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Aging and Banking

Unique Needs and Challenges of Aging
Individuals and Their Loved Ones

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COMMISSIONED BY

Charlie

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Executive Summary

Financial management is a personal and private matter for most people. Controlling one's financial affairs is tied to independence, and 82% of seniors state they manage their finances without any assistance. However, as Americans age, the ability to make sound financial decisions and oversee everyday banking may require the assistance of a trusted individual—someone who serves as a watchful advisor or even takes on all financial responsibilities. Unfortunately, many seniors unwittingly fall victim to financial fraud as criminals exploit their lack of awareness or insufficient financial oversight.

The Financial Crimes Enforcement Network defines elder financial exploitation as “the illegal or improper use of an older adult’s funds, property, or assets.”¹ Financial exploitation often occurs through sophisticated criminals skilled at tricking seniors into handing over money through various scams. The scale of this fraud is growing fast. In 2022, the FBI’s Internet Crime Complaint Center annual report indicated:²

- Adults over the age of 60 reported 88,262 complaints with a total loss of \$3.1 billion.
- The average dollar loss per victim was \$35,101.
- There has been an 84% increase in total losses to seniors from the previous year’s report.

While these statistics are alarming, AARP, using a first-of-its-kind methodology to measure the annual cost of elder financial exploitation (EFE) in the United States, found that victims over age 60 lost \$28.3 billion 2022, with the bulk of losses going unreported. That is over nine times the FBI’s reported value.

The target of much of this fraud is a senior’s primary checking account, which serves as “mission control” for their financial life. It is crucial for seniors to protect and monitor these accounts from fraud or exploitation. Cornerstone Advisors’ research found that:

- 89% of seniors deposit their monthly Social Security retirement benefits into their primary checking account, and 74% depend on Social Security for the majority of their monthly expenditures.
- 87% of seniors manually check their accounts for suspicious activity without additional oversight by adult children or other trusted individuals.

When seniors seek assistance with their finances, their top choice tends to be an adult child. Nearly half of adult children in the United States are concerned their parents could be victims of financial fraud, and 85% want their parents to have access to a solution to protect them against this form of fraud. However, a sizable portion of the adult child population has not proactively engaged their parents on this topic.

- 40% have not spoken to their parent(s) about concerns regarding financial fraud.
- 46% of those who have not initiated a conversation with their parents don’t know where to start.

Addressing the unique needs of aging seniors requires specific financial tools with capabilities that monitor their checking accounts and protect them and their adult children.

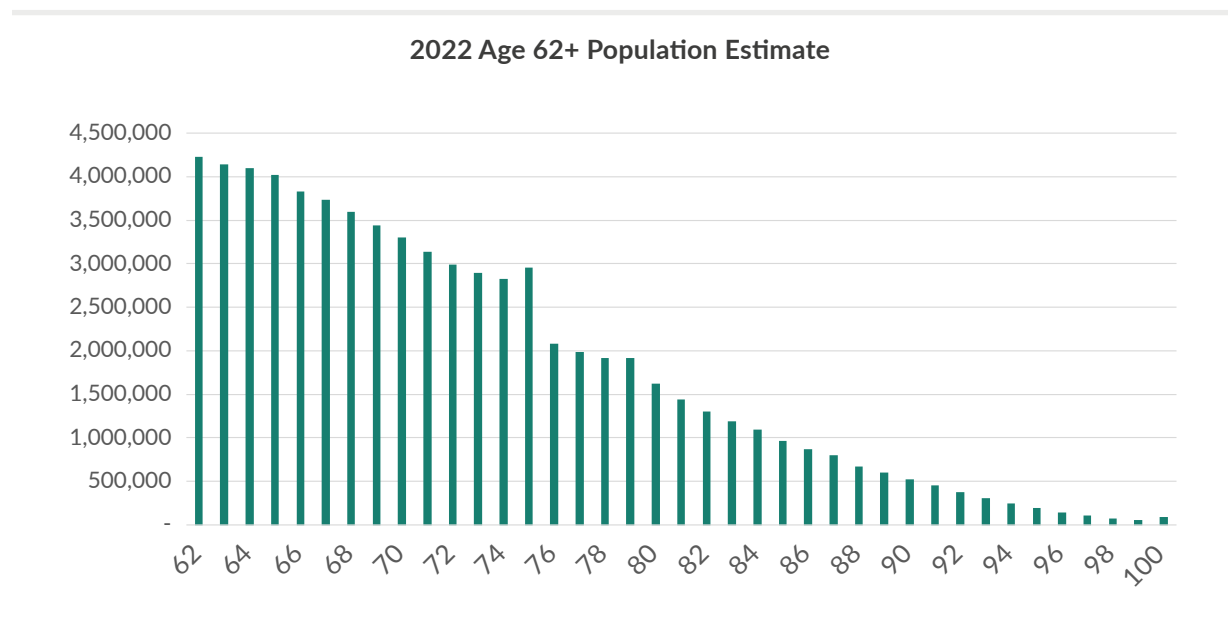
This report explores the financial lives of seniors, their vulnerability to financial fraud as they age, and the lack of protective actions being taken by seniors, their adult children and, in part, financial institutions. Additionally, the report reveals how little adult children know about their parents' finances and what role they can play in protecting them from financial exploitation. Included are recommendations that can improve the financial lives of seniors and assist the adult children who support them.

