How to Spot and Stop Elder Financial Abuse

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Elder Financial Abuse costs billions, affects thousands of Americans and is on track to get even worse.

According to the U.S. Department of Justice, financial exploitation has become one of the most prevalent forms of elder abuse. Such abuse, according to the National Center for Elder Abuse, costs older Americans $2.9 billion each year. As staggering as that number may be, the problem is actually much worse because many incidents of financial elder abuse go unreported. The National Adult Protective Services Association has found that 43 out of 44 elder financial abuse cases go unreported.

While financial exploitation is not limited to the elderly, as a group older Americans are particularly vulnerable. A white paper from the SEC's Office of the Investor Advocate, explains that "cognitive decline is a key factor…When cognitive decline begins, financial impairment is often one of the earliest signs for patients, families and doctors." Some older people lose their ability to judge trustworthiness and riskiness, making them more susceptible to scams. According to a 2011 MetLife study, white females between 70-and-89-years-old were the most likely victims because of cognitive impairment and isolation. The Alzheimer's Association reports that 15 to 20 percent of people 65+ have mild cognitive impairment and 1/3 of them will develop dementia within five years.

Two other factors contribute significantly to the elderly being exploited more than othes. First, after decades of working, investing and saving they have accumulated more wealth than other demographic groups, making them an attractive target. According to the Securities Industry and Financial Markets Association, people over 50-years-old own 77 percent of all financial assets in the United States.

Second, as outlined by the Office of the Investor Advocate, "the shift from defined benefit to defined contribution plans has placed responsibility onto the elderly themselves to manage their retirement savings – ironically, just at a time in their lives when their ability to do so may become impaired." Defined contribution plans require the holders to make decisions about their savings, including how much to spend, what to spend it on, and what to do with the balance. If they're unsure of those decisions, they often seek advice from others, potentially opening the door to being exploited by wrongdoers.

The federal Elder Justice Act of 2010 defines elder financial abuse as "the fraudulent or otherwise illegal, unauthorized, or improper act…that uses the resources of an elder for monetary personal benefit, profit, or gain that results in depriving the elder the rightful access to, or use of, benefits, resources, belongings, or assets."

Types of Elder Financial Abuse

Financial exploitation of the elderly can take many forms, but generally falls into one of two categories: financial abuse or elder fraud.

Financial abuse refers to situations in which a person of trust (usually a family member, friend, or advisor) is behind the exploitation. According to a May, 2018 survey by Wells Fargo & Co., nearly 20 percent of Americans 65+ have been impacted by financial elder abuse. Examples of financial abuse include cashing a victim's check without their knowledge, withdrawing funds from an account without authority, and using credit cards or ATM cards without permission.

Elder fraud, on the other hand, usually involves scams run by strangers. One of the most common scams is called a government scam. "In government scams, the scammers pose as government officials requiring their victims to wire cash or use prepaid debit or gift cards to pay bogus IRS tax bills," explains Bruce Kelly, writing for InvestmentNews.com. Another scam involves bogus contests. "In prize and sweepstakes fraud, the victim will receive a fake telemarketing call and be informed he or she won a lottery or sweepstakes but must pay taxes on the jackpot before claiming the prize money." Grandparent and sweetheart scams are also common. In granny scams, someone impersonating a grandchild contacts the victim, claiming they need money for an emergency. In sweetheart scams, elders are conned out of money or property by a new friend with promises of love and/or companionship.

Research in 2017 by the North American Securities Administrators Association provided some insights into the frequency of specific issues related to elder financial abuse.

Elder Abuse Financial Fraud Cases

Issue	**Pct. of Cases Reported**
Third party abuse/exploitation	27
Account Distributions	26
Family member, trustee or power of attorney taking advantage	23
Diminished Capacity	12
Combined diminished capacity and third party abuse	12
Fraud	6.3
Elder Exploitation	5.7
Friend, housekeeper or caretaker taking advantage	<1
Excessive withdrawals	<1

Kelli B. Grant, a personal finance writer for cnbc.com, reports that "three in 10 state securities regulators say they have seen an uptick over the past year in cases and complaints involving senior financial fraud and exploitation, according to a new survey from the North American Securities Administrators Association. Only 3 percent reported a decline." As worrisome as elder financial abuse has become, if the demographic trends in America continue the problem could become much worse. The 2010 Census showed that there were 40.3 million Americans age 65-or-older, representing 13 percent of the country's total population. By 2030, the Census Bureau projects that 74 million Americans -- one out of every five -- will be at least 65.

