TAY REES/GETTY IMAGES

The Crime of the 21st Century

Protect yourself and loved ones from financial abuse of the elderly.

Some recent high-profile cases have thrust elder financial abuse into the spotlight. Think of former child star Mickey Rooney. Far from his Super Bowl commercial that was banned by Fox television because a falling towel exposed his 84-year-old bare bottom, Rooney tearfully testified before a U.S. Senate committee last March that he was a longtime victim.

Or New York socialite and philanthropist Brooke Astor. The years after her 2007 death at age 105 were punctuated by a sordid trial that led to her son's conviction for what *Vanity Fair* called a "scheme to separate the Alzheimer's-addled Mrs. Astor from her $187 million fortune."

Financial exploitation of older Americans usually lives in the shadows, hidden by fear and shame and all too often blurred by the haze of mental impairment. Yet the abuse is as prevalent as it is perverse—and appalling. A study released last

PLUS: GET FREE PERSONAL ADVICE BY PHONE. SEE PAGE 42 FOR DETAILS.

summer estimates that the elderly are swindled out of nearly $3 billion a year. That's likely just the tip of the iceberg because it's believed that the vast majority of cases never see the light of day.

A 2010 survey found that 7.3 million older Americans—one in five of those over age 65—have been ripped off. And half of those questioned reported signs of vulnerability. Don Blandin, head of the nonprofit Investor Protection Trust, which funded the study, says the findings make it clear that "a shockingly large number of older Americans are already victims of financial swindles, and millions more are in danger of being exploited."

The Willie Sutton effect

The elderly are unquestionably tempting targets. Remember what the notorious bank robber Willie Sutton supposedly said in answer to the question of why he robbed banks? *That's where the money is.* After a lifetime of working and investing, older Americans possess an enormous concentration of wealth. One study says baby-boomers control more than $13 trillion in assets.

Plus, older people can be easy prey. "People who grew up in the 1930s, 1940s and 1950s were generally raised to be polite and trusting," notes the FBI in a warning about senior fraud. Sound like anyone you know? Your parents? Grandparents? "Con artists exploit these traits," says the FBI.

Don't blame elders' vulnerability all on old-fashioned politeness, though. Research by Harvard behavioral economist David Laibson and others found that although financial acuity generally increases as we gain experience and move into middle age, at a certain point mental abilities decline sufficiently to undermine the value of experience. According to this research, the sweet spot for financial decision-making is age 53.3. After that, on average, we stand on increasingly shaky ground when it comes to making sound financial decisions.

It gets worse.

It is believed that more than one-third of Americans over the age of 71 have mild cognitive impairment or Alzheimer's disease. That, says Robert Roush, of the Huffington Center on Aging at Baylor College of Medicine, makes them particularly susceptible to investment swindles and other financial abuse.

One final ingredient creates a potent, perfect storm: Today's volatile stock market and near-zero interest rates on savings can make desperate older investors even more vulnerable to scam artists promising financial security. Is it any wonder the MetLife Mature Market Institute calls elder financial abuse *the* crime of the 21st century?

THE PEAK AGE FOR FINANCIAL DECISION-MAKING

53.3

From your twenties to middle age, increasing knowledge and experience make you a better decision maker. But studies show that, on average, things turn around a few months after you turn 53. From then on, the chances of making a financial blunder or being taken in by a swindle increase. This doesn't apply to everyone, of course. There are plenty of financial wunderkinds in their twenties, and Warren Buffett isn't doing so badly in his eighties.

Lurking dangers

What kinds of financial traps have been set? Sally Hurme, senior project manager in education and outreach for AARP, paints the answer with a broad brush: "Financial exploitation is any of the multiplicitous ways in which people try to trick, connive or scheme to relieve older persons of their money or property," she declares. The variety of schemes, the FBI notes, "is limited only by the imagination of the con artists who offer them."

Among the potential perils:

Annuities. These investments, which promise tax-favored growth and lifetime income, can be terrific. Or they can be lousy deals if the seller is more interested in pocketing an outsize commission than in the buyer's well-being. The complexity of some deferred and equity-indexed annuities, for example, can confuse even the sharpest investor.

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Regulators have frequently fined insurers for pushing seniors toward unsuitable annuities.

Even relatively straightforward immediate annuities can be overly hyped. At a time when top five-year CDs yield just over 2%, for example, a fixed annuity can be promoted as a miracle. A 70-year-old widow in New York who invests $100,000 in an immediate annuity might be promised lifetime payments of $650 a month ($7,800 a year). That might sound like a 7.8% yield, but it's far from it. The payments you receive are a combination of earnings and a return of part of your investment. Yes, payments are guaranteed as long as you live, but they are also usually guaranteed to stop as soon as you die. Again, it could be a sound investment, but only if the buyer fully understands what she's getting into.

