USING MIXED METHODS TO IDENTIFY THE CHARACTERISTICS OF OLDER FRAUD VICTIMS

by

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ABSTRACT

In 2011, 7.3% of U.S. adults ages 65-74 and 6.5% of adults ages 75 and older were victims of financial fraud (Anderson, 2013). In addition to the billions of dollars lost annually to scams, indirect societal costs include paying for the care and support of elders who lost their life savings, and the expense of investigating cases and prosecuting offenders. One of the first steps in stopping fraud is determining who is most vulnerable, yet the research literature on risk factors presents a conflicting narrative. Some research studies and consumer protection agencies report that older adults are the most vulnerable age group due to greater social isolation and impairments in financial decision-making (Ganzini, McFarland, & Bloom, 1990; Lee & Soberon-Ferrer, 1997; Federal Bureau of Investigation, 2014); however, national prevalence studies have found that elders are the least likely to experience fraud (Anderson, 2013; Schoepfer, & Piquero, 2009; Titus, Heinzelmann, & Boyle, 1995; Van Wyk & Mason, 2001). According to the Financial Fraud Research Center (2012), research identifying the specific risk factors that make elders susceptible to fraud is important to inform policies and where to target resources.

After describing the prevalence, cost, and mechanisms of fraud, this dissertation discusses multiple theoretical explanations for why older adults are vulnerable. Chapter I presents a temporospatial framework for fraud based on the routine activity theory (Cohen & Felson, 1979) and an ecological theory of elder financial exploitation (Rabiner, O'Keefe, & Brown, 2004). The adapted model proposes that targets and scam artists are nested within the broader social and political macrostructure comprised of public policy and legislation on consumer protection, prevention/education efforts to reduce fraud, fraud reporting mechanisms,

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and society's values, beliefs and attitudes about older adults. Interacting with the macrostructure is the mesosystem which represents the immediate social and financial environment surrounding a target and offender—the availability of trusted others to help the target make financial decisions and the presence/absence of legal mechanisms that protect the target's assets. Embedded within the macrostructure and mesosystem is the actual process of fraud. The model proposes that individuals may be susceptible to fraud due to psychosocial, physical, and/or cognitive/intellectual impairments associated with age. Susceptible targets interact with motivated offenders (scam artists) at a time when there is no financial oversight from capable guardians. This "window of opportunity" represents the timing of exploitation.

In the following three empirical chapters, a mixed methods approach is used to identify the demographic, socioeconomic, psychological and cognitive characteristics of older fraud victims using the nationally-representative Health and Retirement Study (HRS) and a sample of victims in Los Angeles County. To clarify some of the discrepancies on reported risk factors in the fraud literature, Chapter II uses logistic regression analysis to determine the relationship between age, gender, and socioeconomic status on fraud in the HRS survey. Contrary to popular assumptions about older women with low education and low wealth being the most susceptible targets, results showed that younger age, higher education, and higher income are associated with fraud. Compared to married respondents, those who are widowed were more likely to be victimized. While stressful life events increase the odds of victimization, loneliness at baseline was not statistically significant. Also, despite the widespread assumption that poor cognitive functioning increases susceptibility, this study found that *better* cognitive functioning at baseline increases the odds of victimization.

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Researchers have observed that different types of fraud target different socio-demographic groups (Pak & Shadel, 2011). To identify heterogeneity among the respondents who reported fraud in the HRS, Chapter III employs latent class analysis (LCA) to test the hypothesis that older victims of fraud vary in terms of their socioeconomic and demographic characteristics. LCA uses a maximum likelihood approach to categorize victims into groups based on their shared characteristics. The second purpose of using LCA is to determine whether the significant predictors of fraud described in Chapter II—stressful life events and cognitive functioning—are associated with a specific victim profile.

