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COMPLY-Rising dementia among US clients seen risky for brokers MS.NWFC.N - RTRS

21-Sep-2012 13:01

By Suzanne Barlyn

Sept 21 (Reuters) - Taking direction from elderly clients whose mental capacity is on the decline causes some sticky problems for Wall Street's brokers.

Among them: wire instructions to an overseas bank account that you think belongs to a scam artist. Family members or regulators who complain about a client's erratic transactions years later.

They are challenges that Wall Street brokers must prepare to confront as waves of roughly 77 million Baby Boomers hit retirement age over the next two decades. The oldest of them turned 65 last year.

By 2030, about 18 percent of the U.S. population will be at least 65, up from 13 percent last year, according to the Pew Research Center. Dementia is also on the rise. Alzheimer's disease will strike about 8 million Americans ages 65 and over in 2030, up 60 percent from 2010, according to the Alzheimer's Association.

For Wall Street, that means millions more clients who are ill-equipped to make financial decisions. The securities industry is already looking for solutions.

"Broker-dealers will eventually need help from state regulators to deal with clients with dementia," said Ronald Long, director of regulatory affairs for Wells Fargo Advisors, a unit of Wells Fargo & Co WFC.N during a recent industry conference.

Long believes that state securities regulators should give brokerages authority to place holds on clients' accounts when advisers are concerned about a client's mental capacity until the firm can locate someone, such as a family member, to help make decisions. Brokerages would be allowed to make limited transactions during that time to maintain the account value, he suggests.

The legal change, in many cases, may still be years away. In 2010, Washington became one of the few states to have such a law. Adopting similar legislation elsewhere will likely take time.

Until then, brokers should rely on their instincts and common sense to protect clients - and themselves.

"There’s a significant risk that someone other than the customer is going to look back at transactions to see what happened," says **Richard Roth**, a New York-based securities lawyer who represents brokers. And by then, clients are either dead or too infirm to give their version of the events, he said.

GETTING IT RIGHT

Following through on a hunch that a client may not be thinking clearly is one of the biggest challenges brokers face. Raising questions about a client's mental acumen early on could push the client to find a new adviser - especially if the broker is wrong.

"It's a tricky problem," said one Midwestern broker for Morgan Stanley Smith Barney, who recently contacted a couple in their late 80's about how to invest the principal of a bond that came due. The husband, he learned, was recovering from a heart attack. The wife was already incapable of understanding his questions.

The broker contacted family members to help locate documents such as power of attorney that gave the couple's son authority to make decisions.

The broker declined to give his name because he is not authorized to speak to the media.

But in other cases, the signs may not be as clear. For example, a client who repeats a trade order he discussed just days earlier may signal mental trouble, or a one-off instance of forgetfulness. What's more, direction from family members and important legal documents may be difficult to come by.

Brokers working with elderly clients can beef up their precautions. First, check the firm's policies for guidance on determining whether a client has a power of attorney and when a situation is serious enough to alert the compliance department, which may decide to halt transactions.

Another idea: schedule meetings around 10 a.m., when at-risk clients are most likely to be alert, said Helen Modly, executive vice president of Focus Wealth Management, a registered investment adviser in Middleburg, Virginia. Avoid restaurant meetings where noise and distractions may cloud the discussion.

Modly limits her meeting agenda to three concepts. She then reviews them again with clients before the meeting ends.

Creating a paper trail can also help advisers defend themselves if questions crop up later, says **Roth**, the lawyer. That might include a letter to a client explaining that she instructed you to buy 100 shares of a certain stock but did not remember giving that instruction later in the week, he said.

STREET PREPARATION

The influx of Baby Boomer retirees will also mean changes on Wall Street.

Nearly 80 percent of advisers, for example, want more training on dementia issues, according to a 2011 report by AARP Public Policy Institute, which studied the problem among various types of financial advisers. Only about one-third of advisers now undergo training.

The shortage of training stems from a limited number of offerings to advisers, said Ryan Wilson, senior strategic policy adviser for AARP. While some brokerages, such as Wells Fargo Advisors, require annual training on the subject, other programs are hard to come by.

The securities industry may also need to develop a uniform response for advisers who witness a questionable transaction. For example, more than half of advisers will place a hold on an account until they receive direction from a supervisor or compliance officer, according to the AARP study. But many compliance officers surveyed said that advisers should hold only "detrimental" transactions. That may not be possible to determine, however, until after a transaction is complete and the money is gone.

Having more legal clout from regulators to place those holds could eliminate some uncertainty about the process. It would also relieve brokerages of another awkward measure: running to regulators for emergency orders to halt transactions.

For Wells Fargo's Long, the problem of dementia should involve not just Wall Street, but entire communities. Brokers, he said, are already walking a thin line on the issue.

"We can’t turn the brokers into social workers," he told regulators.

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Keywords: COLUMN WALLSTREET/DEMENTIA