Protecting seniors from scams

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An Interview with Christopher Cox, Chairman, U.S. Securities and Exchange Commission (SEC)Bankrate, Inc. announced this week the release of an interview with Christopher Cox, Chairman, U.S. Securities and Exchange Commission (SEC). Mr. Cox shared his thoughts on the topic of retirement, including investment scams directed at seniors and the government's role in retirement security. A transcript of the interview follows.

Interview: Christopher CoxBy Sheyna Steiner

Christopher Cox, Chairman of the SEC Christopher Cox, Chairman of the Securities and Exchange Commission, the SEC, understands firsthand the issues seniors and their family members face in separating investing opportunities from investing scams. In this exclusive interview he explains how his elderly parents were barraged with sales ploys. And, he clarifies how the SEC fulfills one of its missions: to ensure that all investors are protected as they plan and save for retirement.

Q Senior citizens are victimized by investment scams disproportionately to their population size. In fact, even you had experiences with scammers in dealing with your own parent's finances. Can you tell us about that? A Like many Americans, I've had to look after my parents' finances. Before my mother died a few years ago, she was pestered by a seemingly endless barrage of annuity schemes and unsuitable mortgage offers. Despite the fact that she was suffering from throat cancer and could barely speak, she received unsolicited sales pitches over the phone and even in person. Even though my father was suffering from Alzheimer's disease, the brokers would prey upon him as well. The products these brokers were pushing weren't just unsuitable, but affirmatively harmful to anyone in my parents' circumstances. The annuity products locked up their modest savings with huge penalties. I particularly remember one persistent salesman who more than a dozen times pestered my mother to refinance her safe, low-rate 30-year mortgage with a short-term loan that had a balloon and a teaser rate. That would have cost my parents their home when it came due. Even though I personally warned him never to call her again, he continued. Both in Congress and since I've become Chairman of the SEC, I've heard hundreds of similar stories from constituents and colleagues. It is heart breaking to see a loved one ripped off by semi-legal but under-handed tactics. That's why, at the Commission, we're always doing our best to protect everyone as if they're our own mother or relative. Our investor education hotline is 800-732-0330, and our Web site especially for seniors, family members, and caregivers is www.sec.gov/investor.shtml. These are great resources where anyone can quickly check whether a securities broker or financial adviser is registered with the SEC, and whether he or she is complaint-free insofar as the regulators are concerned. Q Why do perpetrators of fraud seem to be increasingly targeting senior citizens specifically? A The reason that protecting senior citizens from securities fraud is becoming so critical is this: With the baby boomers reaching retirement age, the ranks of older Americans are beginning to swell as never before. What's more, this is happening at the same time that Americans are living far longer than ever before. More than 10,000 Americans are turning 60 every day. And that trend will continue for the next 20 years. That's the population of one mid-sized town after another turning 60 every 24 hours, without interruption, for an entire generation. This unprecedented large number of older Americans will live significantly longer than their parents - and longer than they planned. Very few will have sufficient retirement plans to last the extra decade or more that they will live. Those that are blessed with good health will probably need to continue working, at least part time. And many of them will seek to actively manage their investments for higher returns, instead of switching into low-yield, safe investments like the retirees of yesteryear. That will make them prime targets for scam artists and securities swindlers. Just as the notorious Willie Sutton described the bank robber's propensity to "go where the money is," securities fraudsters will follow the money, too. Households led by people over 40 already own 91 percent of America's net worth. As the baby boomers continue to age, it will be a very short while before the vast majority of the nation's savings are in the hands of the elderly. We can see this one coming a mile away. Q In the study on senior investor fraud released at the SEC's Seniors Summit last year, one interesting finding was that investment scam victims are more financially literate than non-victims. Since financial competency alone isn't enough to prevent seniors from falling for scams, what do people need to know about the social influences, or persuasive tactics, that may be used against them? A This may reflect the adage that "a little knowledge is a dangerous thing." Rather obviously, seniors have experience. Fraudsters know this, and play to it. They compliment the would-be victims on their good sense and financial literacy. That's just one of the ways that the scam artist can make us too comfortable and get us to let our guard down. Even the most informed investors need to adhere