Aging and Personal Finances

Entering retirement is both a lifestyle and financial change for Americans. Seniors report they retire at a median age of 62, which is a younger than the median of 65 when most workers expected to retire.³ Most Americans make the transition to retirement by their late 60s. According to Gallup, by the time Americans hit their 70s, nearly 83% are retired.⁴

According to the U.S. Census Bureau, there are 70.3 million individuals who are 62 and older. The U.S. Census Bureau forecasts about 12,000 people will turn 65 every day in 2024. By the year 2030, all Baby Boomers will be 65 or older (Figure 1).

Figure 1: 2022 Census Bureau Population Estimate of Americans 62+



US Census Bureau⁵

Retirement for the Baby Boomer generation looks very different than it did for their parents. Improvements in health care and life expectancy have allowed for longer retirements. Their financial lives look very different, too, as most retirees depend on Social Security and personal savings. Company-provided pension plans that were common for the Boomers' parents are long gone.

Retirees must be on guard for financial fraud tactics that seek to exploit seniors and steal funds from their checking accounts. Fraudsters often take advantage of the decline in a senior's cognitive abilities to facilitate financial fraud. The decline of cognitive abilities as we age is demonstrated by the fact that 37.9% of Americans ages 75-84 are diagnosed with Alzheimer's Dementia.⁶ Additionally, 22% of American adults ages 65 and older have mild cognitive impairment.⁷ According to a Securities and Exchange Commission report, cognitive decline is a key factor that makes the elderly more vulnerable to financial fraud.⁸

Ensuring that seniors are protected from financial fraud and can effectively manage their financial lives grows more complex with each year of the aging process. Seniors portray themselves as independent and for the most part in control of their everyday banking needs. Cornerstone Advisors research identifies these financial behaviors of seniors:

- 87% manually check their accounts for suspicious activity.
- 82% independently manage their everyday financial needs and transactions.
- 83% have checked their credit score in the past year.

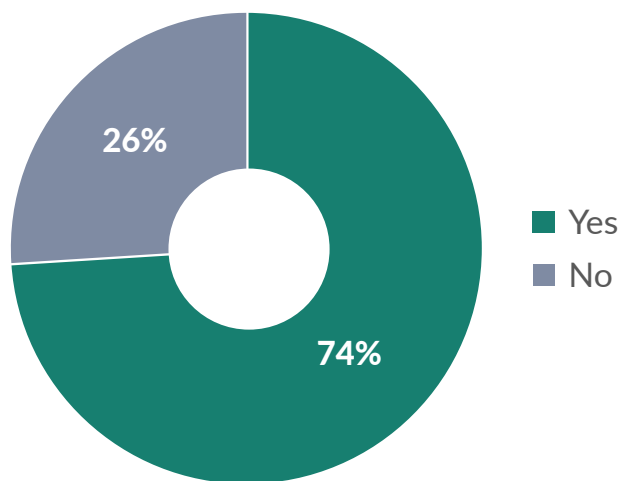
Yet seniors are often the target of fraud that can dismantle their financial security. The confidence expressed by seniors paints a portrait that most seniors believe they can manage their finances amid the increased rate of financial fraud along with decreased cognitive abilities. Many seniors believe they are immune to financial fraud or maintain a view that “it won’t happen to me.”⁹

A dichotomy exists between the aging process and the management of our finances; everything is good until the unfortunate happens. Seniors who maintain an “I got this” perspective may not realize funds are missing from their checking account due to fraudulent activity. Fraudsters are capitalizing on this confidence to score a big payoff from a senior who is tricked into transferring funds and has no additional support to monitor their account.

A senior’s bank account is the hub of their cash flow and is crucial to their daily lives. Eighty-nine percent of seniors deposit their monthly Social Security retirement benefits into their primary checking account, making this an ideal target for criminals. With nearly three in four seniors reliant on their Social Security benefits to cover monthly expenditures, protecting a senior’s primary account is crucial (Figure 2).

Figure 2: Reliance on Social Security Benefits for the Majority of Monthly Expenditures