Two distinct victim classes (i.e., typologies, profiles) emerged from the analysis. Based on the distribution of socioeconomic and demographic characteristics within each group, Class 1 was descriptively labeled "*high-SES middle-age married adults,"* and Class 2 was labeled "*low-SES older widowed females*." The *high-SES middle-aged married adult* group was larger than the *low-SES older widowed female* group, suggesting that the former group of victims is more prominent in the U.S. population over age 50. *High-SES middle-aged married adults* had higher average levels of cognitive functioning and also experienced a higher average number of stressful life events in the past five years compared to *low-SES older widowed females*. Using a national sample, this analysis provides comparable results to earlier studies that identified two victim typologies using a smaller sample of older victims identified by law enforcement: "bogus prize promotion" and "investment fraud" victim (Pak & Shadel, 2011; Financial Industry Regulatory Authority; 2006).

To examine these findings in greater detail and to determine whether elders exploited by friends or family differ from those exploited by predatory strangers, case files from victims evaluated by clinicians at the Los Angeles County Elder Abuse Forensic Center were analyzed

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qualitatively in Chapter IV. No studies to date have used qualitative methods to analyze social worker case notes, clinician reports, and victim interviews to create a comprehensive profile of those who are exploited by fraud, and to determine how they differ from elders exploited by "trusted others" (people in their close social networks).

The main finding of Chapter IV is that although fraud and financial abuse victims share many of the same physiological, environmental, demographic, and psychosocial characteristics, they differ in that fraud victims have significantly higher Mini Mental State Exam scores, better mobility, and are more likely to be childless. A proposed explanation for the similarities is that exploitation has less to do with the characteristics and risk factors associated with the victim, and more to do with the people surrounding the victim (or lack thereof). In other words, the structure of the victim's social network determines whether he or she is more likely to be a victim of fraud by strangers or financial abuse by family and friends. This analysis illuminates areas where intervention and prevention strategies may differ between each type of exploitation.

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This dissertation contributes to the literature in several important ways. First, it helps clarify the relationship between fraud susceptibility, age, and socioeconomic status among adults ages 50 and older in the U.S. Second, it uses prospective (pre-fraud) data on individuals to determine whether the purported risk factors for fraud—loneliness, poor cognitive functioning, stressful life events—actually do increase like likelihood of victimization later on. Third, findings from the latent class analysis support previous research using victim complaint data to categorize victims based on their SES and demographic characteristics. And fourth, the qualitative findings in this study reveal the tremendous financial cost of fraud, and also the importance of friends and family members in protecting older adults from predatory strangers.

CHAPTER I: INTRODUCTION

What is fraud and how is it different from elder financial abuse?

Fraud is defined as, "deliberately deceiving the victim with the promise of goods, services, or other benefits that are nonexistent, unnecessary, never intended to be provided, or grossly misrepresented" (Titus, Heinzelmann, & Boyle, 1995). Scams are a type of fraud that may include bogus prizes and lotteries, sweetheart swindles, fake charities, sale of unnecessary insurance policies, investments, and worthless consumer products and services. Fraud is perpetrated via door-to-door sales representatives, direct mail, phishing emails, telemarketing, and other modes of communication. The following chapters use the terms "scams", "schemes", "swindles", and "fraud" interchangeably. This dissertation focuses on fraud that targets individuals, rather than fraud against corporations or the government (e.g., tax fraud, health care fraud).

Fraud targeting older adults differs from elder financial abuse. Fraud requires that victims actively comply with the perpetrator's demands by sending cash, checks, or by disclosing personal information—social security, bank account and credit card numbers (Van Wyk & Benson, 1997). Financial abuse does not require victims' compliance. It involves a breach of trust between a vulnerable older person and a family member, close friend, or caregiver (a.k.a., "trusted other") who takes advantage of access to the elder's funds, using these funds to serve his or her own needs without any benefit to the elder. Financial abuse is also referred to as material abuse, fiduciary abuse, exploitation of resources, and economic victimization (Wilber, 1990). Fraud and financial abuse are similar in that both are categorized as crimes of calculation rather than crimes of passion (Coleman, 1987), which would better describe elder physical, psychological, and sexual abuse (Jackson & Hafemeister, 2011). In the

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following chapters, “fraud” against elders and “financial abuse” are treated as distinct concepts yet both are considered forms of “elder financial exploitation.”

