Certified Financial Planner Board of Standards

Senior Financial Exploitation Study

AUGUST 2012

APCO insight®

BACKGROUND AND OBJECTIVES

Certified Financial Planner Board of Standards, Inc. (CFP Board) is a 501(c)(3) non-profit organization whose mission is to benefit the public by granting the CFP® certification and upholding it as the recognized standard of excellence for personal financial planning. CFP Board acts in the public interest by fostering professional standards in personal financial planning through setting and enforcing education, examination, experience, ethics and professional conduct requirements.

In July 2012, CFP Board contracted APCO Insight to assist with research among its nearly 67,000 CFP® professionals. Overall objectives for the research were to provide CFP Board with deeper insights and analysis into CFP® professionals' experiences with seniors who have been financially exploited. Additionally, the research is meant to:

- Inform CFP Board's response to the Consumer Financial Protection Bureau's (CFPB) Request for Information and public comment about senior financial exploitation;
- Update CFP Board's *Consumer Guide to Financial Self-Defense,* an essential part of efforts to protect American savers and investors; and
- Promote awareness and national dialogue about the value of protecting consumers and working with CFP® professionals.

METHODOLOGY

Research included both a quantitative online survey and qualitative in-depth interviews. CFP® professionals were invited to participate in the online survey via email from CFP Board. From July 24 – August 7, 2,649 CFP® professionals completed the survey. The theoretical sampling error for the full sample is ±1.9 percentage points at a 95 percent confidence interval. Data were not weighted.

The online survey included an open-ended question where CFP® professionals were asked to describe a unique or memorable experience with a senior who had been financially exploited. From these responses, a select number of CFP® professionals were invited to participate in one-on-one interviews to provide more detail and insight into these experiences. Telephone interviews were conducted from August 6 – 10, 2012; summaries can be found in the appendix of this report.

KEY FINDINGS

Findings from the Senior Financial Exploitation Survey demonstrate that older Americans (62 years of age and older) are indeed subject to unfair, deceptive or abusive financial practices and the problem is pervasive in the United States.

In particular, CFP® professionals say they see senior financial exploitation **via invitations for free financial/investment seminars, unsolicited calls for financial products/services and offers for high-yield investment products that are described as no-risk or low-risk**. Through these channels and others, CFP® professionals commonly report the **sale of unsuitable products, omission of important facts, misrepresentation and negligence or lack of follow-up by financial advisors**. By far, the **most common products involved in the subjection of an older American to unfair, deceptive or abusive practices by a financial advisor are equity indexed or variable annuities**.

Estimated losses experienced by seniors victimized by financial abuse are substantial **– $50,000 per person, on average.** Yet, while the vast majority of CFP® professionals (69 percent) encourage older victims to report such abuse to the authorities, they estimate that **only 5 percent of seniors actually follow through and report the abuse**.

More specifically the data shows that:

More than half (56%) of CFP® professionals personally have worked with an older client who has been subject to unfair, deceptive or abusive practices in the delivery of financial advice or the sale of financial products.

- 32 percent personally know an older non-client who has been subject to unfair, deceptive or abusive practices.

Seniors are being targeted for free lunches, risky investments and other abusive practices.

- 73 percent of CFP® professionals are aware of older investors who have been invited to "free meal" seminars;
- 58 percent are aware of older investors who have received unsolicited pitches for financial products or services;
- 50 percent are aware of older investors who have been offered high-yielding investments described as no-risk or low-risk;
- 34 percent are aware of older investors who have been pitched for prize-winning scams; and
- 20 percent are aware of older investors who have been subject to power of attorney or guardian abuse.

Not all financial professionals are ethical in their treatment of seniors.

- 74 percent of CFP® professionals are aware of older investors who have been offered unsuitable financial products by a financial advisor;
- 58 percent are aware of older investors who have been subject to omission of material facts about financial products;
- 48 percent are aware of older investors who have been subject to misrepresentations about financial products;
- 46 percent are aware of older investors who have been subject to negligence or lack of follow-up in connection with financial products; and
- Approximately one in five CFP® professionals are aware of malicious practices by financial advisors such as fraud with intent or lying (19%) and unauthorized transactions (17%).