Telephone fraud. According to the FBI, people over 60, especially women living alone, are special targets of people who sell bogus products and services over the phone. It may be a solicitation for a charitable contribution in response to a tragedy in the news. Or it could be an announcement that you've won a prize—if you'll just send some money to cover the pesky tax bill. And be especially wary if you've been victimized in the past: You might get a call from someone offering help to retrieve your money . . . for a price.

Mortgage help. The popping of the housing bubble, and the foreclosure crisis that followed, provide fertile ground for scams aimed at desperate homeowners. Matt Swenson, of the Minnesota Department of Commerce, reports that the state has cracked down on bogus "loan modification" firms that promise to aid homeowners threatened with foreclosure but simply make matters worse by taking fees for services that are never performed.

The Nigerian letter. In this classic scam, a purported government official seeks help to illegally transfer millions of dollars from Africa to the U.S. The target is recruited to help with the scheme by fronting cash to cover expenses such as taxes, legal fees and bribes, all with the promise that the funds will be reimbursed and the victim will be well rewarded (see the box at right for a frightening look at a variation on this scam).

HOW IT HAPPENS IN REAL LIFE: ANATOMY OF A SCAM

It was a late-night phone message that tipped off Steve Goldberg, a Washington, D.C., investment adviser, that something was amiss. Goldberg was startled by a request from a broker to wire $270,000 from a wealthy—and elderly—client to a bank in London. Immediately, Goldberg smelled a rat.

The client (we'll call him Mr. Smith) had previously mentioned that he expected a big inheritance, but his reluctance to offer details raised Goldberg's suspicions. So he told the broker to delay the transfer.

Slowly, Goldberg unraveled the scheme. The initial bait sounded like something only a fool would fall for. A fax purporting to be from a staffer on the Swiss Banking Commission claimed that someone with the same last name as Goldberg's client had died in 1996 without a will, leaving $17.5 million unclaimed. The civil servant wanted Smith to misrepresent himself as a long-lost cousin, collect the cash and divvy it up with the schemer.

Smith is in his eighties, sharp and still working. But as the accompanying story notes, it's not uncommon for financial skills to deteriorate with age.

Once he responded to the scam artists, Smith found himself in the hands of skilled criminals. He hired the Swiss lawyer they recommended—or, at least, he thought it was a Swiss lawyer—to investigate the deal. He made phone calls to "officials" in Berne and London, and he received return calls.

Over several months, Smith handed over $1.3 million in pursuit of a big score—all before he became Goldberg's client. The scammers first said he had to pay Swiss inheritance taxes, then user fees, then new fees tacked on because of anti-terrorism laws. It all sounded plausible. And the deeper he became ensnared, the easier it became to defraud him.

When Goldberg first warned of a swindle, Smith angrily disputed the possibility. "I need this wire to go out or I lose the whole thing," he pleaded. Searching for a way to protect his client without violating his privacy, Goldberg turned to Todd Schwartz, a Portland, Ore., attorney. His advice was to call in the FBI. "We're going to make an assumption that he's being abused because he's elderly," Schwartz told Goldberg. "Elder-law statutes should protect you. Confidentiality stops with illegal activity."

Smith eventually came to the painful realization that he had been deceived. He was deeply embarrassed and ashamed. "Few cases like this ever end with the recovery of any money," says Goldberg.

Free lunch seminars. Speaking of classics, an invitation to a free luncheon workshop can pose a financial threat. An investigation by federal and state regulators found that more than half of these seminars involved misleading or exaggerated claims, and 13% included fraudulent practices, such as the sale of fictitious investments. Even events pitched as "information only" can lead to high-pressure follow-ups.

Magazine scams. Although it may seem mundane compared with phony investment ploys, you even need to watch out for unauthorized third parties selling subscriptions or renewals to periodicals, often at outrageous prices. A *Kiplinger's* subscriber reports that his late mother continues to receive such solicitations. One looked like a bill offering a year of *National Geographic* "at one of our lowest rates!" The cost: $59.88. Ironically, the same batch of mail included a solicitation for the real *National Geographic* for $12 a year. The Federal Trade Commission warns consumers to beware of any telephone sales pitch for free or prepaid subscriptions. To protect against fake renewal schemes, check the address you're asked to send money to against the address you'll find in the latest issue of the magazine that you've received.

Who can you trust?