Reliance on Social Security for Monthly Expenditures

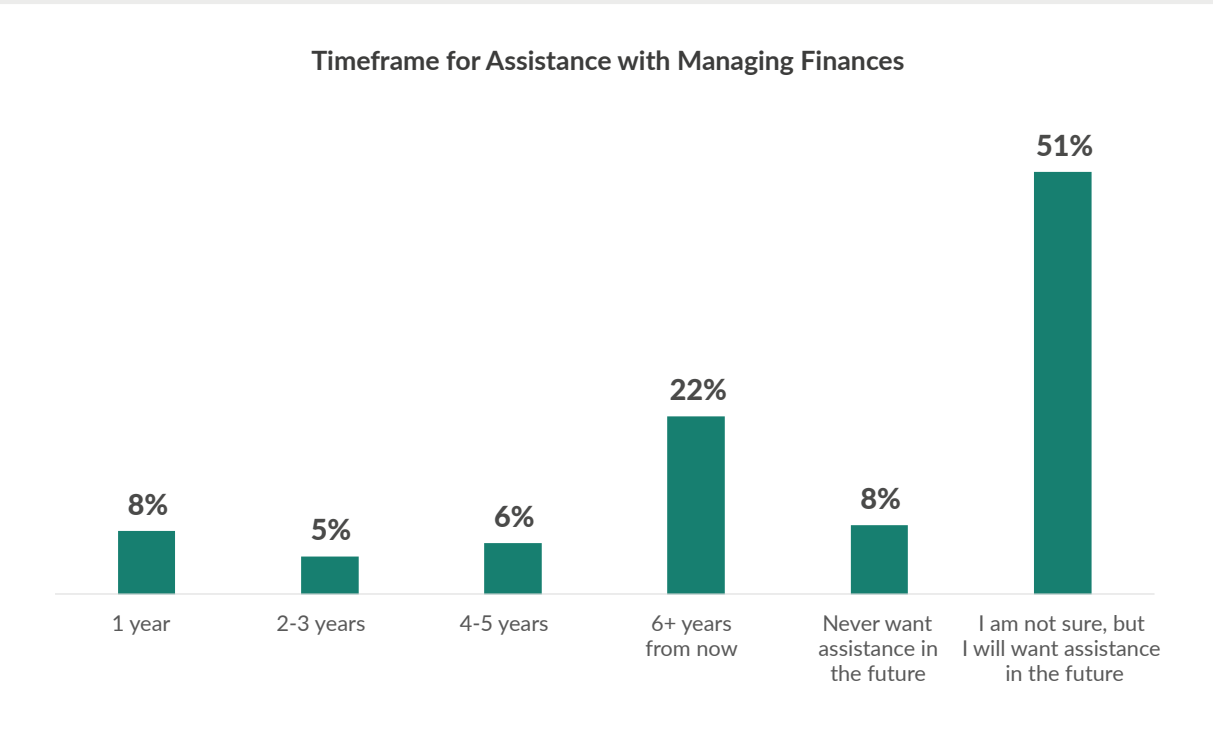


Source: Cornerstone Advisors survey of 2,500 U.S. consumers, October 2023

Needing Assistance is a Reality

While seniors are not typically vocal regarding obtaining assistance with their finances, there is an acknowledgment that in the future, help will be needed. The timeframe to obtain assistance is a deeply personal decision given that an individual must accept a lack of independence. In a survey of seniors who currently manage some or all of their finances, just over half of them say they will want assistance in the future, but they cannot specify a timeframe (Figure 3).

Figure 3: Timeframe for Assistance for Seniors Sharing the Management of Finances



Source: Cornerstone Advisors survey of 2,500 U.S. consumers, October 2023

As seniors age, adult children often play an important role in assisting them with financial matters. Many adult children have little insight into their parents' finances. Only 26% know how much their parents receive in Social Security retirement benefits each month. In addition, 72% of adult children are concerned their parents could be victims of financial fraud.

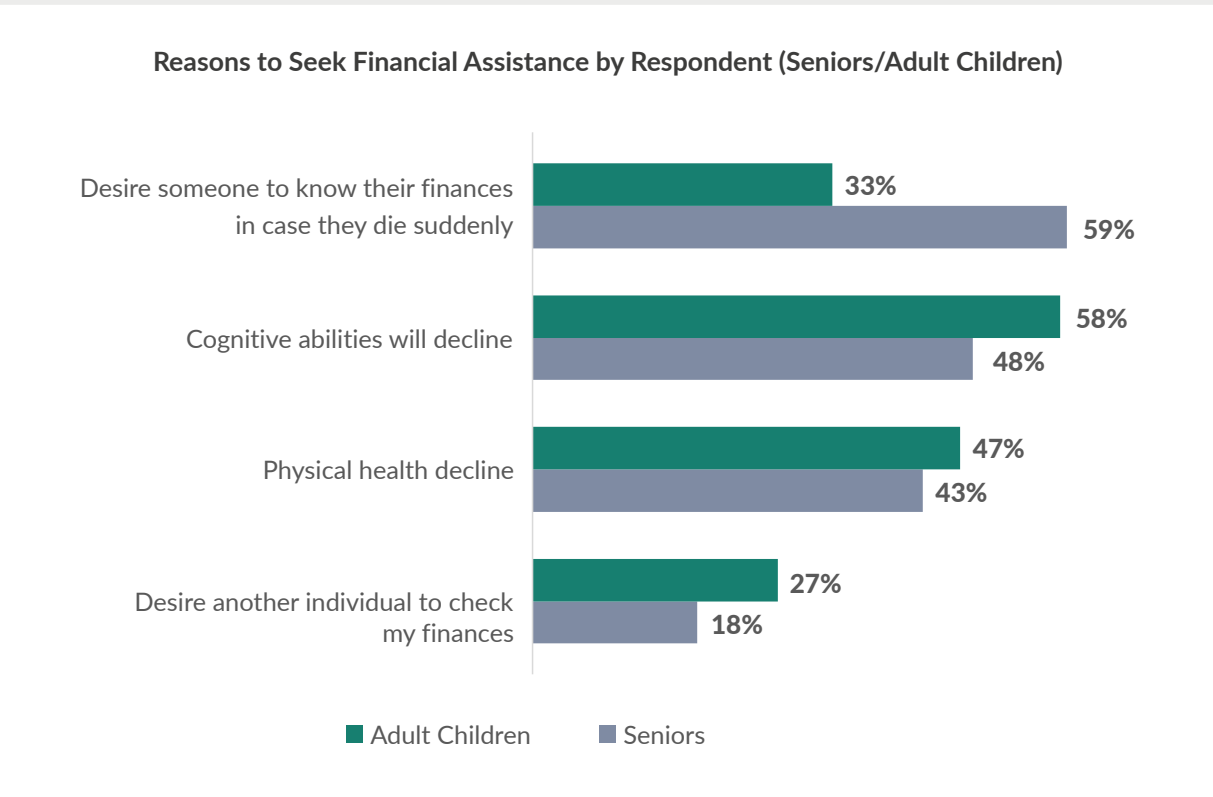
Who do seniors want to assist them with their finances in the future? More than half say an adult child, and nearly a quarter prefer another family member. This positions adult children and close relatives to best understand their aging loved one's financial lives and effectively serve as a partner in their financial matters.