CFP® professionals have most often witnessed financial exploitation that involved **equity indexed or variable annuities (76%), variable life insurance (32%), mutual funds (29%), and universal or whole life insurance (28%)**.

People who are victims often know the person who is committing the fraud, with **35 percent of CFP® professionals reporting that, on average in the cases they have seen, individuals always (11%) or often (24%) know the perpetrators**. Another 25 percent report that older Americans rarely (19%) or never (6%) know the perpetrator.

One in three (33%) CFP® professionals say there is sometimes a personal relationship between the older American and the perpetrator.

DETAILED FINDINGS

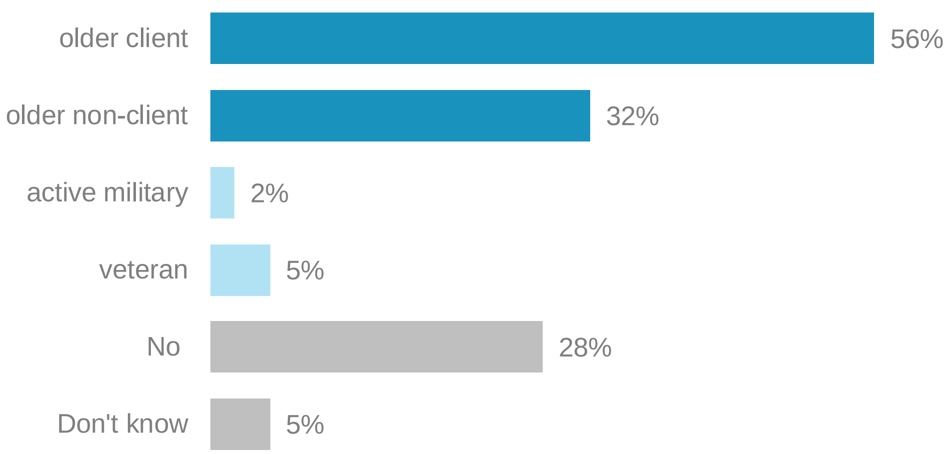
Prevalence of Senior Financial Exploitation

The financial exploitation of seniors is clearly an issue in the United States and something that most CFP® professionals report seeing.

In fact, more than three in four CFP® professionals (77%) say they have some experience with a senior who has been subjected to financial exploitation. More than half (56%) say they have worked with an older client who has experienced such abuse, while nearly one in three (32%) say they know someone personally who was not a client. Experiences with senior veterans and active military members are less common, but still reported [Q1].

Those CFP® professionals who report working with a senior (active military, veteran or civilian) who was subjected to unfair, deceptive or abusive practices estimate that, on average, 12 percent of their older clients have experienced these practices. CFP® professionals with clients who have a large average portfolio size ($750,000+) report seeing these practices significantly more often (average of 16 percent). For all CFP® professionals, the median reported estimate is 5 percent.

Q1. Do you know any older people (62 years and older) who, in your opinion, have been subject to unfair, deceptive or abusive practices in connection with the delivery of financial advice or the sale of financial products? [MULTIPLE RESPONSE]



Practices and Products Involved in Senior Financial Exploitation

Examples of financial exploitation of seniors are extremely diverse. Open-ended data and the in-depth interviews uncovered some unique and distinctive instances. Still, there are clear trends in terms of how seniors are subjected to financial exploitation. For example, unaided responses frequently reference the sale of annuities without sufficient explanation and misrepresenting clients' needs [Q3/Q4].

Furthermore, at least half of CFP® professionals report seeing older Americans subjected to financial practices via invitations for free financial/investment seminars (73%), unsolicited calls for financial products/services (58%), and offers for high-yield investment products that are described as no or low-risk (50%). While less common, the number of cases involving prize-winning scams (34%), power of attorney abuse (20%), overcharged medical expenses (14%) and reverse mortgage scams (14%) are still considerable.

