



WhealthChat Executive Summary Brief

Protecting Clients, and Your Firm, from the Risks of Diminished Capacity

Executive Summary

Longevity has reshaped the financial landscape. Clients now routinely live well into their 80s and 90s, *far beyond the age range our brains evolved for optimal decision-making*. Research shows that the “peak age” for financial decision-making is just 53, meaning most clients are already past their cognitive prime by the time they reach a financial professional.

At the same time, the industry is facing a rising wave of cognitive decline and behavioral vulnerabilities that impair judgment, often well before a formal diagnosis is ever given. Up to 25% or more of the average advisory firm's clients may already have risk factors for diminished decision-making capacity.

The implications span **client outcomes, regulatory exposure, operational risk, and firm reputation**.

Key Risks for Firms

1. Increased Vulnerability Among an Aging Client Base

- Alzheimer's disease affects ~10% of adults over 65, with several more illnesses producing similar impairments.
- Another 15–20% live with *mild cognitive impairment*.
- Behavioral challenges, like overconfidence, impulsivity, depression, may degrade financial judgment even when a client “passes” standard cognitive screens.

2. Escalating Regulatory Scrutiny

Regulators now explicitly consider client age and vulnerability when evaluating advisor conduct, enforcement actions, and sanctions.

States are also increasing elder-abuse protections, heightening the consequences of missed warning signs.

3. Significant Reputational and Legal Exposure

Highly public diminished-capacity cases (e.g., Brooke Astor, Stan Lee) illustrate how quickly these issues become visible and damaging

Strategic Imperatives for Financial Professionals

The brief identifies **five actionable levers** that advisory firms should operationalize to reduce risk while improving client care.

1. Communicate Proactively and Empathetically

Clients want advisors who acknowledge difficult topics. Trusted communication is the foundation for early detection—and for client retention.

Action steps:

- Increase touchpoints around major life events
- Engage spouses, children, and extended family
- Normalize conversations about cognitive health and future decision-making authority

2. Document Everything

Documentation provides regulatory protection and builds trust with clients and families.

Action steps:

- Collect multiple trusted contacts
- Record roles, responsibilities, and relationship dynamics
- Create a “diminished capacity letter” outlining client wishes
- Ensure estate, POA, and medical directives are in place

3. Improve Advisor Training

Most advisor education focuses on market behavior—not the behavioral and medical realities of aging.

Action steps:

- Train advisors to identify behavioral red flags
- Bring in psychiatrists, neurologists, geriatricians, and elder law specialists
- Teach advisors how to initiate and sustain conversations on health and cognitive decline

4. Monitor Financial Behavior for Early Warning Signs

Financial missteps often appear *years* before a dementia diagnosis — sometimes as early as six years.

Action steps:

- Use transaction-monitoring technology and alerts
- Watch for personality and behavioral changes
- Use assessments that detect cognitive and behavioral vulnerabilities (e.g., impulsivity, loneliness, depression)

5. Educate Clients on Health, Longevity, and Cognitive Risk

Clients consistently rank health-related financial fears above market fears — yet most firms rarely address them.

Action steps:

- Provide content that addresses dementia, caregiving, and health events.
 - Offer workshops or webinars with medical and geriatric experts.
 - Build workflows that integrate health and longevity into planning.
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What Forward-Thinking Firms Are Doing

Industry-leading organizations are moving toward:

✓ Standardized diminished-capacity protocols

Including intake questions, monitoring triggers, automated alerts, and pre-defined escalation pathways.

✓ Advisor training programs led by medical and behavioral-health experts

A major gap in the industry and a competitive advantage for firms that invest early.

✓ Tools that continuously assess vulnerability and detect behavioral changes

Including AI-based monitoring, real-time alerts, and structured conversation guides.

✓ Embedding health and cognitive planning into core financial advice

Clients perceive this as more valuable than market updates, and reward firms with loyalty and referrals.

The Bottom Line

Diminished capacity is predictable, measurable, and manageable — but only if firms build systems around it. Firms that act now will:

- Protect vulnerable clients
- Reduce regulatory and legal exposure
- Strengthen long-term client relationships
- Differentiate themselves in an aging marketplace
- Position advisors as the *most trusted* source of guidance during life's most complex transitions

This is not just a compliance obligation. It is an opportunity to lead.