Preparing to Help

Discussing finances can be a challenge, and it is a topic many seniors and their children would rather avoid. Cornerstone Advisors' research indicates that seniors in their 70s are twice as likely than those in their 60s to want someone to check on their finances. Understanding the motivation of seniors who acknowledge they may need assistance can help jumpstart crucial conversations about financial topics that matter to them.

These seniors have a protection mindset, with 59% of them wanting to ensure they have a plan in place regarding their finances if they were to die. Contrast this with adult children who rate cognitive decline as the top reason their senior parents will need assistance with finances in the future (Figure 4).

Figure 4: Reasons to Seek Financial Assistance

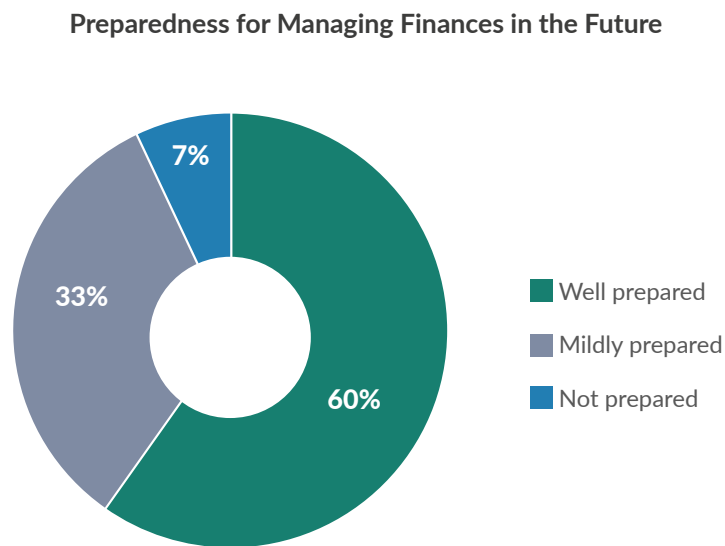


Source: Cornerstone Advisors survey of 2,500 U.S. consumers, October 2023

Touching on one of the four categories above is an approach to starting a conversation on aging and finances. Knowing these reasons allows a loved one to plan a conversation regarding financial management and the risks related to fraud.

A senior's confidence is possibly the greatest hurdle to overcome when helping seniors with finances. Many seniors are confident they are prepared for their financial future. If everything is fine today, why would I not be confident? Only 7% of seniors state they are not prepared to handle their finances in the future (Figure 5).

Figure 5: Seniors' Preparedness for Managing Future Finances



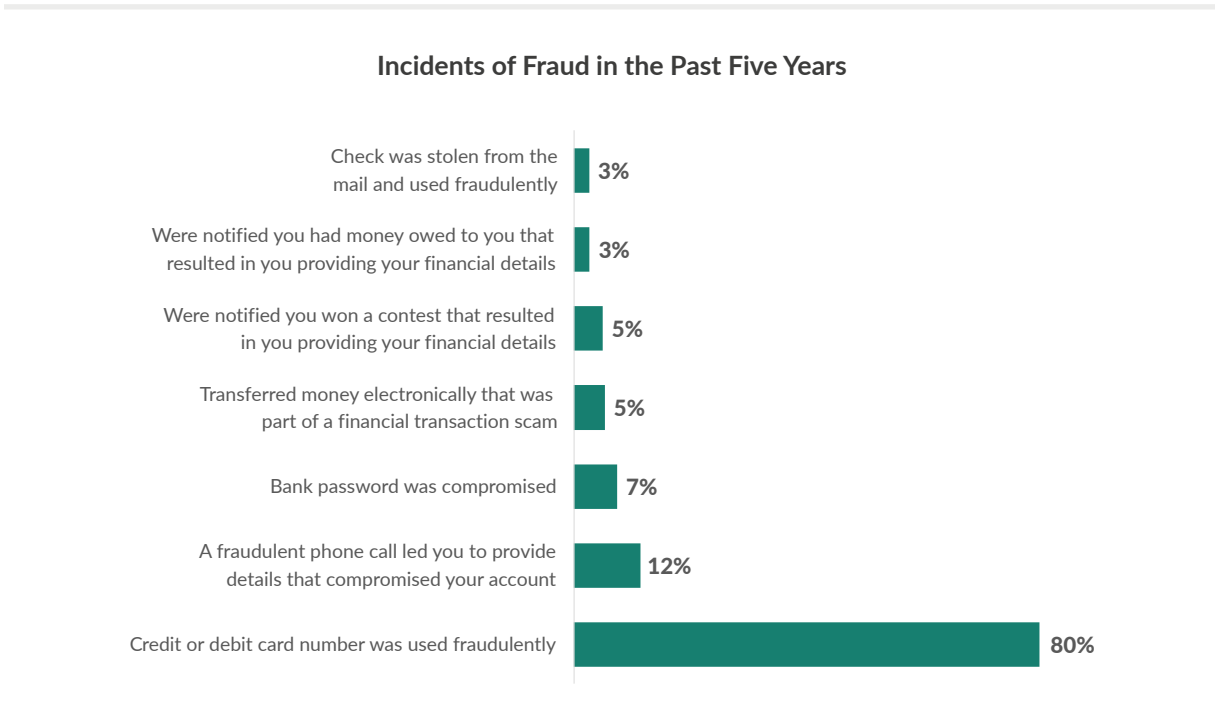
Source: Cornerstone Advisors survey of 2,500 U.S. consumers, October 2023

This confidence—or possibly overconfidence—is what fraudsters want to see. When an intended target thinks they have all their financial bases covered, a fraudster can capitalize on this confidence given there are no additional “eyes” monitoring what is happening. Only 15% of seniors are open to having a family member or trusted individual receive fraud alerts from their primary checking account. A simple change like adding an adult child to receive fraud alerts to their parents’ checking account can be an effective countermeasure to the growing rate of fraud targeted at seniors.