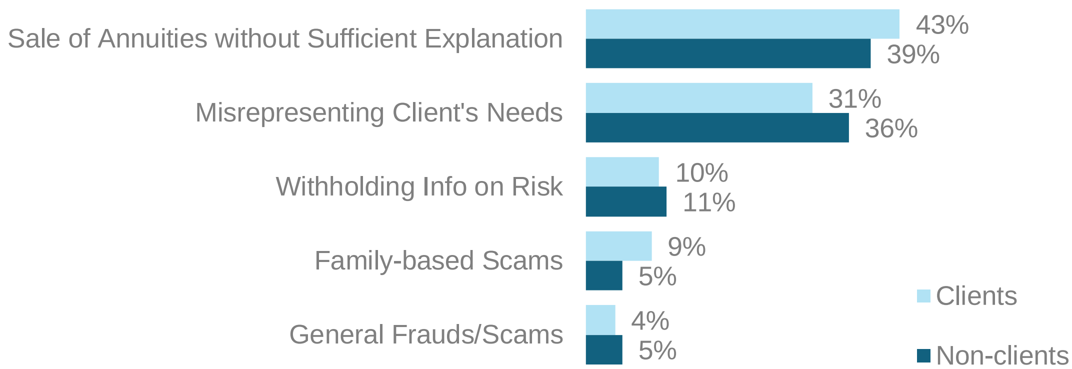
Fewer than 1 in 10 CFP® professionals report having seen exposure to affinity fraud (9%), offers to participate in pension buyout schemes (6%) or exposure to Veterans Affairs (VA) aid and attendance fraud (6%) [Q10]. Less than 5 percent say they know of exploitation where seniors were promised increased benefits or lump sum payments for VA (4%), Social Security (4%) or Medicare (2%) benefits [Q11].

Much of the financial exploitation is taking place within the financial industry. Of CFP® professionals surveyed, 83 percent report having seen some example of unfair, deceptive or abusive practices at the hands of financial advisors. Alarmingly, approximately one in five CFP® professionals are aware of malicious practices by financial advisors such as fraud with intent or lying (19%) and unauthorized transactions (17%). The most rampant incidences of financial exploitation by financial advisors involve the sale of unsuitable products. Indeed, three in four CFP® professionals (74%) say they have seen older Americans subjected to this practice. Additionally, respondents said they have observed financial advisors reportedly omitting facts (58%), misrepresenting the facts (48%) and being negligent or failing to follow-up with seniors (46%).

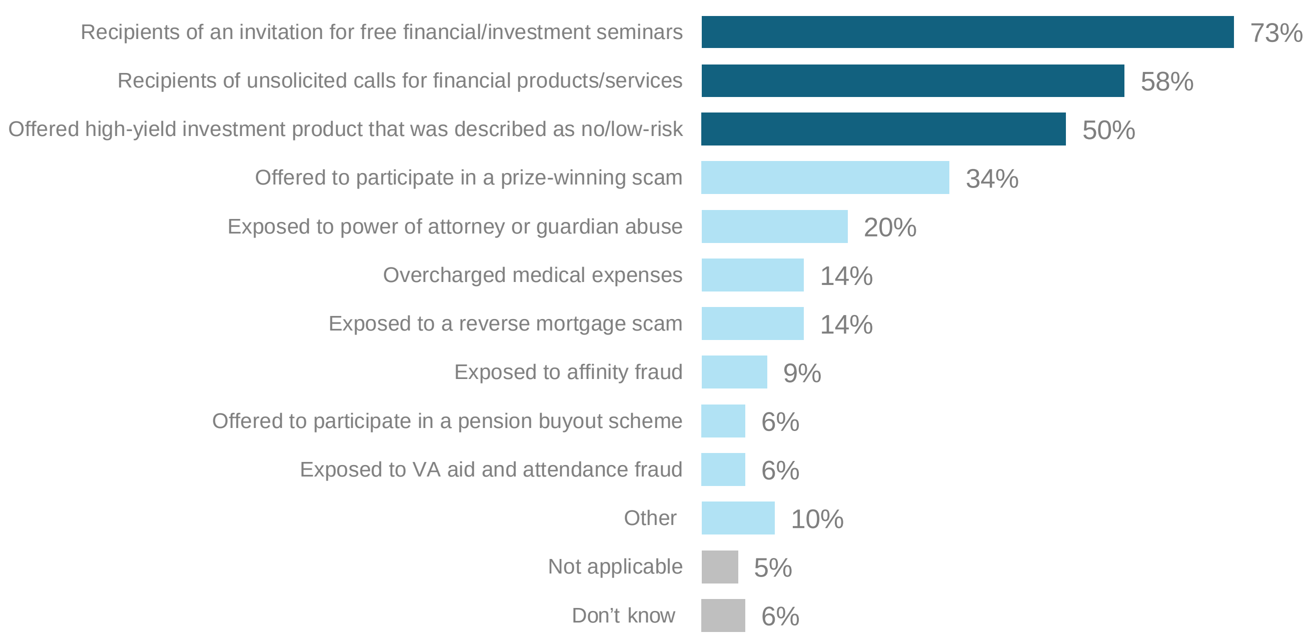
CFP® professionals managing an average portfolio between $100,000 and $750,000 are more likely than those managing small (less than $100,000) or large ($750,000+) accounts to have seen all of the above mentioned practices at the hands of other financial advisors [Q12].