While there is no such thing as a “typical scam” (Langenderfer & Shrimp, 2001), confidence swindles generally follow a similar pattern: First, a scam artist selects potential targets (“marks”) by contacting them directly or by casting a wider net via mass marketing such as using phishing emails. Those who respond to the bait are solicited with the promise of receiving a material or emotional reward—wealth, companionship, sex, a miracle cure, etc.—in exchange money or property upfront. A key characteristic of fraud is that the reward does not exist or it does not exist as it is represented by the scam artist. The reward is merely used to persuade the target to comply.

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The scope of the problem

In the United States, an estimated 9.1% of adults ages 55-64, 7.3% of adults ages 65-74, and 6.5% of adults ages 75 and older are victims of consumer fraud each year (Anderson, 2013). In 2011 there were an estimated 37.8 million incidents of fraud, yet only 1 million fraud complaints were received by authorities (Anderson, 2013). Conservative approximations suggest an annual loss of $50 billion among all adults 18 and older (Deevy, Lucich, & Beals, 2012), yet a representative survey by the FINRA Investor Education Foundation (2013) found that more than 80% of respondents were solicited to participate in a potentially fraudulent offer and 11% of all respondents lost money. Thus, the $50 billion dollar figure may underestimate total losses. Moreover, the figure does not account for the emotional consequences of exploitation including depression, shame, and loss of trust (Button, Gee, Lewis, & Tapley, 2010; Deem, 2000; FINRA, 2013; Ganzini, McFarland, & Bloom, 1990). Older victims may experience the worst consequences because they have fewer opportunities to recoup losses and may become dependent on public health, nutrition and housing programs after losing their life savings. For elder abuse in general, research has shown that victims use 30% more mental health and substance abuse services (Schonfeld, Larsen, Stiles, 2006); and are hospitalized more often than non-victims (Dong & Simon, 2013). Thus, fraud exacts a significant toll on individuals and on our society.

Older adults and fraud: Theoretical explanations

There has been very little theory development in elder financial exploitation (Jackson & Hafemeister, 2012; Lowenstein, 2009) and in elder abuse in general (Bonnie & Wallace, 2003). Part of the problem is that financial exploitation encompasses a wide range of crimes—theft, scams, embezzlement, misuse of powers of attorney, unauthorized joint tenancies, etc.—each involving a variety of different perpetrators with varying relationships to their victims.

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Theoretical explanations for why older adults are susceptible to fraud are even more sparse despite considerable research on risk factors like dependence, social isolation, and cognitive impairment (e.g., Cohen, 2006; Jackson & Hafemeister, 2011; Lee & Geistfeld, 1999; Lee & Soberon-Ferrer, 1997). In this dissertation, *susceptibility* to fraud is broadly defined as the *likelihood* of involvement with any aspect of fraud—including being contacted by and engaging with a scam artist in addition to losing money to fraud. Proposed theoretical frameworks describing older adults' susceptibility include psychosocial explanations such as social exchange theory (Dowd, 1975), activity theory (Havighurst, 1961), and socioemotional selectivity theory (Cartensen, 1992); emotion regulation theories involving self-control, credulity (believing things that are unproven to be true), and visceral influence; and also criminological theories such as the routine activity theory (Cohen & Felson, 1979). These theoretical frameworks, applied to fraud against older adults, are reviewed below.

