may or may not decline with age, but the ability to make an appropriate financial choice is particularly vulnerable to the age-related decline in reasoning skills.”

Finke MS, et al. Old age and the decline in financial literacy. Management Science. January 2017.

Early and progressive




Mild cognitive impairment

“Impairment of financial capacity occurs early in the course of mild cognitive impairment and progressively declines over time.”

Martin RC, et al. Declining financial capacity in mild cognitive impairment: Archives of Clinical Neuropsychology. March 1, 2019.

**Up to 6 years
before diagnosis**



Alzheimer's / dementia

“Financial capacity can decline as much as 6 years before a diagnosis of Alzheimer's disease or other dementias.”

Nicholas LH, et al. Financial presentation of Alzheimer disease and related dementias. JAMA Internal Medicine. January 11, 2021.

Investment skills declined at 60, declined sharply after 70

Study

Investment performance of 62,387 investors, 1.9 million stock trades over 6 years

Result

Lower returns in the young, highest in middle-age, lower at older ages

60

Age when investment skills began to decrease

Age when investment skills began to decrease sharply

70

3% lower annual returns at ages 60+ compared to middle-aged investors

-3%

5% lower annual returns at ages 60+ in those with large portfolios

-5%

“Older investors’ portfolio choices reflect greater knowledge about investing, e.g., less risky portfolios, stronger preference for diversification, and less frequent trading, but their investment skill deteriorates sharply around the age of 70 due to the adverse effects of cognitive aging.”

Wealthier investors may lose more money

Study

Health, cognitive, and financial data on 16,243 Americans ages 50-80 over an average of 7 years' observation

1 in 4

People experienced a decline in cognitive ability

8 in 10

Did not realize their cognitive ability had declined

Biggest losers

Wealthy people active in the financial markets (stocks, mutual funds) in last 2 years

What happened?

Wealthy, well-educated people scored higher on initial cognitive tests, failed to recognize their cognitive decline, were overconfident in future investment decisions, lost more money as a result

Couples do not recognize financial decline

Study

9,929 couples, 83% ages 60+, **one spouse in each couple handled finances**, average non-housing household wealth \$256,838 in 2012 dollars (would be higher today)

1 in 8

1 in 8 spouses had significant cognitive decline over 4 years

No financial decline

If cognitive decline occurred in spouse who **didn't** handle finances, no significant change in household wealth

\$50,000 decline

If cognitive decline occurred in spouse **who handled finances**, household wealth declined by average of \$50,000 (2012 dollars)

Cognitive decline not recognized

In vast majority of couples, spouse who initially handled finances **continued to manage finances** even if he/she had experienced cognitive decline

Older physicians' cognitive decline: Lessons for everyone

1 in 8

One study: 1 in 8 physicians aged 70+ (most were 75+) had cognitive deficits (found via routine screening) that were likely to impair their ability to practice medicine¹

65

Age when some experts recommend routine cognitive screening of physicians²

65-70

American College of Surgeons recommends cognitive testing at ages 65 to 70²

**Decline from
baseline**

Some physicians aged 70+ **with mild cognitive impairment or early dementia** may still have **normal** cognitive tests, but decreased performance **compared to prior baseline**²

**Analogy
to older
investors**

This pattern in physicians (decline from a prior higher baseline, but still considered normal) is similar to **some older adults: still good with finances, and perhaps better than many people they know, but not as good as when they were younger**

¹ Cooney L, et al. Cognitive testing of older clinicians prior to recertification. JAMA. January 14, 2020.

² Devi G, et al. Cognitive impairment in aging physicians. Neurology: Clinical Practice. April 2021.