Financial advisors use a variety of products to exploit seniors. However, by far, the most commonly used products in these cases are equity indexed or variable annuities. Three in four CFP® professionals who have seen exploitation at the hands of a financial advisor (76%) cite the involvement of these products. That's more than twice as often as the next most common product – variable life insurance (32%) [Q13].

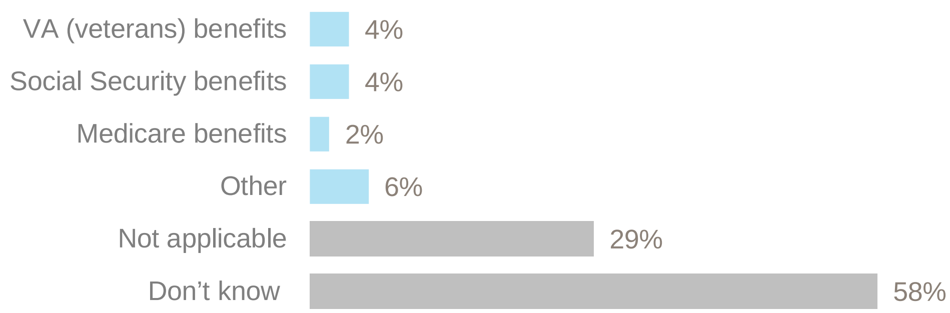
Q3/Q4. To what types of unfair, deceptive or abusive practices have [your older clients/older non-clients you personally know] been subjected? [OPEN ENDED] [INCLUDES UP TO 420 RANDOMLY SELECTED CODED DATA]



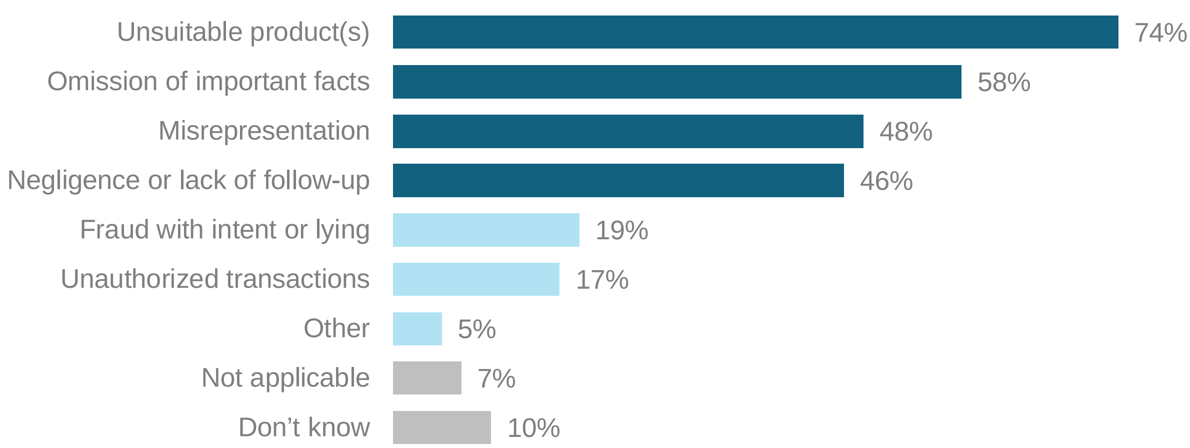
Q10. Have you seen older Americans, either personally or professionally, who were: [MULTIPLE RESPONSE]