Social exchange and activity theories

According to Dowd's (1975) application of the aging perspective on the social exchange theory, power resources (money, status, vitality, prestige) are thought to decline with age. With aging comes retirement, increased physical frailty, possible cognitive impairment, and death of close friends and romantic partners. The loss of these social roles and partnerships reduces activity and social interaction in later life, which can cause grief, depression, loneliness, and a reduction in life satisfaction (Havighurst, 1961). Increased isolation may result in an older adult being more open to engaging with strangers to fulfill social needs (Friedman, 1992; Lee & Soberon-Ferrer, 1997).

Losses also create a power asymmetry between the older adult and others in society (Dowd, 1975). Swindlers capitalize on this power differential. With fewer resources in the exchange relationship, older adults may be willing to provide financial resources to the scam artist in return for feelings of companionship and/or considerable promises of wealth (Lee & Soberon-Ferrer, 1997). Some support for this theory is provided by Mead, Baumeister, Stillman, Rawn, and Vohs (2011) who found that socially excluded individuals were more likely to sacrifice their personal and financial well-being for the sake of their social well-being. In this study, subjects were more willing to spend money on items they didn't want or need if they believed it would increase their chances of affiliation with a social partner.

While the combination of social exchange and activity theories explain how age-related social losses can create a power imbalance between older adults and scam artists, it fails to explain perpetrators' motivation for exploiting elders and the changes in decision-making that make elders more vulnerable to deception.

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Aging and neurological changes

While the majority of older adults maintain functioning across most cognitive domains well into late life (Hedden & Park, 2004), small neurological changes associated with age may affect susceptibility. For example, studies have shown that aging is associated with increased impairment in the prefrontal cortex, an area largely responsible for executive functioning tasks such as organizing and planning behavior, inhibitory control, judgment and decision-making (Craik & Jennings, 1992). Asp et al. (2012) found that subjects with damage to parts of their ventromedial prefrontal cortex were more credulous toward misleading advertisements than a control group of individuals without lesions to the prefrontal cortex. Denburg and colleagues (2007) found that even seemingly healthy older adults with no obvious signs of neuropathology performed poorly on laboratory tests of decision-making. Tasks involved analyzing rewards, punishment, risk, and sorting through the ambiguity of different options.

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Other regions of the brain involved in mathematical calculations, such as the parietal and temporal lobes, are also affected by aging and disease (Delazer, 2003). Neuroimaging studies of adults with Alzheimer’s disease have demonstrated that lesions in these areas affect money management, particularly the ability to perform complex arithmetic (Knight, & Marson, 2012).

Memory is also important in processing and storing information. Both long-term and short-term memory are affected by aging (Park et al., 1996). Spencer and Raz (1995) found that older adults performed worse than young adults in remembering the source of new information. This has implications for fraud because older adults may misremember if they heard something from a legitimate source—like a physician or a trusted financial planner—versus an illegitimate source—like a scam artist trying to sell something they do not need. Other research indicates that compared to younger adults, older adults are less sensitive to “untrustworthy” facial characteristics (Castle et al., 2012), and are less able to detect lying (Ruffman, Murray, Halberstadt, & Vater, 2012). They are also less likely to recall information in advertisements but more prone to be persuaded by the information (Phillips & Stanton, 2004).

Aging, emotion and goals

Aging is associated with changes in emotion regulation. Although working memory declines with age (e.g., Salthouse, 1991), older adults demonstrate preserved memory functioning for positive emotional stimuli compared to negative emotional stimuli (Charles & Carstensen, 2008). As such, they more likely to remember information when it is framed positively (Charles, Mather & Carstensen, 2003). This is called the "positivity effect" of aging (Carstensen & Mikels, 2005). Some evidence shows that the positivity effect influences financial decision-making. For example, Chou, Lee, and Ho (2007) found that risk-taking tendency was greater for older adults who were in positive mood states than older adults in neutral or negative mood states. It follows that scams with positive emotional appeal (e.g., winning a prize) will elicit compliance more effectively from older adults' compared to middle-aged and younger adults who process information differently.

