When my dad retired from teaching high school in 1991, he bought a long-term care insurance policy. In 2009, he fell while stepping off a curb and hit his head. When I saw him a week later, he was talking less than usual and struggling to get out of chairs. He never really recovered. Two years later, he canceled his long-term care policy, a policy he'd had for 20 years. And, two years after canceling the policy, he had a severe stroke and spent the last year of his life in long-term care facilities uninsured. Throughout most of his life, my father was a smart man with a good head for numbers and finance, but canceling his long-term care policy at 85 was a bad financial decision. Dad was no longer thinking clearly. He bought insurance to protect against cognitive and physical impairment that made that might make him unable to care for himself. But when cognitive impairment set in, he was vulnerable, not protected.

How can we protect ourselves against our own bad financial decisions when we get old? Nearly one third of people 85 and older suffer from dementia, and nearly one third have cognitive impairment without dementia. On average, scores on financial literacy tests drop about 1% a year as we get older. However, on average, people's confidence in their financial literacy does not drop as they age. In fact, one study found that older people had lower understanding of insurance, yet greater confidence in their understanding. Thus, not only will many of us someday lose the ability to make sound financial decisions, but we may remain unaware of the loss. So, it's a good idea to take some steps now to protect your future self from bad decisions you haven't yet made. I don't know of a really good solution to this problem. I'm going to suggest a few possible or partial solutions.

The first is to acknowledge that you, yourself, could someday suffer from cognitive decline that prevents you from making good financial decisions. Think about who you would want to make financial decisions for you if you were unfit to make them yourself. Sometimes, your children are a good choice. Sometimes not. Some people will want to have a paid professional fiduciary manage their finances when they can no longer do so. Talk to your spouse, your children, and your financial advisor about what will happen if you can't make financial decisions for yourself. And if you have aging parents, have a talk about preparing for the possibility of cognitive decline. It's not an easy conversation, but ignoring the possibility isn't going to make it go away, and it's far better to have this talk before a parent makes bad financial decisions than afterwards.

If you have your assets in a trust, you can appoint a trusted person as a co-trustee while you are still competent with provisions for him or her to take over as sole trustee when you aren't. Alternatively, you may give a trusted person power of attorney to make financial decisions for you. While both of these approaches lower the chance of you making a disastrous financial decision, you could still find a way to do so. If you're married, start sharing the responsibility for investment and financial decisions while you and your spouse are both competent.

For decades, my father handled my parents' investment decisions. He enjoyed doing so. However, since my mother was not involved in these decisions and Dad had done pretty well so far, she assumed he
knew what he was doing when he canceled his long-term care policy. Discussing and making financial decisions together also better prepares the surviving spouse for the financial life after her or his partner dies. While you are still completely competent, choose a financial confidant-- a family member, a trusted friend, a financial advisor, if possible, someone younger than you-- and develop the habit of discussing every significant financial decision-- major purchases, investments, insurance-- with this person before you act. At first, these discussions might seem trivial and unnecessary. You know what you're doing, so why waste someone else's time? But it's important to check in with this person every time you're considering a financial decision. Why? Because you're trying to establish a dependable habit, and you want that habit firmly in place before you need it.

One way to protect your future self from making major financial mistakes is to buy a deferred income annuity that is irrevocable and has no cash surrender value. As I discuss in the video on deferred income annuities, a deferred income annuity typically pays you a monthly income starting some years after you buy it and continues paying until you die. For example, you might buy a deferred income annuity when you were 70 that started paying you an income at 85. Deferred income annuities protect you from outliving your savings. But they also protect you from doing something stupid with your savings. The annuity provides you with monthly income, but you can't cash it in and give the money to a con man or invest it in a hot stock or buy even hotter real estate. Don't do financial business with people you don't know who call you up on the telephone or send you an email. Don't attend free lunches or dinners offered by companies selling investments or real estate. The free lunch makes people feel that they owe the company something, and, thus, more vulnerable to the ensuing sales pitch. And try to keep yourself cognitively healthy. The best way to do so is to exercise regularly. Finally, how's your hearing? Recent studies find that people with untreated hearing loss are much more likely to develop dementia. So, if you have trouble hearing, get a hearing aid and wear it. I always wear mine.