

> **YOUR HOME FOR
REAL ESTATE INFORMATION.**

THE WALL STREET JOURNAL | REAL ESTATE

FIND IT ALL HERE >>>

THE WALL STREET JOURNAL.

WSJ.com

SEPTEMBER 10, 2009, 1:56 PM ET

Financial Skills Decline With Age

Aging athletes can wistfully point the time when their aches and pains overwhelmed the advantages of experience they'd accumulated over the years. It turns out that something similar happens with financial skills, according to [a paper](#) to be presented Thursday afternoon at the **Brookings Institution**.

Economists **Sumit Agarwal**, John Driscoll, **Xavier Gabaix** and **David Laibson** looked at the interest rates that borrowers of different ages paid on credit-card debt, home-equity loans, lines of credit, and other types of debt. They found a U-shape to the data, with people paying gradually lower interest rates and fewer fees as they aged until they reached their 50s, when the rates and fees they paid began to climb. (The economists controlled for differences other than age among the different borrowers.) ([Read a related article.](#))

The reason: Young, inexperienced borrowers are likely to pay high rates and fees, but as they gain financial experience, the rates and fees they pay fall. But at some point (when they are 53 years old, on average, according to the research) borrowers' cognitive ability begins to decline, and rates and fees climb.

The economists say their results suggest that regulators should examine ways to help the elderly, in particular, avoid financial errors that can result from lost cognitive ability. Because returning to work can be difficult for them, their ability to bounce back from mistakes is limited, the economists point out. Moreover, "young adults may make financial mistakes, but they rarely have severe cognitive impairments. Being a foolish 20-year-old credit card user probably bears little comparison to the financial dangers posed by dementia."



Vikings quarterback Brett Favre has struggled with the decision to retire, but he may need to worry about his financial skills, too. (Getty Images)

Copyright 2008 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com