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Exploring the Risks and Consequences of Elder Fraud Victimization: Evidence from the Health and Retirement Study

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Because older people are close to the peak of their wealth accumulation, they are an ideal target for fraud. The consequences of poor financial capability for older adults can be serious, including being uninformed, making mistakes with credit, drawing down retirement assets too quickly, and being scammed by financial predators. They may also be unable to recoup financial losses, thereby becoming dependent on public assistance. Conservative estimates of fraud costs suggest annual losses of $50 billion among all U.S. adults, with much of this concentrated in the older population. Nevertheless, previous studies of the factors associated with victimization among the older population have tended to be nonrepresentative and cross-sectional, focused on specific types of fraud, and conducted in laboratories where fraud was measured using behavioral susceptibility questions rather than actual experiences of victimization.

For this reason, we use the Health and Retirement Study, a nationally representative longitudinal dataset of U.S. adults older than 50, to identify the demographic, socioeconomic, health, and cognitive factors associated with fraud, and how mental health, physical health, and financial status are affected by victimization. An additional advantage of the HRS is that it is a particularly rich survey, providing an extensive set of information about the older population. The core survey, first administered in 1992, had subject modules asking respondents about family structure, physical and cognitive functioning, health conditions, employment, finances, life experiences, attitudes, and behaviors. Subsequently, new cohorts have been added to the study every six years until their deaths. Additionally, African Americans and Hispanics are oversampled.

Our analysis uses information from the 2008-2012 core HRS surveys, as well as the Psychosocial Leave-Behind Participant Lifestyle Questionnaires (the "LBQ"). The LBQs were delivered to half of the eligible HRS sample on a rotating schedule, so that each respondent received the questionnaire every other wave (every four

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years). It was designed to be completed by the respondents and returned by mail. The samples available for our analysis were 5,180 for 2008, 5,867 for 2010, and 414 for 2012; the pooled sample (with one observation per person) totaled 11,461. Unlike the core HRS, the LBQs were not administered to proxy respondents, so any fraud that might have been experienced by those with severe cognitive or physical impairment or those living in institutional settings could not be captured. The main question we focus on in the LBQs asked respondents whether they had been the victims of fraud in the past five years. If the respondent indicated that he or she had been victimized, the survey asked which year the fraud occurred.

The analysis explored which factors measured at baseline were associated with being victimized, and we also evaluated post-fraud outcomes including cognitive functioning, depression, nonhousing net wealth, and housing net wealth. To measure differences pre-post, we control for respondents' baseline measures of each outcome, as well as the self-report of whether he or she had been victimized. This represents a unique advantage of having longitudinal data.

Tabular results showed that the fraction of older persons reporting they had been the victims of fraud within the five-year retrospective window was 4 percent (in 2008), 5 percent (in 2010), and 7 percent (in 2012). The overall rate for the pooled sample was 5 percent. These figures are less than half the national prevalence rate for all U.S. adults that was estimated for 2011, but they are similar to others' reports that 4 percent of adults ages 45 years and older were victims of a major consumer swindle in the past year.

We estimated separate models for all cohorts separately, and also for a pooled sample. In addition, we used Latent Class Analysis (LCA) to categorize victims into subtypes based on their demographic characteristics. Regression analysis showed that age was negatively associated with people reporting that they had been the victim of a fraud, and men were more likely to report being defrauded than were women. Better educated people were less likely to report being victimized, while being wealthier was not systematically associated with greater prevalence of fraud. The subgroup most likely to report being defrauded was low-educated, white, married couples, comprising 40 percent of the total victims. Highly-educated, white, married couples made up about a quarter of the group, with smaller fractions among the remainder of the population. We also found that being victimized was not systematically associated with lower levels of health or wealth in the pooled data, controlling for baseline status.

In sum, while some media reports argue that older people are more susceptible than younger persons to fraud, our research provides a more nuanced set of conclusions. In particular, our results imply that there are no unique risk profiles that characterize older fraud victims in the U.S. A possible explanation for these findings is that fraud susceptibility, in general, is not specific to a particular demographic group. In other words, anyone may become a victim under the right circumstances and incentives. Alternatively, analysis that relies on victim self-report might underestimate the frequency of fraud among older adults. Yet it is still possible that the types of fraud targeting low-income persons differ from those focusing on the high-income: Thus those facing financial hardship might consider prize promotions and debt consolidation services as opportunities to improve their financial situations, while the wealthier could be motivated to purchase bogus weight-loss products or anti-aging remedies. Moreover, we show that baseline levels of cognitive functioning were unrelated to fraud victimization in the HRS, while victimization risk rose for the better educated.

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