Financial Fraud and Seniors

When it comes to fraud, no one is truly safe. William Webster, a former federal judge and director of the FBI and the CIA, was a victim of an elder fraud scheme.¹⁰ Financial fraud may feel like someone else's problem until it occurs to you. Nearly half of all seniors have experienced financial fraud in the past five years, with most of the fraud tied to a credit or debit card (Figure 6).

Figure 6: Forms of Fraud Experienced by Seniors in the Past Five Years

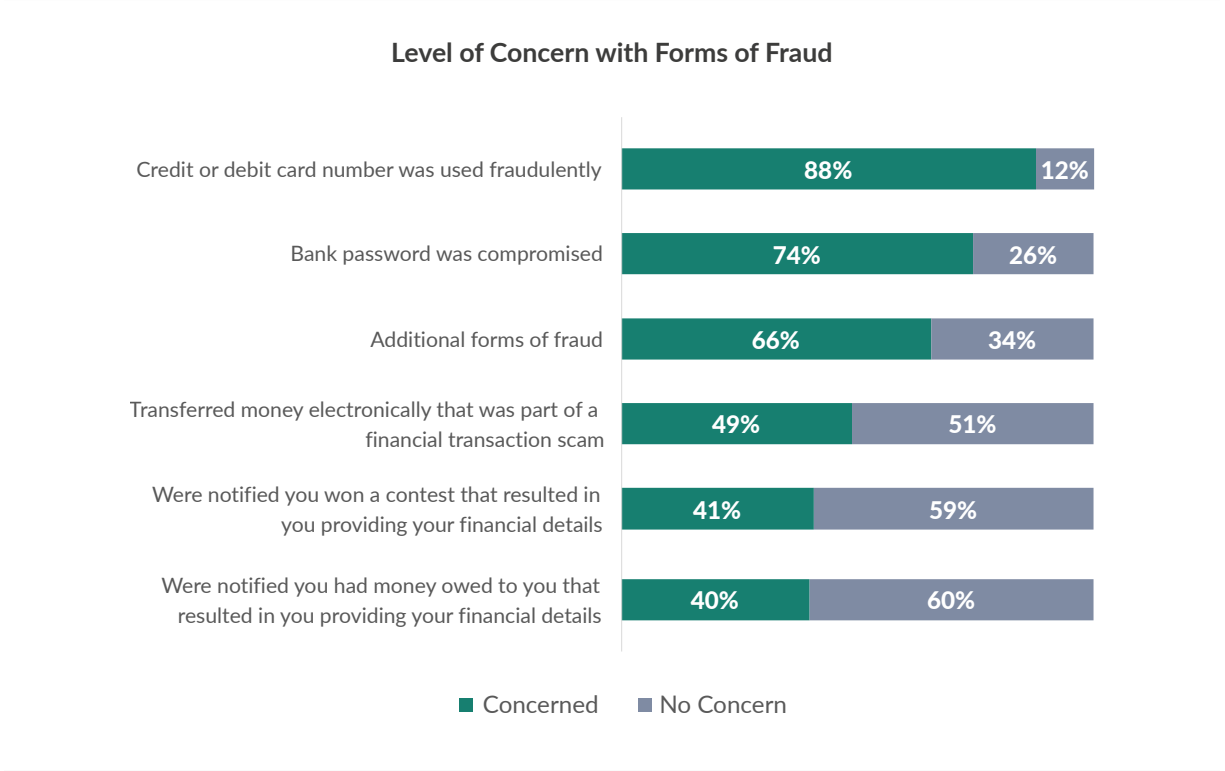


Source: Cornerstone Advisors survey of 2,500 U.S. consumers, October 2023

More than 90% of seniors believe their bank or credit union will protect their daily banking transactions from financial fraud. However, many cases of fraud committed against seniors involved incidences where the victim authorized the transfer of funds. In many of these cases, there is little that can be done to resolve this. It is challenging to identify whether certain financial transactions are part of a fraudulent scheme if the account owner authorized the payment.

Banking consumers benefit from federal laws and advanced technology used to monitor fraud on debit and credit cards. As fraud continues to evolve, it is important to note that nearly half of seniors cite financial fraud related to a scam as a concern (Figure 7). This form of fraud may not be detected by their bank if the senior authorized the payment.