Warning Signs of Elder Financial Abuse

The National Center on Elder Abuse reports that 90 percent of elder financial abuse cases are committed by someone who the victim knows and trusts – a family member, friend, caregiver or advisor. "Perpetrators are most likely to be adult children or spouses, and they are more likely to be male, to have a history of past or current substance abuse, to have mental or physical health problems, to have a history of trouble with the police, to be socially isolated, to be unemployed or have financial problems, and to be experiencing major stress," according to the New England Journal of Medicine.

When trying to spot elder financial abuse, FindLaw.com, a provider of marketing and information services for law firms, suggests you look for these signs:

- Growing interest by someone close to the elder in the elder's financial assets.
- Unusual bank account activity.
- The elder has difficulty explaining specific financial transactions.
- The elder reports having new "best friends."
- Disputes within the family regarding future inheritances.
- The elder is being encouraged to change key planning documents, such as wills, trusts, and powers of attorney.

Changes to the elder's physical or mental health should also be closely monitored because diminished capacity often precedes financial abuse. As physical strength weakens with age, many elders have to hire service providers to do the tasks they can no longer manage. That can open the door to unscrupulous service providers that prey on the elderly. While most service providers are legitimate, there are some that will gain the elder's trust, then over-charge them or charge them for work that was unnecessary.

In addition to the bullet points, above, the behavior of the elder's family members – or anyone else living with the elder – should also be watched for changes. Lynnette Khalfani-Cox, writing for AARP, warns that "self-serving family members might even convince an elderly person to transfer funds from (bank) accounts, make excessive withdrawals or make other transactions that sap the person's finances." If someone close to the elder suddenly displays a different lifestyle, you should be skeptical and investigate to be sure the new lifestyle isn't being funded by the elderly person.

What Adult Children Do

Even though elder financial abuse is often committed by family members, caring adult children can be instrumental in preventing elder financial abuse by talking to their parents about financial issues and being aware of signs that suggest a parent is being exploited

Conversations about financial matters can be difficult for both sides. Many adult children are uncomfortable when forced to parent their parents. On the other hand, aging parents may become defensive, confused or even suspicious of their children's "sudden" interest in their finances. The key to success may be for adult children to initiate those discussions well before their parents show signs of becoming incapacitated. "Dealing with financial issues before the onset of cognitive decline allows aging parents to be fully involved in the management of their estate," says Bernard A. Krooks, a nationally recognized expert in elder law. "Early and full involvement by aging parents not only preserves their dignity and right to self-determination but also allows (the children) to have the benefit of parents' intimate knowledge of their own financial affairs."

Another key to protecting aging parents from financial abuse is setting up a power of attorney or trust that includes designating a successor trustee who can take responsibility for financial matters when the need arises. (The trust should also describe the conditions that would trigger the successor trustee to take control.) "A durable power of attorney or trust can give the aging parent continued control over their financial affairs while also empowering (an adult child) to step in and help when needed," adds Krooks. Without those safeguards in place, if a parent becomes incapacitated a court would have to intervene to give the adult child authority over their parents' finances, a process that can be cumbersome and unpleasant for both the children and the parents.

Because they know their parents so well, adult children may also be able to spot subtle changes in behavior that suggest a cognitive decline. If an aging parent exhibits these behaviors, there's a pretty good chance they're susceptible to financial abuse. Some early warning signs to look for include:

- The parents' home is messier than usual.
- They wear the same clothes several days in a row.
- They have an unusual number of bruises or scrapes.
- They show less interest in personal hygiene.
- They seem confused or more forgetful than usual.
- A large amount of unopened mail is piling up.

Educating Likely Victims

A little education can go a long way towards avoiding financial scams. Senior citizens should learn about the most common types of scams and how to recognize them before being victimized. If they are unable to educate themselves, their adult children (or someone close to them) should take the time to explain how scams work.

