

Competency in Financial Decision-Making: Understanding Brain Disorders

By Dr. V.E. Stone*

With “baby boomers” aging, the elderly population will increase for many years. There are many scam artists who target the elderly. Older people without dementia have a lot of savvy in avoiding scams and frauds - research shows they are less vulnerable than younger people. However, people with dementia may be at greater risk of being exploited financially. Many kinds of professionals can help protect those who are vulnerable, and help loved ones and caregivers understand their options.

Lawyers and courts often get involved in protecting the elderly. Lawyers may arrange power of attorney for a spouse or child to manage the affairs of someone who is severely cognitively impaired. In some cases, the courts may rule on whether someone is legally competent to manage their own financial affairs. The courts will then rely on expert testimony from doctors and neuropsychologists. To make these decisions, the courts ask for specific information about someone’s abilities. Disease by itself or low scores on psychological tests by themselves are not enough for someone to be ruled legally incompetent. Courts want to know whether the person can do specific things, like understand a financial agreement, or write a check. Continuing legal education courses that focus on competency can be useful for learning how to get the right information from expert testimony..

Neuropsychologists often do cognitive tests, e.g., tests of memory and problem-solving, to determine whether someone with dementia will have problems handling their own finances. Social judgment, however, may also affect someone’s ability to avoid exploitation, and is equally important to assess. We don’t just need to know whether or not someone can remember how to write a check, we also need to know whether they show good judgment about who they write checks to. Fortunately, many tools are available for psychologists to assess whether someone can manage their own finances.

University research shows that people with Alzheimer’s score lower than healthy older adults on financial skills tests. Other researchers have shown that while healthy elderly people are less likely to be victimized by scams than younger people, those with dementia are the most likely to be vulnerable in this way. Tests of social judgment are particularly useful in predicting vulnerability to financial exploitation. When a doctor or psychologist does such an assessment, it is called a “capacity assessment.”

There is always a balance to be struck between protecting the autonomy of someone with dementia, and protecting their financial assets. Besides a full power of attorney arrangement, there are other guardianship arrangements the courts can decide on. Balanced solutions may include, for example, allowing an individual to make their own financial decisions up to a certain dollar amount, but requiring the consent of a guardian for financial decisions involving larger amounts.

Society has a responsibility to help protect those who may be vulnerable. If you’re a professional who can help, then get involved, and get educated. These issues will affect an increasing proportion of the population. It’s important that we work to make the world of finance safe and just.

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