Figure 7: Seniors' Level of Concern Regarding Financial Fraud



Source: Cornerstone Advisors survey of 2,500 U.S. consumers, October 2023

The challenge for both financial institutions and seniors is the growing methods by which seniors are victims of financial fraud. Fraudsters use a variety of techniques to trick a senior into divulging sensitive and personal information. Some of the more common fraud schemes include:

- Impersonators claiming to be from the Internal Revenue Service to collect unpaid taxes
- A sweepstakes scam where a senior is told they've won a lottery or prize of some kind, but they must send money first to cover "processing fees" or taxes
- Investment scams where offenders persuade a senior to send money for a fictitious investment promising unrealistically high rates of return

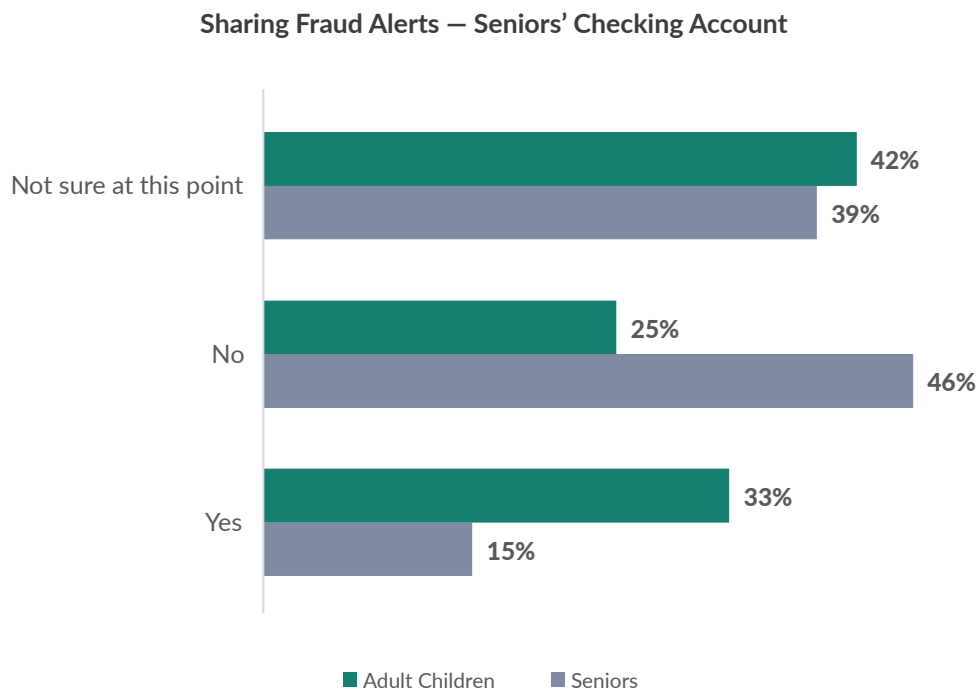
These activities are not as easily detected, as they appear as typical banking transactions in contrast to fraudulent card transactions where advanced analytics have improved the detection of possible fraud.¹¹ Unfortunately, most seniors take on account monitoring themselves, with 87% checking their bank accounts for suspicious activity. Having assistance can make an enormous difference in detecting irregularities.

Time is the Enemy

The challenging nature of elder financial fraud is it can go undetected without proper account monitoring. A delay in identification of the fraud may lead to challenges when a dispute is filed. Electronic payments within a checking account include debit card and Automated Clearing House network transactions. These payment methods are often a target of fraudsters. Unauthorized transactions in these accounts can be disputed. As defined by Regulation E, which outlines rules for electronic fund transfers, the account holder must report an unauthorized EFT “no later than 60 days after the institution sends the periodic statement.”¹² If an account is not closely monitored, time can elapse with no recourse for a fraud victim.

A key step to protection from fraudulent banking transactions is utilizing fraud alerts provided by the financial institution. There is a low level of willingness by seniors to enable fraud alerts with a family member or trusted friend. This is good news for fraudsters! In contrast, when children with parents over age 62 were asked the same question, a much higher response of 33% said they would want to receive fraud alerts from their parents’ checking account (Figure 8).

Figure 8: Trusted Friend or Family Member Gets Fraud Alerts



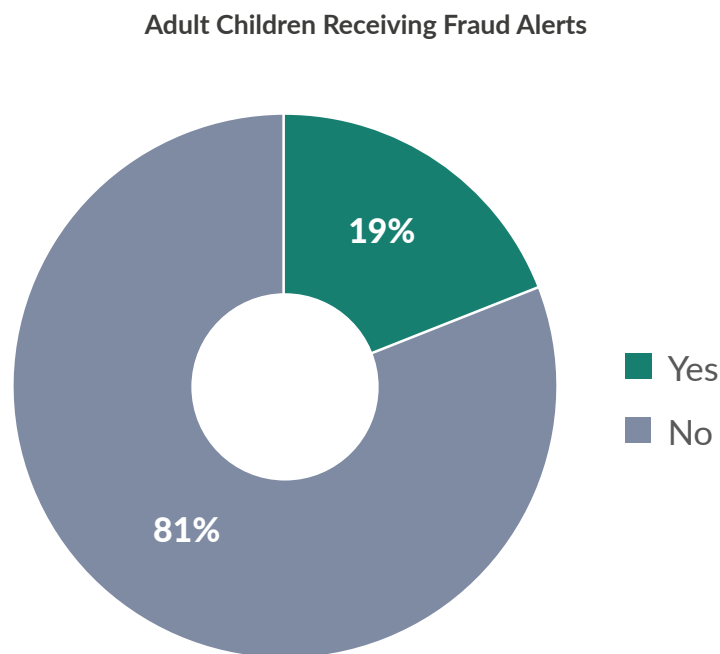
Source: Cornerstone Advisors survey of 2,500 U.S. consumers, October 2023

A small nugget of optimism: As seniors age, their interest in sharing fraud alerts with friends and family does increase slightly. These alerts, along with taking corrective action in a timely manner, are essential to protecting the savings of elders.

