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## Safeguards for Aging Investors

By Martha M. Hamilton  
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It's official now. I'm past my prime.

It's been attested to by four economists who concluded that "the sophistication of financial choices peaks around age 53."

The four weighed several factors to come to their decision. They looked at the interest rates consumers paid for home-equity loans and lines of credit, auto loans, personal credit cards and small-business credit cards. They studied how consumers respond to balance-transfer offers from credit card companies. They also examined which consumers get stuck with late fees, cash advance fees and over-the-limit fees on credit cards.

What they found was that, controlling for many other factors, "middle-aged adults borrow at lower interest rates and pay fewer fees compared to both younger and older adults."

The study was conducted by Sumit Agarwal of the [Federal Reserve Bank of Chicago](#), John C. Driscoll of the [Federal Reserve](#) Board, Xavier Gabaix of [New York University](#) and David Laibson of [Harvard University](#).

Their theory is that as analytic performance diminishes, which they say "research on cognitive aging implies" begins at around age 20, it's more than offset by an increase in experience -- until the early 50s, that is.

All this might be just academically interesting were it not for the ways in which retirement is changing, demanding more financial decision-making by retirees. Instead of depending on a pension check arriving every month, those of us who have saved money in those newfangled "defined contribution" plans such as 401(k)s will be playing a major role in money management as we age.

My mother, Evelyn McNeil, is a beneficiary of the old system of traditional pensions. She doesn't have to think hard about retirement financing. The money just rolls in. It rolls in from her [Texas](#) state teachers' pension. It rolls in from the pension my dad earned as a machinist working for [Exxon](#)'s Baytown refinery. And the dividends roll in from the Exxon stock he bought.

Nor does she have to worry about health-care costs or finding a good Medicare supplementary policy. She is covered under two retiree health insurance plans in addition to Medicare.

At 93, she is in pretty good shape mentally, despite three strokes. She reads constantly and remembers and can recite more poetry than anyone I know, and she can still beat her children and grandchildren at word games.

She tends to get numbers mixed up, but that's okay. My sister JE pays her bills and keeps tabs on her bank accounts. What's more, my mother doesn't have to worry about making required minimum distributions from a 401(k) plan and whether those withdrawals mean she needs to rebalance her mix of assets.

But going forward, an increasing number of aging Americans will have to deal with those issues, a fact acknowledged in the conclusion of the study. "If age effects *are* important, economists should analyze the efficiency of modern financial institutions -- like defined contribution pension plans -- that require retirees to make the most of their own saving, dissaving, and asset allocation decisions."

You can bet that not only are economists focused on what happens to the trillions of dollars sloshing around in the accounts of aging retirees, but so also are many others who don't have our best interests at heart. Although we all know people in their 80s and 90s who are sharper than we are, it's not ageist to acknowledge that passing years erode cognitive functioning -- and in some cases end in dementia.

We need to recognize "that the person I am today, I might not be in the future," said Robert J. Willis, professor of economics and director of the Health and Retirement Study at the [University of Michigan](#). He pointed to a colleague's story about a friend whose mother was in poor health and whose father is in the early stages of Alzheimer's disease but whose favorite occupation is sitting at the computer managing his wealth.

Now's the time to think forward about how to guard your assets in the event that your capacity to do so falls short in the years ahead. It may also be necessary for legislators and regulators to pay more attention to how to protect aging investors.

Elisse Walter, senior executive vice president of the NASD, which regulates the securities industry, said the organization is considering launching a similar study of how people of different ages approach investment products. She said the NASD is increasing efforts to educate older investors about ways to protect their assets and help them last a lifetime.

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Willis and David Laibson, one of the study's authors, both said that annuitizing a portion of retirement savings to provide a lifetime of monthly payments could help avoid some of the pitfalls involved in managing money late into life. Social Security is a form of annuitization, but the more money you make in your career, the smaller percentage of your earnings it replaces.

Many retirees are resistant to annuitization, perhaps because they don't understand it (and the insurance industry doesn't make comparison shopping easy). Or, Willis said, it may be because they are less worried about outliving their money, which annuities protect against, than they are about having that money out of reach if they get very sick and need care not covered by Medicare.

Laibson said he would suggest that retirees and pre-retirees find a financial adviser who is significantly younger than they are and whom they can trust. "If you don't trust them, find another."

You want a fee-for-services adviser, not someone who works for commissions. The best way to find someone is to ask around. If you get a recommendation, carefully assess what it is the person likes about the adviser. If you want an adviser who will help educate you on investment decisions, you probably won't like one who takes control of your choices.

There are a few Web sites where you can find the names of planners in your area. Try <http://www.http://napfa.http://.org> or <http://fpanet.http://.org>. For some good advice about questions to ask financial planners, go to <http://www.http://.sec.http://gov/investor/brokers.http://.htm>.

Laibson also suggested having a network of trusted family members who can help with financial decisions if you're disabled.


Laibson said the generation approaching retirement now may have a worse time managing financial decisions about retirement savings than subsequent generations. If you're near retirement, you may have been mid-career before you were offered a 401(k) plan and needed to choose among investments.

I'm fairly well annuitized by virtue of receiving a traditional pension and having bought an annuity. But I get the feeling that there are those who are counting on my cognitive functioning failing when it comes to my retirement savings accounts, which are so far growing untouched.

The other day I got a recorded phone message urging me to buy some stock "before [Wall Street](#) does," and a mailing urging me to buy "One of America's Most Secretly Kept Investment Opportunities." It said, "Explosive Growth Forecast . . . 1 Year: 2000%-2200%" What do you think? Good deal?

*Are you considering spending a portion of your retirement savings on a second home or a major upgrade of your current home? If you are willing to talk about your plans on the record with your name used in the column, I'll ask a financial expert whether those plans make sense. Send your information to [hamiltonm@washpost.com](mailto:hamiltonm@washpost.com).*

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