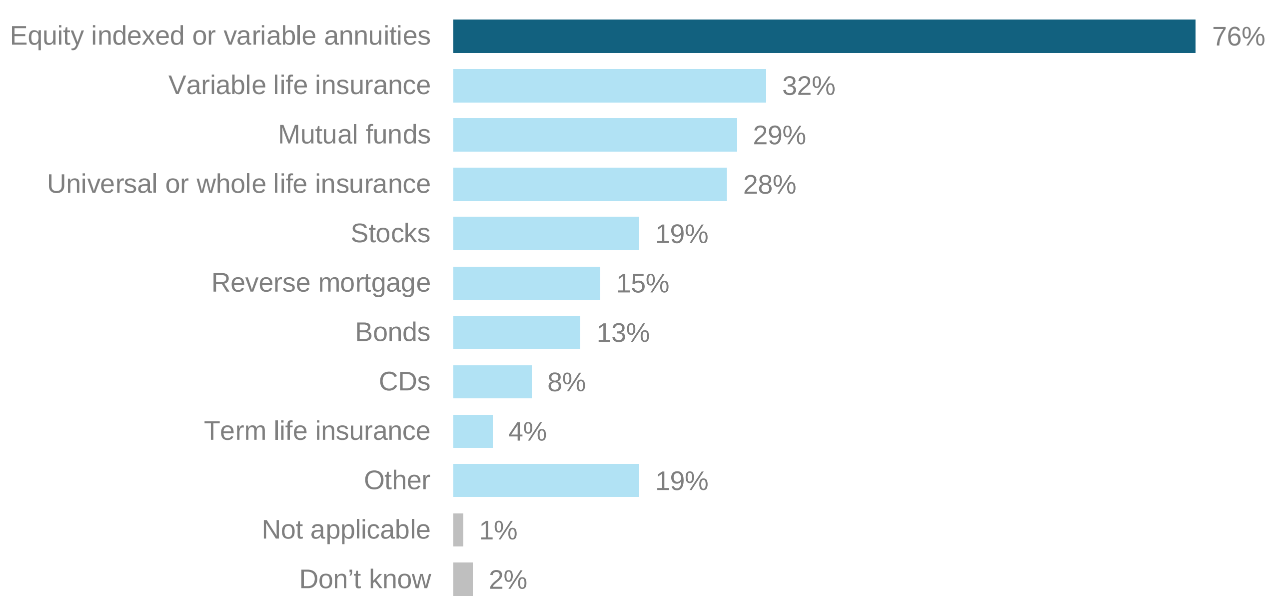
Q11. To the best of your knowledge, do you know older Americans, either personally or professionally, who have been approached about ways they could increase or get "lump sum" payments from the following: [MULTIPLE RESPONSE]



Q12. Have you seen older Americans, either personally or professionally, who were subject to any of the following by a financial advisor: [MULTIPLE RESPONSE]



Q13. For those older Americans you know who were subject to unfair, deceptive or abusive practices by a financial advisor, were any of the following products involved? [MULTIPLE RESPONSE] [n=2200]



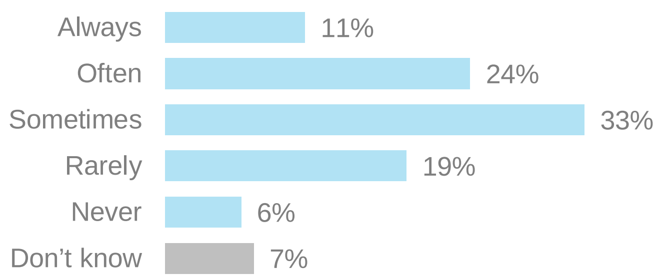
The Victims & Perpetrators of Senior Financial Exploitation

More often than not, CFP® professionals say seniors are subject to exploitation by people they know. More than one in three CFP® professionals (35 percent) say that, in the cases they have seen, individuals always or often know the perpetrators, compared to 25 percent who report that older Americans rarely or never know the perpetrator [Q15].