Among seniors who were victims of fraud, 84% discovered it within a week. Sounds impressive — a quick response and a likely happy ending. However, the financial impact on the remaining 16% that experienced a longer time to resolution can be devastating. The average loss per senior victim was more than \$35,000, and just over 5,000 victims lost more than \$100,000 based on 882,262 reported complaints to the FBI in 2022.¹³ Failure to detect fraudulent activity can leave a senior with few options if time has elapsed beyond statutory limits.

If a senior is not extremely diligent or does not know what to look for regarding fraud, the timeline to attempt a possible resolution is lost. Allowing an adult child to receive fraud alerts is a wise approach to improve detection of fraud. Yet only 19% of adult children of seniors state they currently receive fraud alerts, illustrating that most seniors are on their own to monitor fraud (Figure 9).

Figure 9: Adult Children of Seniors Receiving Fraud Alerts



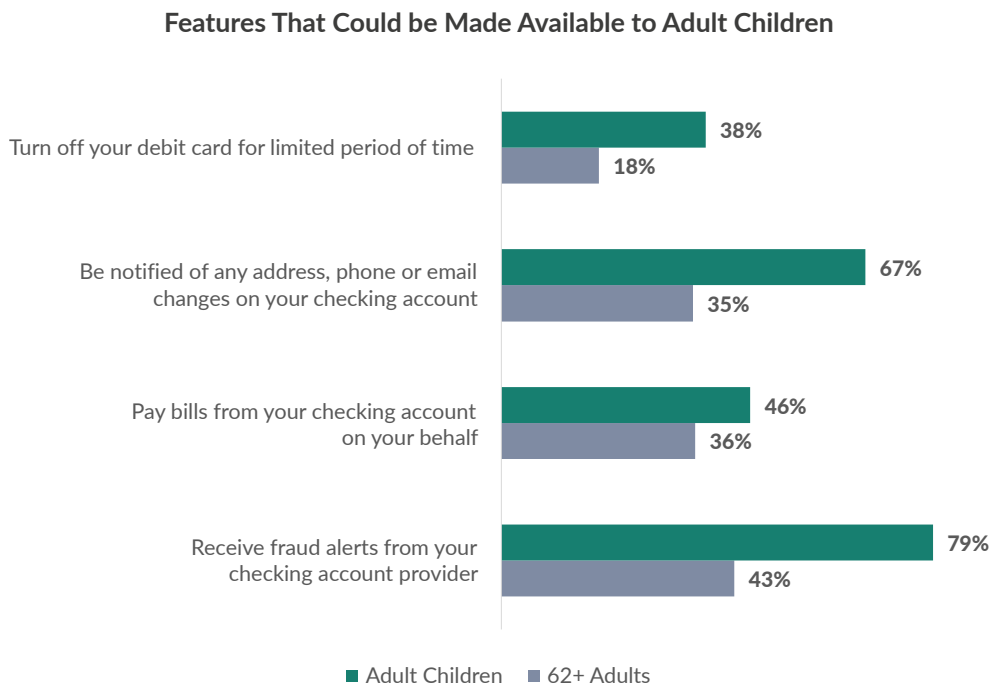
Source: Cornerstone Advisors survey of 2,500 U.S. consumers, October 2023

Establishing a Copilot for Seniors

Many seniors recognize that at some point in the future they will require assistance. The opportunity for fintechs and financial services firms is to deliver capabilities that provide a balance between a senior's desire to be independent and their need to accept assistance from adult children or trusted individuals. This partnership can span a continuum of capabilities, from a light touch that sends alerts to adult children to active participation where an adult child conducts select banking transactions on behalf of their parent(s).

This partnership or a copilot approach will only be successful if those helping the senior are open to assisting and taking corrective action when needed. Adult children state they are more likely to use specific features of a copilot approach when they are designed around the needs of their aging parents. While there is room for improvement when it comes to the usage of these features, this willingness to partner with their senior parents is promising in the effort to fight fraud and manage finances for seniors (Figure 10).

Figure 10: Features of a Copilot Financial Relationship



Source: Cornerstone Advisors survey of 2,500 U.S. consumers, October 2023

When adult children can serve as a copilot for their parents, it provides an effective approach to monitor banking activity. While it may not stop a criminal from targeting a senior, monitoring transactions along with features designed with seniors in mind can bolster the defenses of seniors against financial exploitation.

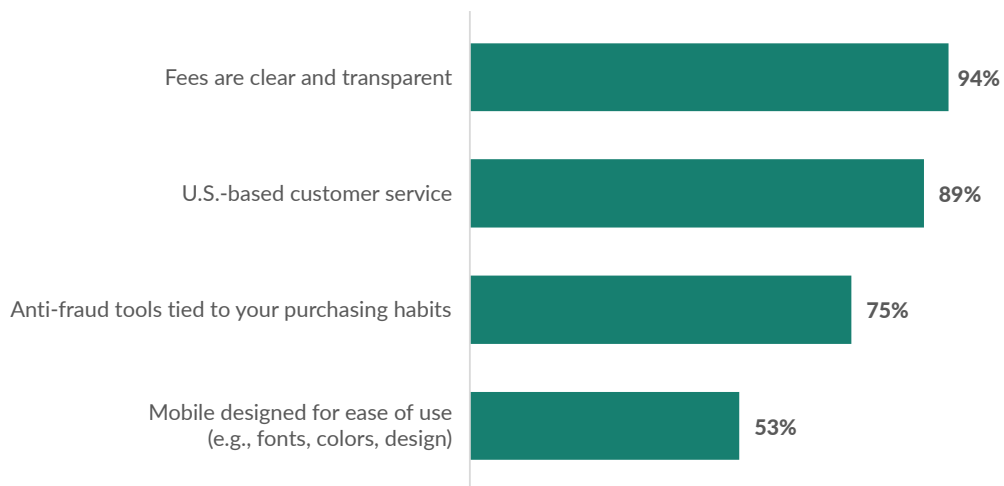
There is certainly some room for improvement to have adult children of seniors be an effective copilot. While adult children of seniors have concerns regarding financial fraud targeted at their parents, many have not broached the topic with their aging parents:

