



Annuities as a Tool in Financial Management Assistance for Individuals with Cognitive Impairment

The statistics around dementia are sobering. Between the ages of 71 and 79, one-fifth of individuals have some kind of cognitive impairment. That number jumps to 50% between the ages of 80 and 89. What's more, other types of cognitive abilities such as pattern recognition, spatial relations and word recall—all critical to making prudent life decisions—decline rapidly with age.

This kind of cognitive impairment can make investors more vulnerable to making poor financial decisions that could jeopardize their financial well-being later in life and to becoming victims of fraud.

But you can help protect your clients from some of this financial damage through the use of annuities, contends Daniel Laibson, a professor of economics at Harvard University. Laibson argues that annuities, put in place early in retirement, can help protect people from their later, less financially savvy selves.

Retirement Security at Stake

In today's world, people's financial security rests squarely on their own shoulders. More than half of all retirement assets are now parked in 401(k)s rather than in defined benefit plans as had been the case in years past. The trend is only going to continue in the way of self-directed retirement savings and income generation.

In normal circumstances, retirees are faced with the daunting challenge of needing to allocate their lump sums in a way that will last the duration of retirement—be that 10, 20 or even 40 years. But a poor financial decision, either in the form of an unsound investment or outright fraud, can unravel that in one fell swoop. That is where Laibson says annuities can come into play. An annuity contract can be written where the annuitant cannot access the principal. This type of annuity contract can at least provide a minimum of income

that cannot be tampered with.

Finding Protection

Retirement is the time when people are called upon to make the most sophisticated financial choices of their lives. The distribution phase is a challenge even for knowledgeable financial advisors. It is a task that many individuals are ill-prepared to handle. Adding declining cognitive acuity to the mix makes the situation even more fraught with pitfalls. Annuities are increasingly seen as a way to put some certainty in place during those years.

By removing a portion of assets from their immediate control, retirees also remove temptation for would-be fraudsters, thereby making themselves less attractive targets.

Fraud Against Elderly on the Rise

Financial fraud geared toward seniors is on the rise, according to research from Kimberly Blanton of the Center for Retirement Research at Boston College. Scammers are increasingly targeting aging Baby Boomers. As more Baby Boomers age, the problem is likely to grow. Here is why that generation is seen as such a lucrative target: With 75 million members, the sheer size makes them a compelling demographic. Secondly, most of their work years coincided with the rise of the 401(k) plan as the primary retirement savings vehicle. Many will enter retirement with large, liquid pools of assets. Lastly, they are set to inherit between \$10 and \$30 trillion from their parents.

A Challenge For Advisors

Working with older clients means understanding the implications that their diminished cognitive function will have on their finances. Advisors should familiarize themselves with the symptoms of dementia so they will be able to recognize it if a client starts to manifest the symptoms. A client



with dementia can live a long time with the debilitation. Financial advisors should still be looking at typical longevity for that person.

Some clients may have family members who are very involved with their care. Others might need to be moved to a memory care facility because they can no longer care for themselves in their own homes. Advisors need to understand the family dynamics at play. This will help advisors to explain to family members the potential costs of medical or home care and develop a plan designed with the objective of covering some of these expenses.

However, the best planning an advisor can do for a client with dementia starts many years or decades beforehand, when retirement is still a ways off. Having conversations with clients when

they are in their 50s around cognitive issues helps prepare the advisor, client, and relevant family members to manage the financial challenges that may arise. Advance preparation is a far better option than waiting until a client is in their 70s and manifesting cognitive issues.

Note: Guaranteed lifetime annuity payments are subject to the claims-paying ability of the issuer of the annuity contracts and do not relate to the investment performance of the underlying investment portfolios.

Note: The investment returns and principal value of the available subaccount portfolios will fluctuate so that the value of your annuity, if redeemed, may be worth more or less than the original investment.

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REVIEW LETTER

1. Dementia Insurance
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2 pages

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Total Fee: \$125

Attention: Danielle Holland

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Reviewed by,

Joseph S. George
Supervisor

jws

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