To avoid government scams or similar ploys, never give financial information to someone who calls you. That includes the IRS (which never calls individuals about their taxes), as well as callers claiming to represent a bank or credit card company. Hang up and call customer service yourself to see if the problem is real – but don't call any phone number the caller gives you. You can also register with the national Do Not Call Registry to limit phone calls from possible scammers.

Smart phones can be helpful in the fight against financial fraud. You can set up, for free, with your credit card provider and/or bank to receive a text alert whenever your card is used or you have a bank account transaction. That will give you the ability to spot any misuse immediately and take action to stop it.

Credit reports can also be valuable tools in combatting elder financial abuse. Credit reports contain personal information, including where you live and work, as well as whether you've been sued, arrested or filed for bankruptcy. They also contain financial information such as bill payment history, loans and current debt. Credit reports should be checked regularly, ensuring that they are accurate and that no unauthorized accounts have been opened in your name.

For many people, computers and the internet have made shopping, banking and other financial transactions easier and more convenient. Unfortunately, they have also provided an opportunity for con artists to steal identities, account numbers and other personal and financial data. To minimize the risk of being victimized it is important to change your passwords occasionally (many experts recommend creating news passwords at least every six months). You should also consider *not* using the same password for all your accounts. That way, should one account be hacked, your accounts with alternate passwords would still be secure.

People who prefer to use paper for their financial statements run a different risk. Paper statements are often targeted by identity thieves who don't think twice about scrounging through trash or rifling your mail to find what they're after. If you do use paper, be sure to shred all financial documents before throwing them away.

Financial Institutions and Advisors Can Help

The bipartisan Senior Safe Act, part of a larger financial services overhaul package, went into effect in May. It strengthens protections against the exploitation of elders by giving immunity to financial institutions and insurance companies that report suspected cases of elder financial abuse. Writing for AARP, Jilenne Gunther explains the importance of granting immunity. “Employees at these institutions are often the first line of defense against financial exploitation and are instrumental in identifying and reporting suspected cases. However, institutions have often been reluctant to report these cases due to concerns about violating customer privacy regulations,” says Gunther. “This new law will provide protection…from lawsuits connected to disclosure of customer information so long as institutions have (a) reported the suspected incident to proper authorities in good faith and with reasonable care and (b) provided training to their employees.”

New rule changes from the Financial Industry Regulatory Authority have given financial advisors an additional tool to fight elder financial abuse. “Finra’s new Rule 2165, which took effect in February, allows broker-dealers to place a temporary hold on the disbursement of client funds if they “reasonably believe” financial exploitation is occurring or about to occur,” explains Bruce Kelly of InvestmentNews.com. “The rule allows an initial hold of 15 days and an extension of 10 more days if a review determines that some type of financial exploitation has occurred or could occur.” The rule gives firms time to investigate while the funds are still within their control. “Once the money leaves the firm, it’s almost impossible to get it back,” says James Wrona, vice president and associate general counsel at Finra. “We thought it was important to give firms time to reach out to a trusted contact or adult protective services, but not have the money leave.”

Reporting Suspicions

If you believe an elder is being victimized, it is essential that you report your suspicions. Many elderly victims don’t realize they have been duped until significant damage has been done. Others may realize they’re being exploited but are too embarrassed to report it. Either way, the help of a third party is often needed to end the abuse.

There are a number of steps you can take and several agencies that should be informed. Local and state social services agencies, as well as an elder abuse hotline, can be used to find help for victims of elder financial abuse. (To find the hotline in your state, visit the National Center on Elder Abuse web site at ncea.aoa.gov.)

If you think the victim’s investments have been compromised and have questions about their accounts, you should also contact the Financial Industry Regulatory Authority hotline at 844-574-3577. In addition, the victim’s attorney, financial advisor, and CPA should also be made aware of the situation. Finally, if you think an elder is being scammed, you should file a complaint with the Federal Trade Commission.

Being aware of financial fraud and scams and understanding how to spot them won’t entirely eliminate the problem. But education – and strong legislation – are our best hopes for minimizing the damage.

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Do you know someone who may be a victim of elder financial abuse? Let's discuss your suspicions. Give us a call at 800-277-0025 or send an email to asknoel@theprovestperspective.com.

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