Overview of Findings

Financial Advisors' Experiences with Clients and Diminished Capacity

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As the population ages and the incidence of Alzheimer's disease and other dementias grows,[1] financial advisors, brokers, insurance agents, and others selling an array of financial products must be equipped to respond appropriately when a potential client signals that he or she may have diminished capacity to make financial decisions. For example, sellers need to know when to stop the sales transaction and if they should be dealing with a fiduciary rather than the principal. Similarly, compliance officers of these institutions must understand the experiences of their front-line agents and the needs they have when interacting with clients with potential diminished capacity.

In order to better understand the landscape from both the front-line agent and compliance officer perspectives, AARP commissioned a survey of 360 financial advisors and 166 compliance officers about their interactions with --and provision of services to-- clients who may have diminished decision-making capacity. The survey was conducted by telephone and online between August 19th and October 4th, 2010. Financial advisors included life insurance agents, advisors at registered investment advisor (RIA) firms, sellers working for wirehouse firms, regional broker-dealer advisors, independent advisors and bank representatives (all referred to as "advisors" in the observations below). The margin of error for the advisor sample was +/- 5.2%.

This overview of results includes a topline look at the results from the financial advisor survey. A future report will address the results from the compliance officers and highlight differences between these two groups.

Key findings include:

- A substantial majority of advisors (62%) report that working with clients with diminished capacity has been a problem for them.

- Most commonly, advisors say that clients with suspected diminished capacity frequently repeat orders or questions (63% often or sometimes), have trouble understanding basic financial terms and math concepts that they were previously able to grasp (61% often or sometimes), and exhibit another warning sign for diminished capacity, such as memory loss, inability to process information, or erratic behavior (61%).

[1] Wimo, Anders and Martin Prince. 2010. *World Alzheimer Report 2010: The Global Economic Impact of Dementia*. Alzheimer's Disease International: London.

- Advisors are most likely to say that their firm's protocol indicates that they are the primary decision-maker when it comes to determining whether to contact the agent under power of attorney, the emergency contact, or other fiduciary (49%).

- Resources offered to advisors by their firms include: protocols for ascertaining whether client has power of attorney (79%), protocols for including a power of attorney document in client files and keeping it up-to-date (79%), protocols for referring the account to the firm's legal or compliance department (75%), and the practice of asking the client to bring in a trusted family member or friend once the advisor sees warning signs for diminished capacity (74%).

- Only one third of advisors say they are required to undergo training on issues related to diminished capacity, yet 83 percent say they believe such training should be required.

- When interacting with clients who may have diminished capacity, advisors say that they have most commonly used sources such as information on how to identify financial exploitation of clients by third parties (53%) and information on liability concerns that arise while working with a client with diminished capacity (54%).

- When a client is lacking an emergency contact, agent under power of attorney, or other fiduciary, yet the advisor suspects the client has diminished capacity, most commonly the firm protocol directs them to approach the client about establishing such a contact (90%), suggest that the client bring in a trusted family member or friend (89%), reach out to their supervisor (85%), or stop making sales recommendations until the situation is resolved (83%).

<u>Findings by Type of Advisor</u>

- Life insurance agents (47%) are least likely to say that diminished capacity has presented a problem, less likely to say that the potential signs of diminished capacity happen with any frequency, and more likely than broker dealers and RIAs to say that they wouldn't act on concerns about diminished capacity *unless* they witness warning signs for diminished capacity *and* the client has asked the agent to carry out a damaging financial transaction (versus acting when only warning signs are present).

- RIAs are the most likely of all types of advisors (66%) to say they are the primary decision-maker regarding whether to contact a third party such as an emergency contact or agent under power of attorney. They also appear to be offered fewer resources to deal with diminished capacity, but are more likely to have a legal expert to consult.

- RIAs are also far less likely than other advisors to be required to undergo training, though a substantial majority (72%) of RIAs endorse mandatory training (although at a somewhat lower rate than other types of advisors). Additionally, when waiting for direction from someone else in the firm or a client's authorized agent, RIAs are more likely than other types of advisors to say they would only hold detrimental transactions (rather than all transactions).

While training related to issues of diminished capacity is not overwhelmingly required, 8 in 10 advisors believe that this type of training should be mandatory. It is clear that advisors would welcome the tools to help interact with clients that they suspect may have diminished capacity, especially since over three in five see this issue as at least a minor problem in practice.

In order to better understand the wide range of issues and public policy implications surrounding this topic for firms, compliance officers, advisors, and clients, AARP's Public Policy Institute convened an expert roundtable to discuss the results of this survey, the landscape of this issue, and possible solutions in moving forward. A larger report, containing an overview of the problem, analysis of all data, comparisons of survey findings between advisors and compliance officers, perspectives of the experts in this area, and recommendations is scheduled for an August 2011 release. When available, more information on the report will be available at www.aarp.org/research/ppi or by contacting Naomi Karp at 202-434-3924 or nkarp@aarp.org

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