to the "it can happen to you" philosophy. It isn't just financial competence but also street smarts and a healthy dose of skepticism that are in order to detect and avoid scams. We've identified more than a dozen social tactics that scam artists use in making their pitch. Among the most common: -- phantom fixation: the con-artist dangles a sum of money, or possibly a vacation, to tantalize the victim. -- social consensus: the scammer convinces the victim that his or her peers and neighbors, and other respected people in the community, are all making this particular investment. -- Scarcity approach: the victims are pressured to act fast, before it's too late. -- Reciprocity principle of social interaction: the con does a small favor for the victim, relying on human nature to induce the victim to return the favor in kind by buying the investment. Just being aware of these tactics, and understanding how they work, can help not only seniors but investors of all ages to keep their money safe. Q As this same study notes, even skeptical people can fall for rip-offs, so clearly just relying on your instincts to avoid scams doesn't always work. What's a better way to distinguish scams from legitimate proposals? A The first rule is to avoid hasty decisions. Take the time to thoroughly research any investment or other financial opportunity. If you can use the Internet, it gives you a huge advantage over the scam artist. There is a wealth of information on government Web sites, including fraud and scam alerts. And a quick search on Yahoo! or Google will probably yield results if others have been approached with a similar proposal and have posted warnings to the unwary. But there's a very low-tech approach that also works especially well: Discuss the offer with a trusted friend or family member - and ideally, a financial professional or a lawyer. The study indicated that fraud victims are more likely than non-victims to rely on their own experience and knowledge instead of openly vetting the situation in a neutral, objective setting. The mere process of describing an investment opportunity to a confidant can help you evaluate whether or not it's too good to be true. Q How should investors vet their financial representatives to ensure that they are actually representing their best interests? A The best advice we can give investors is to ask questions - and a lot of them. We see too many investors who might have avoided trouble and losses if they had asked basic questions about their financial representatives from the start. One way to get started in evaluating the background of your financial professional is to take advantage of a valuable publication that we have posted on the SEC web site: Protect Your Money: Check Out Brokers and Investment Advisers. If an investor wishes, we'll also mail a copy of it for free. Q What can children or caretakers do to protect their parents or charges from unwanted solicitations? A A great deal depends upon how healthy - mentally and physically - the investor is. A senior who can get out and about, and who is mentally active and on top of things, needs your help as a sounding board. Offer to be available whenever he or she wishes to talk about finances. That way, if trouble looms, you'll have an early warning. If a senior is mentally acute but physically disabled, you can be especially helpful as a bookkeeper and errand-runner. By involving yourself in the details of the investment situation, you'll be in a good position to protect against unwanted sales pitches and unsuitable products. As I have learned from protecting my own father, one of the most difficult situations is a senior who is mentally disabled. For example, physicians advise encouraging an Alzheimer's patient to continue to do as much as he or she can. If the patient's routine in the past has included keeping track of the family finances, then however imperfectly, that might be allowed to continue - but only under the discreet and watchful eye of a caregiver. Any broker who deals directly with a mentally disabled customer is playing with fire. As a result, those who do are almost certainly the last ones you want to have contact with your own parent or loved one. Here are some specific ways that you can limit the number of solicitations that a parent or other senior in your charge receives, in order to better protect them from potential scams: -- Register your parent or charge with the National Do Not Call Registry to reduce their exposure to unwanted cold calls. Children of senior citizens can do this for them. -- Encourage your parent or charge to skip "free lunch" seminars, even if they are pitched as educational events, unless you have first researched the background of the sponsor, and unless you go to the seminar, too. -- Maintain constant communication with your parent or charge about issues of significant financial consequence. This will give you an early-warning system when an unwanted solicitation first occurs, and help you to insure that it doesn't continue. Q What should the government's role be in its citizens' retirement security, if any? A First and foremost, the SEC is a law enforcement agency. We inspect, examine, investigate, and charge people with offenses. By patrolling the markets for securities swindlers and scam artists, we fulfill government's responsibility to maintain a civil society under the rule of law. When