It might seem that common sense should inoculate most people from these kinds of threats. *If it sounds too good to be true, it probably is. Take your time. Check out any proposition with a reliable, neutral source.* That's all great advice. But the prevalence of senior financial abuse should disabuse you of the belief that common sense is sufficient. The perpetrators fall into two groups, according to AARP's Hurme: members of your inner circle, such as family, and strangers, who can be real pros at taking advantage. According to a MetLife Mature Market Institute survey of reported swindles, 51% of the scammers were strangers, and 34% were family, friends or neighbors.

"I call the strangers 'wolves in sheep's clothing' because to be a successful exploiter, you can't look like one," Hurme says. "You have to be sneaky, conniving, and you have to develop a sense of trust."

So should we follow the advice from the *X Files* and trust no one? "I'm not going to say that," she continues. "But you may not be able to trust your kids, your caregiver, your banker, your attorney, your financial planner or the joint owner on your bank account. I'm sorry. It's pretty gruesome. It's grim."

RED FLAGS

The Washington State Department of Financial Institutions warns that an investment pitch that features **ANY OF THE FOLLOWING** should set off alarm bells.

A chance to get in **"ON THE BOTTOM FLOOR."**

The need to make a decision **"RIGHT NOW"** or you'll miss your chance.

The promise of **"GUARANTEED PROFIT"** at **"MINIMAL RISK."**

Assurance that a deal is based on **"INSIDER INFORMATION."**

Reluctance to provide documentation because an offer is based on **"CLASSIFIED INFORMATION."**

What *can* you do?

- Start by talking with your parents or grandparents to make them aware of the threats. Don't wait for them to alert you to a problem; they may not be aware that they are being exploited or, if they realize it, they may be ashamed or concerned that admitting their failing might lead to a loss of independence.

- Tell your parents that you want to protect them by helping them go through their mail and monitor their accounts for unusual activity. Help them get copies of their credit reports

Continued on back flap

“Financial fraud is elder abuse, pure and simple.”

Dr. Robert Roush, Baylor College of Medicine

“Older people control 70% of the wealth in this country. So the money is there and you have professional scam artists who know where the money is and they’ve developed a great set of skills to go get it.”

Joe Snyder, Philadelphia Adult Protective Services

“Most licensed broker-dealers and investment advisors are legitimate. But there are a few bad apples like there is in everything else in life. They can really come forth with a product that is too good to be true—and probably is—and they use it like an instrument of mass destruction. It’s a very dangerous situation today and it’s getting more dangerous.”

Robert Lam, Pennsylvania Securities Commission

State securities regulators in 27 states and jurisdictions are protecting seniors from financial exploitation through the Elder Investment Fraud and Financial Exploitation (EIFFE) Prevention Program. The EIFFE Prevention Program is designed to be a “prescription for prevention” of elder investment fraud to prevent vulnerable older Americans from losing their hard-earned money.

The nationwide effort utilizes continuing medical education courses to educate U.S. medical professionals about elder investment fraud and, when recognizing the signs of financial abuse among their older patients, provide referral routes for further medical screening and report suspected fraud to state securities regulators and adult protective services professionals.

SELECTED STATE ACTIVITIES

The Pennsylvania Securities Commission is working with the University of Pennsylvania on the EIFFE Prevention Program and held its first training in October. The Commission also produced a nine minute video on elder investment fraud for public television, from which the above quotes are drawn. You can view it at: **http://www.investorprotection.org/learn/?fa=eiffeVideo**.

The Iowa Insurance Division is working with the University of Iowa on the EIFFE Prevention Program and will hold its first training in early 2012. The University of Iowa is a leader in research related to aging cognition, including research on diminished decision-making capabilities.

The Alabama Securities Commission is working with the University of Alabama at Birmingham and Dr. Daniel Marson, who developed the Financial Capacity Instrument, the only instrument of its sort validated on persons with dementia. Alabama held its first EIFFE Prevention Program training event in October.

The 27 participating states and jurisdictions are: Alabama, California, Connecticut, Colorado, Delaware, District of Columbia, Georgia, Idaho, Illinois, Indiana, Iowa, Kentucky, Maine, Michigan, Minnesota, Nebraska, North Carolina, New Jersey, New Mexico, Oklahoma, Oregon, Pennsylvania, Puerto Rico, Tennessee, Utah, Vermont, and Washington.

Investor Protection Trust

Elder Investment Fraud and Financial Exploitation — EIFFE PREVENTION PROGRAM

Investor Protection Institute

http://www.investorprotection.org

State securities regulators in 27 states and jurisdictions are protecting seniors from financial exploitation through the Elder Investment Fraud and Financial Exploitation (EIFFE) Prevention Program.