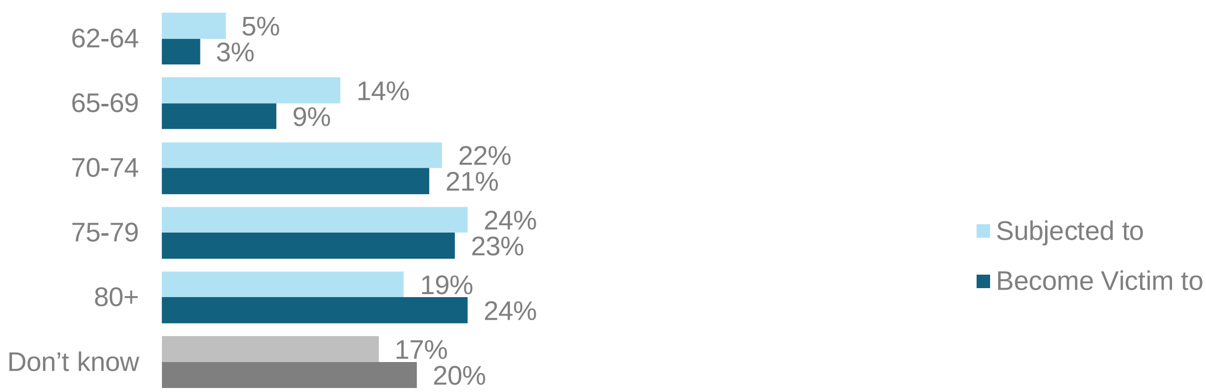
In general, as age increases, so does vulnerability. Most seniors reported by CFP® professionals to have been subjected or fall victim to financial exploitation were in their seventies [Q16/Q17].

Losses can be substantial. On average, CFP® professionals report approximately $140,500 per person being lost as a result of financial exploitation. Extreme losses can skew this average, but while the median loss reported is lower, it is still sizeable at $50,000.

Q15. Considering, on average, the cases you have seen of older Americans who were subject to unfair, deceptive or abusive practices, how often did the older individual(s) personally know the perpetrator(s)? [n=1776]



Q16/Q17. Based on your experience, which of the following age ranges is most commonly [subjected /becomes victim] to unfair, deceptive or abusive practices? [n=1776]



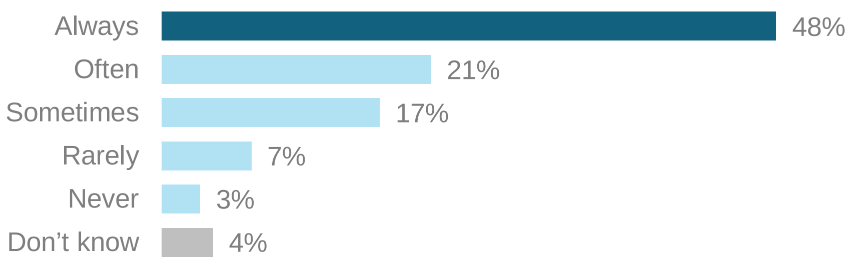
Assisting Exploited Seniors and Reporting Financial Exploitation

If a senior becomes victim to financial exploitation, CFP® professionals note there are resources for assistance and recourse. CFP® professionals' firms provide a wide variety of services for senior victims of unfair, deceptive or abusive financial practices. Most often, referrals and education services are offered. Further advice, consultation and portfolio reviews are also common. A few, presumably those at larger brokerage firms, even mention having compliance and other dedicated departments [Q20].

There are also authorities to which exploitation should be reported, but while the vast majority of CFP® professionals encourage older victims to report abuse, they estimate that only a small percentage of seniors actually follow through. Of CFP® professionals surveyed, 69 percent say they always or often encourage senior victims to report abuse [Q21], but the median estimate of the CFP® professionals is that only 5 percent of those victims actually did report the abuse.