Related to this, the socioemotional selectivity theory (Carstensen, 1992) states that goals are embedded within the temporal framework of the life course. Individuals who perceive that they have less time left in life become more focused on goals related to emotional gratification and less focused on knowledge acquisition and novelty. Emotionally meaningful goals include social interconnectedness and intimacy. This shift in motivation toward emotionally meaningful experiences in older age means that more attention is devoted to goal-relevant information, particularly positive emotional information (Carstensen & Mikels, 2005). Fung and Carstensen

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(2003) found that older adults were more persuaded by advertisements promoting emotionally meaningful rewards than advertisements promising to expand their horizons.

Research shows that decision-making is negatively affected by sad emotional states (e.g., Baumeister, DeWall, Ciarocco, & Twenge, 2005). Isolating life course events—retirement, widowhood, onset of disability, death of a spouse or close friends—are more common in late adulthood and can lead to greater feelings of depression and loneliness (e.g., Gentry, Kennedy, Paul, & Hill. 1995), and perhaps poorer decision-making. Lerner and Weber (2013) found that subjects who were manipulated to feel sad were more impatient than subjects in neutral emotional states and chose to accept an immediate payout of less money instead of waiting to receive more money in the future. Another study by Duclos, Wan, and Jiang (2013) found that subjects feeling isolated or ostracized were more likely to pursue risky decisions but with a higher potential payout, and Baumeister and colleagues showed that social exclusion produces a decline in cognitive performance (Baumeister, Twenge, & Nuss, 2002) and self-regulation (Baumeister, DeWall, Ciarocco, & Twenge, 2005). These findings have important implications for isolated and depressed older adults whose attentional resources may be overtaxed, limiting their ability to focus on resisting scams.

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A central aspect of vulnerability is a person's tendency toward gullibility and credulity (Greenspan, Loughlin, & Black, 2001), which may be affected by age-related changes in physical health, emotion, and cognitive functioning. Pinsker, McFarland, & Pachana (2010) adapted Greenspan et al.'s (2001) social vulnerability model to explain elder financial exploitation. According to their revised model, personal competence factors (social intelligence, general intellectual functioning, cognitive processes, social skills, physical functioning, and motivation/personality) interact to promote or protect against vulnerability to exploitation.

Cognitive, behavioral, and social factors affect a person's credulity and gullibility (the tendency toward being manipulated or deceived). The fewer personal competence factors an elder has, the greater his risk of exploitation (Pinsker, McFarland, & Pachana, 2010). A strength of this model is that it incorporates a range of variables that influence vulnerability, including acquired knowledge (e.g., learned financial management skills) and personality, yet it ignores environmental conditions such as the presence/absence of a perpetrator and the social and political context that determine the degree to which elders are at risk.

Cognitive and emotion regulation theories help explain why some older adults are vulnerable to scams, but do not focus attention on why perpetrators choose to target the elderly. They also make no effort to include the social and institutional structures that make older persons vulnerable. More narrow explanations such as the positivity effect and socioemotional selectivity theory do not account for older adult's vulnerability to scams that prey on negative emotions (like fear, anger, and jealousy) or that use threats and intimidation to bully targets into compliance. Therefore, these theoretical perspectives provide only a partial explanation for fraud.

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Routine Activity Theory

Criminological theories add an additional perspective by focusing attention on perpetrators and the context of fraud. According to Cohen and Felson's (1979) *routine activity theory*, criminal acts require the convergence of three factors: (1) a motivated offender, (2) a suitable target, and (3) the absence of capable guardians. This theory is not a motivational theory of criminal behavior, but rather is a temporospatial model that focuses on how routine daily activities create opportunities for crime to occur (Goergen & Beaulieu, 2010).