For more information on the EIFFE Prevention Program visit:
http://www.investorprotection.org/learn/?fa=eiffe

Alabama Securities Commission
1-800-222-1253
http://www.asc.alabama.gov

California Department of Corporations
1-866-275-2677
www.corp.ca.gov

Colorado Division of Securities
303-894-2320
http://www.dora.state.co.us

Connecticut Department of Banking, Securities Division
1-860-240-8230 or
Toll Free 1-800-831-7225
http://www.ct.gov/dob

District of Columbia Department of Insurance, Securities and Banking
202-727-8000
http://www.disb.dc.gov

Delaware Department of Justice, Investor Protection Unit
302-577-8424
http://www.state.de.us/securities

Georgia Secretary of State, Securities Division
404-656-3920
http://www.sos.ga.gov/securities/

Idaho Department of Finance
1-888-346-3378
http://finance.idaho.gov

Office of the Illinois Secretary of State, Securities Division
1-800-628-7937
http://www.avoidthescam.net

Indiana Office of the Secretary of State, Securities Division
1-800-223-8791
http://www.IndianaInvestmentWatch.com

Iowa Insurance Division
1-877-955-1212
http://www.investsmartiowa.gov

Kentucky Department of Financial Institutions
1-800-223-2579
http://www.kfi.ky.gov

Maine Office of Securities
1-877-624-8551 or 207-624-8551
http://www.maine.gov/pfr/securities/index.shtml

Michigan Office of Financial and Insurance Regulation
1-877-999-6442
http://www.michigan.gov/ofir

Minnesota Department of Commerce
651-296-4026
http://www.commerce.state.mn.us

Nebraska Department of Banking and Finance
1-877-471-3445
http://www.ndbf.ne.gov

New Jersey Bureau of Securities
1-866-I-Invest
(1-866-446-8378)
http://www.njsecurities.gov

New Mexico Securities Division
1-800-704-5533
http://wwwRedFlagsNM.org

North Carolina Department of the Secretary of State
1-800-688-4507
http://www.sosnc.com

Oklahoma Securities Commission
405-280-7775
http://www.securities.ok.gov

Oregon Division of Finance and Corporate Securities
1-866-814-9710
http://www.dfcs.oregon.gov

Pennsylvania Securities Commission
1-800-600-0007
http://www.psc.state.pa.us

Puerto Rico Commissioner of Financial Institutions
787- 723-3131
www.cif.gov.pr/index_eng.html

Tennessee Securities Division
1-800-863-9117
http://www.tn.gov/commerce/securities

Utah Division of Securities
801-530-6600
http://securities.utah.gov

Vermont Securities Division
802-828-3420
http://www.bishca.state.vt.us

Washington State Department of Financial Institutions
1-877-RING-DFI
(1-877-746-4334)
http://www.dfi.wa.gov

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EIFFE Prevention Program — Elder Investment Fraud and Financial Exploitation

Investor Protection Institute

http://www.investorprotection.org

at Annualcreditreport.com to make sure they aren't victims of identity theft.

■ Put your parents on do-not-call lists. Most telemarketers will stop calling once a number has been on the National Do Not Call Registry for 31 days. You can register home and cell phone numbers free at www.donotcall.gov or by calling 888-382-1222.

■ Offer to help your folks develop a spending plan (don't call it a budget). This will give you a chance to see how much money they have coming in and how they're spending it.

■ Warn them about free lunch seminars and, if they have fallen prey to a high-pressure salesperson, contact that person and ask him to stop calling. If you suspect investment fraud, contact the Securities and Exchange Commission's Office of Investor Education and Advocacy at 800-732-0330, your state's securities regulators (you'll find links to regulators at www.nasaa.org) or your state's Adult Protective Services, the agency that investigates reports of elderly financial abuse. To find your state APS office, visit the Web site of the U.S. Administration on Aging's National Center on Elder Abuse, at www.ncea.aoa.gov, and click on "state resources" or call the elder-care locator at 800-677-1116.

Expressing your concern about your parents' investing acumen does not have to be insulting or threatening. Plenty of very sharp investors were taken for a ride by Bernard Madoff's multibillion-dollar Ponzi scheme. Perhaps the best way to avoid such a fate is to keep things simple, sticking with stocks, bonds and mutual funds rather than esoteric investments.

You may get some help from your parents' doctors. A new program developed by the Investor Protection Trust, the North American Securities Administrators Association, the National Adult Protective Services Association and the Baylor College of Medicine aims to educate physicians about some of the telltale signs of financial exploitation. Because seniors with mild cognitive impairment seem particularly vulnerable to financial abuse, Baylor created a pocket guide for physicians listing warning signs and including resources for social services, investor protection and legal advice. You can find a copy at the IPT Web site, www.investorprotection.org. ■