Q20. What special services, if any, does your firm provide for clients who have been victims of unfair, deceptive or abusive practices? [OPEN END]

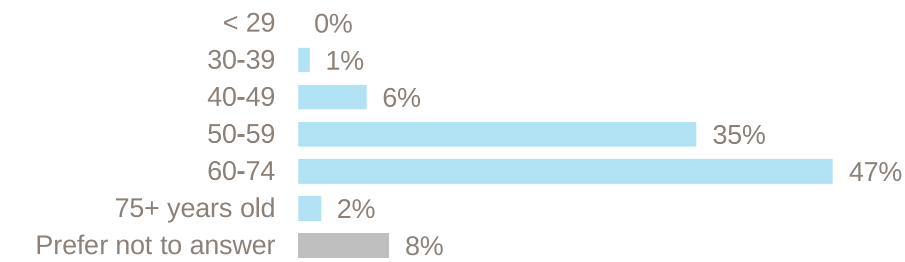
Q21. When you become aware of an older individual falling victim to unfair, deceptive or abusive practices, how often do you encourage him or her to report the incident to government authorities such as law enforcement and financial services regulators? [n=1776]



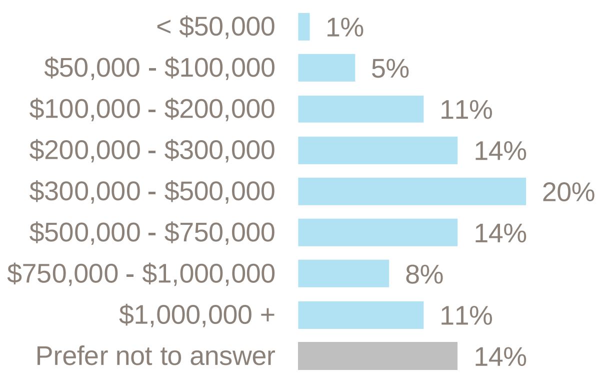
APPENDIX

Survey Demographics

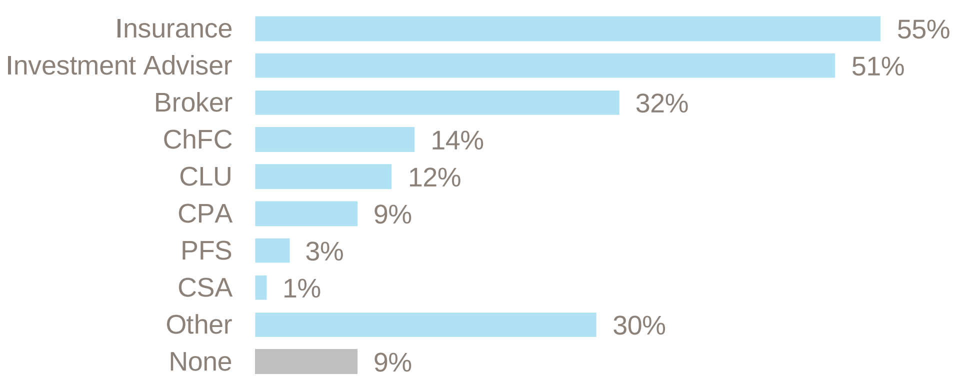
Q25. What is the average age range of your client base?



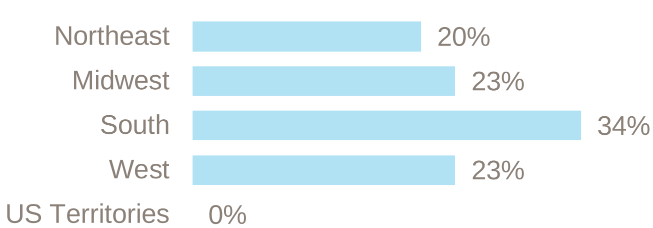
Q27. What is the average size of your clients' portfolio?



Q28. In addition to being a CFP® professional, please indicate any other licenses, credentials and titles, you currently hold: [MULTIPLE RESPONSE]



Q29. In which state do you currently live? [CODED INTO REGION]



In-depth Interview Summaries

On behalf of the CFP Board, APCO Insight conducted in-depth interviews among CFP® professionals who personally knew or had worked with a senior who had been subject to unfair, deceptive or abusive financial practices. This document includes summaries of these interviews, which were conducted from August 6-10, 2012.