- 72% of adult children have concerns for their senior parents regarding financial fraud.
- 40% of adult children have not yet spoken to their senior parents regarding financial fraud.
- Among adult children who have not spoken to their parents about financial fraud, 46% do not know how to start the conversation.

Being an effective copilot takes one part willingness by the account holder and one part product capabilities. The product must have the capabilities to meet the needs of the senior community. Looking beyond clear and transparent fees as the top capability, three out of four seniors would like fraud detection capabilities that are designed to work with their purchasing behavior (Figure 11).

Figure 11: Banking Capabilities or Services Preferred by Older Consumers

Banking Capabilities or Services Preferred by Adults 62 and Older



Source: Cornerstone Advisors survey of 2,500 U.S. consumers, October 2023

Improved fraud detection and monitoring capabilities will make a great improvement in ensuring seniors' finances are being protected and loved ones can assist when needed.

A blend of capabilities along with an open dialogue with seniors regarding financial fraud can go a long way toward making positive changes. Without meaningful change, we will continue to see headlines of how scammers and fraudsters have swindled money out of unsuspecting seniors.

About the Author

Glenn Grossman | Director of Research

Backed by more than 30 years of leadership experience in data analytics, product management and product development in banking growth strategies and bank regulation, Glenn Grossman produces analytical studies aimed at delivering insights for innovation, growth and sustainable competitive advantage for financial institutions and fintech firms. Before joining Cornerstone Advisors, Grossman was a principal consultant and senior thought leader with FICO and the product leader for a start-up fintech payments firm. He started his career in the financial services industry managing product innovation and payment strategy at Bank of America. He also served as an economist with the U.S. Department of Labor–Bureau of Labor Statistics.



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cornerstone.com/our-team/glenn-grossman

About Cornerstone Advisors

After more than 20 years in this business, Cornerstone Advisors knows the financial services industry inside and out. We know that when banks and credit unions improve their strategies, technologies and operations, improved financial performance naturally follows. Because we live by the philosophy that you can't improve what you don't measure, we help financial institutions use laser-focused measurement to develop more meaningful business strategies, make smarter technology decisions and strategically reengineer critical processes.



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About Charlie

Charlie is the new standard for 62+ banking* services. Charlie helps retirees make the most of their limited resources with features including groundbreaking fraud protection, faster access to their Social Security checks, competitive earnings on deposits and no monthly fees or minimums, as well as U.S.-based customer service, and a simple, transparent digital experience designed for their needs. Charlie is transforming financial services for the 62+ community and providing peace of mind around their financial present and future.

*Charlie is not a bank. Banking services provided by Sutton Bank; Member FDIC.



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Endnotes

- ¹ AARP Report: <https://www.aarp.org/content/dam/aarp/money/scams-and-fraud/2023/true-cost-elder-financial-exploitation.doi.10.26419-2Fppi.00194.001.pdf>
- ² 2022 Elder Report: https://www.ic3.gov/Media/PDF/AnnualReport/2022_IC3ElderFraudReport.pdf
- ³ 2023 Retirement Confidence Survey: https://www.ebri.org/docs/default-source/rcs/2023-rcs/rcs_23-fs-2.pdf?sfvrsn=708d392f_4
- ⁴ Age of Retirement: <https://news.gallup.com/poll/394943/retiring-planning-retire-later.aspx>
- ⁵ 2022 Estimate of Population by Age: <https://www.census.gov/data/tables/time-series/demo/popest/2020s-national-detail.html>
- ⁶ Rate of Dementia: <https://www.alz.org/media/documents/alzheimers-facts-and-figures.pdf>
- ⁷ Rate of Cognitive Decline: <https://www.cuimc.columbia.edu/news/one-10-older-americans-has-dementia>
- ⁸ SEC Elder Exploitation: <https://www.sec.gov/files/elder-financial-exploitation.pdf>
- ⁹ Senior Denial: <https://www.kiplinger.com/retirement/603938/are-retirees-in-denial-about-risks-from-financial-fraud>
- ¹⁰ William Webster: <https://www.fbi.gov/video-repository/webster-elder-fraud-psa-040722.mp4/view>
- ¹¹ CFPB Challenges to Identify Elder Fraud: <https://www.consumerfinance.gov/about-us/blog/overcoming-the-challenges-of-recognizing-elder-financial-abuse/>
- ¹² Regulation E: <https://www.consumerfinance.gov/rules-policy/regulations/1005/11/#b>
- ¹³ FBI Elder Fraud Reporting: <https://www.ic3.gov/Home/EF>

Have questions regarding this report?

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