The first key component of the routine activity theory is the presence of a motivated offender. In general, fraud perpetrators are motivated by a desire for economic gain. Coleman (1987) argues that this desire stems from a cultural emphasis on competition for higher economic status and the socialized belief that wealth is an appropriate proxy for success. Although scam artists are motivated by financial gain, their willingness to actually commit fraud is modified by the degree to which they internalize social values of "right" versus "wrong," and by the rationalizations they provide for engaging in fraud such as, "*I need the money more than she does*," "*He wants me to have the money,"* or "*He's such a sucker he deserves to be scammed*."

The second component of the routine activity theory is the presence of a suitable target. Older adults are likely targeted for reasons including greater economic resources (remunerative), the perception that they are more susceptible to being deceived (easy targets), or the belief that they won't recognize and report the crime to law enforcement (low risk of detection).

The action of financially exploiting an older person is contingent on an opportunity to do so. Perpetrators must weigh the risks and benefits associated with committing fraud, including how well the target is guarded and the risk of being caught. Factors that inhibit an older person from being victimized include having a wide social network (more eyes and ears), having trustworthy family members and legal/financial professionals involved in financial decision-making, and the presence of legal documents that protect the elder's estate. If these factors are absent, the third criterion in the routine activity model is satisfied and fraud is more apt to occur.

A strength *and* a weakness of the routine activity theory is its breadth. Although it focuses on victims, perpetrators, and the context that gives rise to crime, it does not seek to explain what motivates people to commit fraud specifically (An addiction to drugs? A desire for power?); what factors make for a suitable target (Wealth? Physical weakness? Gullibility?), and

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who (or what) acts as a capable guardian (Law enforcement? Trusted family members? Legal safeguards protecting a person's assets?). It also does not describe the mechanisms of fraud, or *how* money and/or personal information are extracted from victims.

A critique offered by Hotfreter, Reisig, & Pratt (2008) is that the routine activity theory places too much emphasis on street crime involving deviant offenders, whereas fraud offenders are not inherently deviant. For one thing, their sales pitches reflect many of the marketing tactics and communication methods (e.g., internet, mail, telephone, in-person) used by legitimate businesses to solicit customers. Another element that differentiates white-collar criminals from street criminals is a false belief by many that they are not committing an offense. Deliema, Yongjie, & Wilber (2014) found that frontline sales associates engaged in fraud were not clearly aware of their role in predatory marketing to older clients. Company leaders actively trained them to believe that their product was legitimate and that they were helping, not harming, elderly consumers. Thus, although the fraud offender is still motivated to get the target to comply and hopes to profit from the exchange, he may assume his motivations are guileless. Also, as opposed to street crime, elderly fraud victims are not "pure victims" (Jackson & Hafemeister, 2011; Doerner & Lab, 2008; Wallace, 2007). There is some degree of complicity/complacency involved in going along with the scam artist's requests (see Jackman, 2002). This means that opposed to violence and outright theft, victims of fraud play a key role in their own victimization. Another critique of the routine activity theory is that it fails to explain *why* elders are perhaps more vulnerable to financial exploitation than other age groups (Jackson & Hafemeister, 2011). Are older people actually easier to manipulate or just perceived to be by those who target them?