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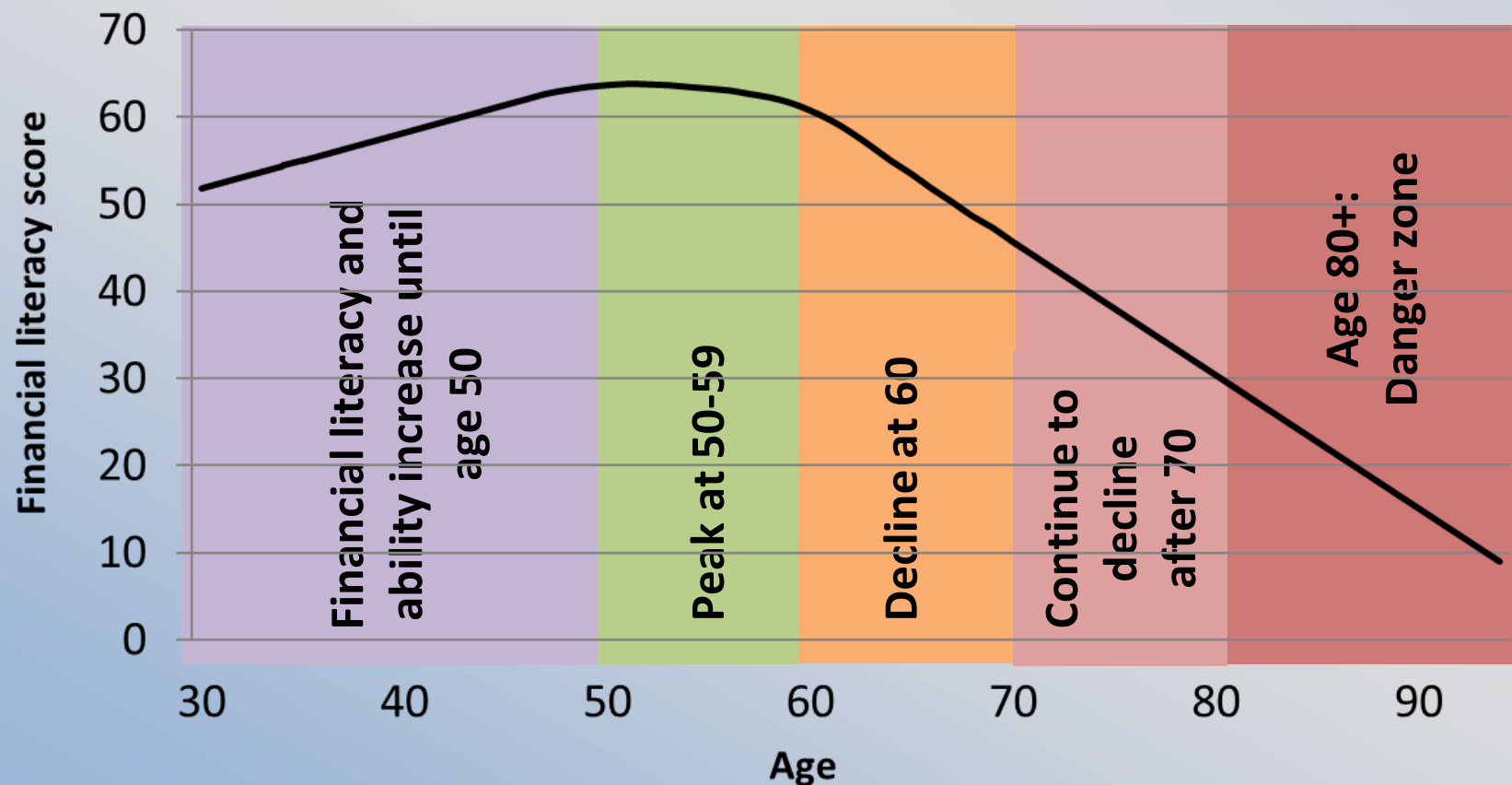
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4

Conclusions

Identify financial risk associated with age

Change in financial literacy with age



Points of engagement

Decline in financial literacy and financial ability due to both:

- Normal cognitive aging
- Mild cognitive impairment or dementia
 - Age 70-74: 1 in 7 people
 - Age 75-79: 1 in 5
 - Age 80-84: 2 in 5
 - Mid-80s- More than half

Finke MS, et al. Old age and the decline in financial literacy. Management Science. January 2017.

Korniotis GM, et al. Do older investors make better investment decisions? February 2011.

Finke MS, et al. Old age and the decline in investment performance. May 19, 2020.

Widowhood: Plan for the one left behind

In most couples, one person handles the finances. When he | she dies or is incapacitated, what happens to the one left behind?

Widowhood is common, may last for years, often a decade or more

Survivor may have little experience with finances

His / her cognitive and financial abilities continue to decline for rest of life

Get financial help before you need it

“Advance planning for financial decisions as a protective strategy merits the same attention as advance planning for health care decision making.”

- Cognitive Aging: Progress in understanding and opportunities for action. Institute of Medicine 2015.

Healthcare professionals

When you reach an age when illness is likely, you consult healthcare professionals

Financial professionals

When you reach an age when a decline in financial ability is likely, you consult financial professionals

- Accountant
- Attorney
- Banker
- Financial planner
- Insurance expert
- Investment advisor

Ask attorney to write this type of letter, share with everyone below

“If any of these individuals suspect my spouse (partner) or I may have a decline in cognitive or financial ability, we authorize them to contact everyone on this list.”

Spouse (partner)

Children

Grandchildren

Other relatives

Trusted contact (specify)

Healthcare providers

Accountant

Attorney

Banker

Financial planner

Insurance expert

Investment advisor



Plan for a decline in financial ability

Meet with your financial professionals more often as you age

Simplify financial affairs, consolidate accounts, update electronic and physical files, write down IDs and passwords

Update intergenerational planning, will, trusts, health care directive, durable powers of attorney for health care and finances, beneficiaries

Create list with checking, savings, debt, insurance, credit cards, investments, pensions, annuities, alimony, real estate, veteran's benefits

Cancel unused credit cards, consider credit monitoring and credit freeze

Set up joint bank accounts with spouse (partner), send duplicate financial statements to trusted contact if living alone

Automate bill payments for utilities, rent, credit cards, insurance, confirm RMDs (required minimum distributions) will be taken as required

Create list with healthcare providers, financial professionals, trusted contact

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4

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Everyone declines

Ability to make complex financial decisions declines at older ages, even with normal cognitive aging.



Over half

Over half of adults have mild cognitive impairment or dementia by their mid-80s. Many don't know it.



Widowhood

The one left behind is often unprepared to deal with financial issues. He / she may be alone a long time.



Get help

Older adults may still be good with finances, but they're not as good as when they were younger.



Dr. Robert Pokorski is a consultant and public speaker with expertise in longevity, long-term care, and the decline of cognitive and financial ability at older ages. He specializes in educational meetings for financial professionals and consumers. To schedule a webinar or an in-person event, please contact Dr. Bob at:

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