it comes to determining our law enforcement priorities, I can think of no more valuable target than those who prey upon America's seniors. Surely there is a special place in Hell for those who would rob the elderly of their life savings. In addition to our law enforcement function, the SEC plays a much broader role as the investors' advocate. In this capacity, we're committed to providing senior citizens with the information they need to safeguard their investments. We're also committed to ensuring that younger citizens can understand our markets, so that they start putting away money for retirement beginning at an early age, and stick to that plan throughout their lives. For investors of all ages, we're providing online resources to permit comparison shopping for mutual funds and other savings vehicles. And we're providing all of this information in user-friendly "plain English." Our capital markets depend upon investors' confidence that they'll be protected from fraud and unfair dealing. Our mission at the SEC is to ensure that investors are protected as they plan and save for retirement. Q Improving the technology of business reporting has been a priority during your tenure as chairman. One way you've focused on that is by simplifying disclosure and improving its delivery with interactive data in the form of XBRL (Extensible Business Reporting Language) -- an XML based language. How is XBRL going to impact the average investor? A When you use the Internet, you're taking advantage of computer languages and codes such as HTML and XML, which operate in the background. You don't need to be a computer maven to shop online or to send an email. With our emphasis on using XBRL for financial reporting, the SEC is working to bring the same level of interactivity and usefulness to investor reports that consumers are already experiencing across the Internet. Hopefully, you'll never hear of XBRL, but you'll soon take advantage of its enormous power. There's no doubt that what we're planning will have a dramatic impact on how ordinary investors can obtain and use financial information. Currently, there are essentially two choices if you wish to obtain financial information from public companies: -- You can pore over dense, complicated disclosure documents in their raw "as-filed" form, searching for whatever it is you need. If you're lucky enough to find what you're looking for, you'll then need to re-type that information into a spreadsheet or other software in order to use it for even basic analysis or comparisons. This is a labor-intensive process that's burdensome when reviewing a single company's information, and even more difficult when comparing multiple companies. -- Instead of the do-it-yourself approach, you can use a third-party data feed. Essentially, you pay a third party firm to scour the original disclosure documents and re-key the data into their own proprietary format. They sell you the results, which you can then use in your own computer software. Not surprisingly, very few retail customers bother with this expensive approach. What's more, this process is prone to error, because of the extensive re-keyboarding of data that is necessary. Many third parties also re-categorize the information in a manner that is not an exact representation of the original data disclosed by the company. With XBRL, investors will have instant access to companies' disclosure data in a format that's very user-friendly. Within seconds of information being filed with the SEC, investors will be able to get the specific data they need, and organize it in almost any way they like for their own personalized analysis. What we're calling "interactive data" will make getting financial information about companies and funds fast, easy, and flexible. Q You've said before that complexity can be the enemy when it comes to investor protection. How does increased transparency in financial reporting and accounting procedures protect investors and prevent fraud? A When investors are buried in paper, they simply can't use the information that's being provided. They have a right not only to all the information they need to make financial decisions, but also to getting it in a form they can use. If a customer orders a steak, you don't give her a cow and a meat cleaver. The SEC wants to be sure investors have access to information that's clearly written, readily understandable, and easily searchable. Complexity in accounting and financial reporting has developed over decades, in part because the real world that it seeks to depict is growing increasingly complex. Putting things in simple terms, therefore, is not a simple exercise. It's hard work. But the effort is worthwhile, because it can save hundreds of thousands of hours for those who have to read financial disclosures and make sense of them. And it can also help prevent what happened in the notorious Enron case: cleverly disguised fraud was hidden in a thicket of dense disclosure. Complexity is the enemy of transparency. Insisting on plain English and understandable accounting will increase the overall usefulness of financial information reported to investors. That's why the SEC is working with the Financial Accounting Standards Board, the Public Company Accounting Oversight Board, and others to develop less complex and more workable standards and rules.

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