Trends and Issues
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Causes and Consequences of Financial Mismanagement at Older Ages

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Executive Summary

The consequences of poor financial capability at older ages are potentially serious, particularly when people make mistakes with credit, draw down retirement assets too quickly, or are defrauded by financial predators. Because older persons are close to or past the peak of their wealth accumulation, they are often the targets of fraud. This project evaluated older Americans' exposure to fraud and financial exploitation, the risk factors associated with financial victimization, and the consequences of these vulnerabilities for financial security in old age.

We find that relatively few experienced any single form of investment fraud over the prior five years, but 8% did report at least one form of fraud. Moreover, one-third indicated that others had used or attempted to use one of the respondent's accounts without permission. Nevertheless, we discovered few readily-identifiable factors associated with financial victimization in the older population.

Methodology and data

We designed and fielded an experimental module in the 2016 Health & Retirement Study (HRS) to evaluate the determinants of financial exploitation and fraud, the incidence and risk factors for financial victimization, and the consequences of these for older persons' financial well-being. We also sought to identify which factors were associated with being victimized, including financial literacy, cognitive impairment, depression, and other characteristics that may increase risk of fraud and exploitation.

The HRS module, administered to a nationally representative set of Americans over the age of 50, contained two sets of outcome variables indicative of respondents' experience with financial scams. A first grouping we collect under the heading of *Fraud Victimizatio*n, asked respondents:

- In the past 5 years, did you [or your husband/wife/partner] invest money after a meeting that offered a free meal and educational information for some sort of investment, including but not limited to, a vacation timeshare or an annuity product?
- In the past 5 years, have you [or your husband/wife/partner] invested money in an opportunity that was introduced to you by a phone call or by an email from someone you didn't know?
- In the past 5 years, have you [or your husband/wife/partner] invested money in penny stocks or in investments that guaranteed daily returns of more than 10%, or participated in an investment that involved oil and gas exploration?
- In the past 5 years, have you [or your husband/wife/partner] invested money in an opportunity recommended by a friend, a relative or a financial advisor that turned out to be fraudulent?
- Investors gain and lose money all the time in financial markets for a variety of legitimate reasons. However, this question is about investment fraud, where someone knowingly misleads an investor using false information. Do you think you [or your husband/wife/partner] have ever put your money into a fraudulent investment in the past 5 years?
- *(Summary question): Had the respondent [or husband/wife/partner] been victimized by any of the above in the past 5 years?*

The second set of variables, termed *Financial Scams,* asked:

- In the past 5 years, have you [or your husband/wife/partner] paid money to someone who told you that you had won a prize or a lottery or had been selected to receive an award such as money, a free vacation, or other product or service?
- In the past 5 years, has someone without your permission used or attempted to use an existing account of yours, such as a credit or debit card, checking, savings, telephone, online, or insurance account?
- *(Summary question) Had the respondent [or husband/wife/partner] experienced any of the above financial scams in the past 5 years?*

We also examined the relationship between the respondents' (and spouse/partner, if any) change in net wealth between 2010 and 2014 in order to determine whether older persons reporting victimization experienced any significant decline in financial security and whether this was associated with having been the victim of investment fraud in the previous five years.[1]

We summarized responses to these questions and undertook multivariate analyses of the responses, controlling for various factors, including financial literacy and respondent's self-rated financial knowledge. Prior research has suggested that both factors can play a role in seniors' financial security. We also controlled on sociodemographic factors, as well as cognition scores, daily living limitations, a depression score, health, and net housing and non-housing wealth.

[1] The currently-available version of the 2016 (early release) HRS does not yet include the 2016 imputed values for assets. Moreover, the current release does not include responses for the Late Baby Boomer cohort; those responses are due to be added to the datafiles in 2018.

