Stanford launches new center to study fraud against the elderly

An overwhelming number of defrauded people are older than 50 – but the profile of the typical target is not who you would expect, say the founders of the new interdisciplinary Research Center on the Prevention of Financial Fraud.

BY CYNTHIA HAVEN

Think of "elder fraud," and the usual images that come to mind are a door-to-door traveling salesman preying on a forgetful codger with thick bifocals. Or acres of Florida swampland sold to a lonely old widow with a walker.

Not so, said Doug Shadel, a leading expert on fraud schemes and the elderly. Think of a financially successful 60-something who is promised a 50 percent return on his investment in a new Hollywood film. He’s even been promised that he’ll get a chance to meet the star.

Shadel is part of the new interdisciplinary Research Center on the Prevention of Financial Fraud, launched recently by Stanford University’s Center on Longevity and the FINRA Investor Education Foundation. The new research center will be a resource for law enforcement, the government and research groups studying how Americans lose billions of dollars each year to fraud.

The center will hold its inaugural conference, "The State and Future of Financial Fraud," Nov. 3-4 in Washington, D.C.

The reason for the Center on Longevity’s involvement is that the elderly are clear targets of fraud and their victimization is widespread. "But the factors that go into making people vulnerable are not well understood," said psychology Professor Laura Carstensen, the center’s founding director.

"Even people who did everything right are finding themselves in situations where those savings are being stolen," she said. An overwhelming number of defrauded people are older than 50, she said.

It’s a concern for everyone in society – not just the elderly. As older people live longer and government support is cut back, American seniors are more reliant than ever on savings. When those piggybanks are looted, the overburdened next generation will be picking up the tab.

So it behooves us all to know what puts people at risk.

The early findings go against the conventional wisdom. Older people are targeted simply because they often have more money – not necessarily because they are frail and helpless. Far from being less financially savvy, they are often more so, having trusted relationships with financial advisers and institutions.

Shadel recalled a victim who fell for an oil-and-gas scam. "He lost $40,000, but what was interesting about the guy is that he was a stockbroker. You wouldn’t think that of someone who day-in and day-out gives people advice about money."
Stanford launches center to study fraud against the elderly

"We assumed that the people who were defrauded were less financially literate – wouldn't you think so?" asked Shadel. "It's not the case at all." Victims typically included "doctors and lawyers and presidents of companies."

The beginnings of the Research Center on the Prevention of Financial Fraud go back to 2009, when an expert group of education practitioners, policymakers and researchers gathered at the Center on Longevity to discuss the problem of fraud in the context of a rapidly aging population.

"By the end of the day, I thought everyone is a victim in waiting," said Carstensen. "Those of us who haven't been victims are lucky."

The group identified three lines of action: consolidating information, which is then spread among an array of academic fields; communicating research to policymakers; and providing funding for more research.

Shadel described the psychological portrait that has emerged for the likeliest marks for a scam: "They're more open to sales approaches in general. They're more likely to read every piece of mail they get, including junk mail," said Shadel. "They're exposing themselves to the marketplace."

Their behavior corresponds more closely to the young people who are in a "search mode," he said – for example, young people are typically looking for mates, jobs, affiliations or simply a more exciting life. These seniors are also exploring.

"For some reason they stay in the game longer," Shadel said of these older people. They remain more open about new chances, new possibilities – but this very predisposition exposes them to predation.

It exposes them to Ponzi schemes, fake charities, online phishing scams and work-from-home schemes. It can take the form of "obvious persuasion lines," promising a 50 to 100 percent return on investment.

Shadel interviewed about a dozen con men who admitted their "No. 1 strategy is to get the victim under the ether – a heightened emotional state where they're out of control."

"If they drop to the Valley of Logic, you've lost them," Shadel said. The con men first identify the victim's "hot buttons": "They'll dangle a phantom," he said, "and you get all excited about it. You're salivating."

Families can't intervene, Shadel said, because the victims conceal their mistakes. "Stuff is being hidden from the families as the price tag goes up," he said.

The victims then enter the "rationalization trap," he said, and tell themselves, "I'm a smart person, but there's this stupid thing I did." At that point, the fork in the road takes them in one of two directions.

Shadel said the first is to admit, "I'm not as smart as I think." The second is disastrous: "I'm a smart person, and I'm going to prove that I was right." On that path, the victims throw good money after bad, maxing out their credit cards and hoping for the situation to reverse.

So what became of the man in investing in the Hollywood film? He happened to be a retired chemistry professor who lost $900,000 in the movie scam. According to Shadel, he was simply looking to add a little excitement to his life. As a university professor, "He was used to dealing with credible people – he wasn't used to blatantly lying people."

Moreover, the promised movie was actually made; although it was a low-quality effort, it was enough to disguise the rip-off. Most of the professor's money was refunded.

It's not always easy to determine when a scam is a scam, unless you've seen lots of them, and Shadel said this is typical. In an interview of 723 known victims of fraud, only about 40 percent admitted they had lost money. Sometimes the scam was hidden behind a scrim of reality – such as the professor's film opportunity – and sometimes the victims are embarrassed, ashamed or in denial.

"It's unknowable what the real statistic is," said Shadel. But Carstensen and Shadel agree that there are a lot more victims than most people imagine.

Media Contact
Laura Carstensen, Stanford Center on Longevity: (650) 725-0347, laura.carstensen@stanford.edu

Cynthia Haven, Stanford News Service: (650) 724-6184, cynthia.haven@stanford.edu