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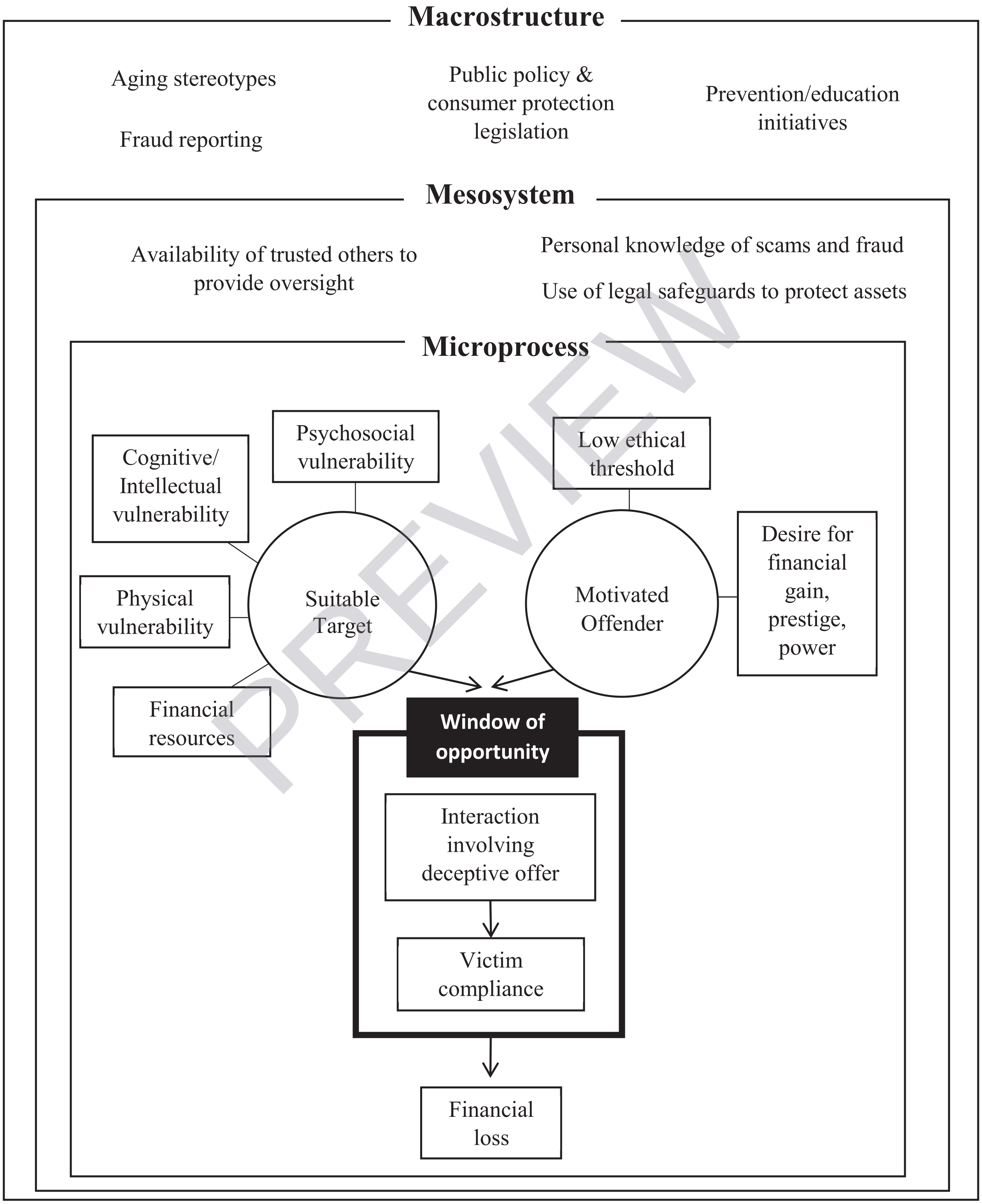
Figure 1.1. Theoretical model depicting a window of opportunity for fraud against vulnerable older adults; adapted from Routine Activity Theory (Cohen & Felson, 1979) and ecological model of financial exploitation framework (Rabiner, O'Keeffe & Brown, 2004)


Macrostructure
Aging stereotypes
Fraud reporting
Public policy & consumer protection legislation
Prevention/education initiatives
Mesosystem
Availability of trusted others to provide oversight
Personal knowledge of scams and fraud
Use of legal safeguards to protect assets
Microprocess
Cognitive/ Intellectual vulnerability
Psychosocial vulnerability
Physical vulnerability
Financial resources
Suitable Target
Low ethical threshold
Motivated Offender
Desire for financial gain, prestige, power
Window of opportunity
Interaction involving deceptive offer
Victim compliance
Financial loss

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