Results

About 1,260 respondents in the 2016 HRS completed the special module.[2] Responses regarding levels of *fraud victimization* experienced in the past five years showed that only 3% indicated that they had invested after being given a free meal; only 1% had invested in response to a contact from an unknown person or for a penny stock/oil-and-gas deal; and 1% indicated they had purchased a fraudulent investment recommended by a third party. None reported having bought what turned out to be a fraudulent investment from a relative. Though the individual questions indicated that victimization of any particular form was quite rare, as many as 8% of the respondents had fallen prey to at least one of these fraudulent activities. Accordingly, our overall incidence rate is about twice as high as what other studies have shown (though those did not probe for specific types of fraud as here).

The variables measuring *Financial Scams* had higher positive response rates: 4% of respondents indicated that they had paid to receive an award, prize, or lottery in the past five years. Unfortunately, that question did not distinguish the purchase of lottery tickets which is legal, even if not financially recommended, versus some other sort of less legitimate award. More concerning is the fact that 30% said that others had used or attempted to use one of the respondent's accounts without permission. In total, one-third (33%) had been exposed to the potential for a financial scam over the past five years. Accordingly, we conclude that the extent of financial fraud experienced by the over-50 population is definitely non-negligible.

Multivariate analysis of the outcomes measuring fraud victimization found that relatively few factors were consistently statistically significant determinants. Financial literacy was negatively and significantly associated with the probability of investing with a cold caller, but self-rated financial knowledge was not linked to any of the fraud outcomes. Hispanics are less likely to have reported being scammed by the first two categories depicted. There was no systematic association between being victimized and education or wealth levels, health or depression, age, sex, marital status, or education.

The analysis of financial scams revealed no significant link with financial literacy, but those rating themselves very financially knowledgeable were significantly more likely to indicate that their accounts had been used without permission in the past five years. This could imply that the more self-confident may simply be better at identifying when a financial scam occurs, though it might not indicate that they were, in fact, more likely to be scammed than their less-confident peers.

Finally, we investigated whether changes in older peoples' wealth were associated with experiencing financial fraud in the last five years. Somewhat unexpectedly, people reporting having been defrauded had no significant changes in non-housing wealth. Additionally, few other factors were significant in this analysis, with the exception of age: older persons experienced net housing wealth *decreases* during this period, whereas their younger counterparts did not.

Conclusions

Seniors appear vulnerable to fraud and exploitation–8% report experiencing *at least one form* of fraud over the prior five years. In addition, one-third of seniors reported that someone had used or attempted to use their financial accounts, a figure much higher than conventionally measured fraud. So financial exploitation by family and friends or identity theft by strangers is a significant concern for older Americans. Banks, insurance and credit card companies may need to enhance protections offered to older customers to ensure that older adults' funds are not accessed improperly.

[2] All data are weighted using the 2014 weights, as the 2016 weights were not available as of this writing.

About the authors

Marguerite "Marti" DeLiema is a postdoctoral research assistant at the Stanford Center on Longevity in the Financial Security Division. Her current work focuses on identifying the sociodemographic, cognitive, and contextual factors related to elder financial exploitation using qualitative and quantitative analysis methods. Her graduate research focused on elder abuse and neglect in community settings, and the tactics scam artists use to deceive older victims. Marti has published studies on how older adults from different racial/ethnic backgrounds define elder abuse and how mandatory reporters and adult protective services workers perceive elder abuse response. Before joining the financial fraud research team at Stanford Center on Longevity, Marti received her Ph.D. in Gerontology from University of Southern California and a B.S. in biological psychology from UCLA.

Martha Deevy joined the Stanford Center on Longevity in January, 2009 and serves as Director of the Financial Security Division. She has over 20 years of management experience in Silicon Valley technology and financial services companies in senior executive positions at Apple, Charles Schwab and Intuit. Having held positions in marketing, business development, product development, strategic planning, finance and IT, she has developed a strong general management background that she successfully used to define and shape the businesses she managed. She has also served on the boards of directors of a number of publicly traded and non-profit organizations. She received an M.B.A. in Finance and Management Information Systems from University of Minnesota and a B.A. in Quantitative Economics from University of Illinois.

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