Friendly Fire: When Family Can’t be Trusted

BY WILLIAM ATKINSON
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James D. Hallett sensed that something was not right. The CFP, who’s president and chief compliance officer of Hallett Advisors in Port Angeles, Wash., was in an “urgent meeting” called by a client’s wife, her brother and her sister-in-law.

The wife said her husband had recently been diagnosed with dementia. “She said she did not understand their finances and added that ‘my husband always handled things,’ ” Hallett says. “Immediately, her brother launched into a detailed set of questions about my client’s investments, which included jointly owned accounts and [IRAs] in the husband’s name.”

Hallett responded that he could answer the brother’s questions about the joint accounts only with the permission of the client’s wife. But without a durable power of attorney from the husband, Hallett couldn’t release any other information to anyone but his client.

“This made the brother and sister-in-law quite upset,” Hallett says, “and the two of them accused me of making it difficult for them to take care of my client and my client’s spouse. My radar detected that this meeting was a money grab, where these so-called caregivers were attempting to exploit the situation for their own financial benefit,” he says.

“After they left, I called my client,” Hallett says. “Without disclosing what his spouse or in-laws had wanted, I determined that my client could still speak for himself and still knew all of the details of his accounts and their financial plan.”

Nothing further came of the situation, and there has been no follow-up from any of the attendees.

“Nevertheless, I have advised my staff to flag this account and not release any information to anyone, including my client, without my prior authorization,” he says.

This is but one example of a problem that can occur as a client ages. Clients who first sat in an advisor’s office decades ago with twinkles in their eyes as they excitedly discussed their long-term financial plans may now have glassy stares and struggle to respond to questions.

Seeing clients battle cognitive issues can be personally challenging to an advisor, and it may also become challenging professionally.

Though there may be times when family members become useful support systems, there can be other situations in which they are circling vultures. Furthermore, events with aging clients can sometimes occur so quickly they can blindside even an attentive advisor.

EXPLOITING THE ELDERLY

Seniors lose at least $2.9 billion annually to financial exploitation, and about one in five Americans 65 or older has been victimized by fraud, according to Kenneth E. Bentsen Jr., CEO of SIFMA.

Elderly people are more likely to be financially exploited by family members or close associates than strangers. “It is estimated that 55% of financial abuse in the United States is committed by family members, caregivers and friends,” Bentsen said at a recent SIFMA conference.

As a result, one important responsibility of an advisor is to be able to learn and fully grasp the details, nuances and dynamics of each situation.

It is important to accurately determine the intentions of family members when real cognitive decline does occur.

“If we see a client beginning to slip mentally, we send out a follow-up letter to the client documenting our discussion and any decisions that were made,” says Mike Berry, a CFP and the founder of Legacy Wealth Management in Grand Junction, Colo.

CREATING DOCUMENTATION

The idea is to help reinforce action points for the client, as well as having it in writing in case Berry and his firm need documentation for the future. “We also begin a conversation with the client to see if they might want to have us send a copy of our letter to a child or other family member,” Berry says.

Berry recently encountered such a situation. “I noticed that one of my older clients was starting to forget appointments and not recalling changes we were making to her portfolio,” he says.

The first step was to start reminder phone calls the day of the appointment. During one meeting, Berry brought up the idea that he and the client should review such items as power of attorney and beneficiaries.

“This led to an easy transition of asking her if she would like me to send a copy of our follow-up letter to her POA or anyone else,” he says.

Berry also assured the client that she could have someone else she trusted come to meetings with her. “Not long after that, her daughter began coming to our meetings and got fully up to speed on her mother’s finances,” he says.

Another important responsibility for advisors is to stay in close contact with aging clients, because major life events can sometimes occur precipitously.

As his way of keeping track of the details and nuances, Walter Pardo, founder and managing partner of Wealth Financial Partners in Basking Ridge, N.J., understands the value of taking notes.

“It is important for every advisor to take copious notes during every conversation they have with all of their clients,” he says. “If you start noticing changes, you should take note of these.” Be observant, for example, if clients seem to be forgetting details, repeat themselves or sign documents differently.

“In such situations, I will contact the client’s power of attorney, a joint tenant or an officiary with whom we are familiar and in communication, and suggest that we need to keep an eye on the situation,” Pardo says.

Still, even frequent contact may not be enough to stay ahead of unexpected problems. Pardo shares two such examples.

“In one situation, I had an 80-year-old client who was a widower with no children and living with his brother, who was taking care of him,” Pardo says.

The brother died, however, and soon after, Pardo wasn’t able to contact the client at home. Eventually, he called the police, who told him that the man had fallen and broken a hip and had been admitted to a hospital. “When we finally located the hospital, they reported he was in rehab,” Pardo says. “The people at the rehab facility told me that the man had some nieces and nephews, one of whom lived nearby.”

Pardo explained to the client that he needed to assign powers of attorney, with the nieces and nephews as beneficiaries.

UNINTENDED OUTCOME

In another situation, a client was near death. The client had originally specified that his brother would receive his money upon his death.

After the client's death, the brother found that this wasn't the case. The client had subsequently specified that a lot of his money would go to what Pardo termed a "religious cult." Members of the cult had come in to "help" the client during his last days and talked him into signing papers.

"The brother is now contesting the will, based on the level of awareness his dying brother had at the time he signed the documents," Pardo says.

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