Misrepresentation

A CFP® professional in Michigan had an eighty-six-year-old client who was subjected to deceptive practices in 2010. His client was in the process of acquiring Veteran Affairs ("VA") benefits when a representative of an insurance organization visited her nursing home, promising to maximize the amounts of VA benefits. She was given paperwork to sign that would have closed all of her current investment accounts and transferred the money to be managed by the insurance representative. After being approached by his client and her daughter, the CFP® professional went with them to visit the VA office to understand if the organization could actually expedite benefits.

The VA official was aware of similar scams and told the woman that she could not improve her chances for benefits or speed up the VA by transferring her assets. Fortunately, the CFP® professional and the VA official persuaded the woman not to transfer her assets; if she had done so, she would have lost a $40,000 death benefit, $60,000 in processing fees, and whatever the organization would have charged her for a new trust.

Inappropriate products

A CFP® professional based in California has a friend whose seventy-year-old mother-in-law was repeatedly sold inappropriate annuity contracts. After looking over her investments, the CFP® professional discovered several annuities that had been sold to her by insurance companies with high annual commissions of 20-25%.Some of the contracts also had twenty-year surrender charges .He estimates that she lost over $10,000 and, although he helped her remove her assets from the inappropriate funds and write letters of complaints to the insurance companies, he does not expect her to recover her lost funds.

A CFP® professional in Maryland has an eighty-year-old client who was subjected to unethical practices. While they were meeting, her client mentioned purchasing an auto repair insurance policy, which the CFP® professional thought was suspicious, considering that her client rarely drives and already has a valid warranty. After contacting the insurance company, the CFP® professional was able to cancel the policy for her client, but she found it to be a very difficult process and understood how an elderly person might fall victim to giving their information to such persistent salesmen. A few months later, her client's bank called the professional asking whether or not they should clear a $499 check for a similar insurance provider. The CFP® professional called the company to cancel the policy, but a few weeks later the check cleared. The CFP® professional estimates that her client lost $650.

A CFP® professional based in Ohio encountered an elderly couple in their early seventies who had been sold inappropriate annuities. Two different insurance companies had sold them fixed annuities, one with 15 years of surrender charges and another with 12 years of surrender charges that were 20% per year for the first five years. The CFP® professional did not believe that there was any recourse for the couple since they had these contracts for over a year and had passed the date by which they could terminate the contract.

Power of attorney abuse

A CFP® professional in Illinois had an eighty-year old client who was subjected to Power of Attorney abuse. His client had signed his Power of Attorney rights over to his nephew. The client's nephew dropped off the Power of Attorney paperwork regarding his uncle's brokerage account at his bank, not realizing that the two services are distinct. The nephew then began using his uncle's debit card to withdraw money from the account. Between $5,000 and $10,000 was withdrawn from the account before the bank realized the Power of Attorney paperwork was for the brokerage services. The CFP® professional was able to freeze his client's accounts, although the situation is still ongoing.

Fraud & Scams

A CFP® professional in Mississippi has a seventy-two-year-old client who was the victim of a real estate Ponzi scheme. His client attended a time-share investment seminar where the realtor promised exceptionally high yields of 9-10% annually. After investing $50,000 twice, the client received a call from the realtor asking him to invest a third time. However, the client was low on funds and was able to deliver only a portion of the requested amount. Sensing that the client had no more money, the realtor began to stall and declined to return phone calls. The client eventually realized that he was a victim of fraud, but delayed consulting with the CFP® professional out of embarrassment. The CFP® professional helped his client inform the authorities and obtain a lawyer. A trial ensued, but he was unaware if there had been any resolution. The client also tried to pursue legal action against the agent's company, but they denied any involvement. Since the scam, his client has had to come out of retirement, returning to work.

A CFP® professional in Texas had two clients who were subjected to financial deception. The first client, a woman in her late sixties, heard of an online advertising company through her church congregation. She approached the CFP® professional wishing to cash in her IRAs and invest in the company. Although the CFP® professional warned her client against investing in a company that offered such high returns, her client invested anyway. It was eventually revealed that the company was running a Ponzi scheme and the US Attorney's Office ultimately seized its assets. The client lost over $150,000, but believing that the government is to blame, refuses to report her losses to officials.

The CFP® professional's second client, a woman in her seventies, was deceived into giving money to a foreign lottery scam and lost almost $200,000.