How advisers can stop family members from fleecing elderly relatives

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Last week, the Financial Industry Regulatory Authority censured and fined J.P. Morgan Securities $200,000 for failing to reasonably supervise Evan Schottenstein when the former registered representative made a series of unsuitable trades in the account of his widowed, 88-year-old grandmother.

The decision shined a spotlight on the unending plague of financial elder abuse, an epidemic estimated to have cost victims at least $2.9 billion last year alone, according to the American Bankers Association.

The fact that Schottenstein victimized his own grandmother illustrates how the elderly need to be always on guard, even from those that — supposedly — love and care for them the most. The AARP Foundation reports that roughly two-thirds of the abusers are family members, often the victim's spouse, adult children or grandchildren. Additional research also shows that abusers may be dependent on the victim's resources, live in the victim's home and may suffer from substance abuse.

"There will always be someone preying on the vulnerable — whether it be a foreign hacker or, sadly, a family member," said estate planning attorney Stuart Schoenfeld of Capell Barnett Matalon & Schoenfeld LLP. "There are some steps one can take to help an elderly parent or other relative avoid falling victim to a financial predator. But much depends on their willingness to help you protect them and their level of competency.”

As to how such a family dynamic might get started, Schoenfeld said one child will typically take over managing an elderly parent’s accounts and lock out the other siblings.

“It may be as simple as, ‘Mom, why don’t you move in with me?’ And ultimately, the other children are excluded or denied access even to visit the parent,” Schoenfeld said.

Schoenfeld advises putting an elderly relative’s landline and cell phone number on the “Do Not Call” registry as a first step. Next, he suggests setting up all bank and credit card accounts to be accessible online and permit notifications to alert a loved one of any unusual activities or charges on the account.

“As part of our normal process, we are in communication with our clients, but when they are older or we notice a decline, we like to have a client-approved trusted contact added to their account. In cases where we suspect the client maybe be having issues, we reach out to both the client and trusted contact,” said Christopher Howard, managing director at Stifel Independent Advisors.

One reason why financial elder abuse from one’s own family often goes unnoticed or unreported is that the victim may rely on the abuser’s care and suffer from isolation inflicted by the person caring for him or her. The victim could also be too frightened of retaliation, too ashamed or too unwell to inform the authorities.

Meanwhile, nurses, neighbors and acquaintances are often hesitant to get involved in what could be a lengthy legal battle between family members. As a result, the abuse continues.

But that needn’t be the case. All abuse claims can be reported in confidence to the local or state Adult Protective Services bureau, where all complaints are investigated.

“Having a financial plan in place and updated periodically is very helpful because it shows spending and habits within the household,” said Jason Nickels, financial adviser at Kingswood U.S. “This in-depth knowledge helps keep close tabs on odd behavior or change in activity. Asking questions about those closest to my clients also helps understand family dynamics and when nefarious intentions may be at play.”

Schottenstein’s grandmother won nearly $19 million in damages plus attorneys’ fees and costs last year in a Finra arbitration after alleging J.P. Morgan and her two grandsons mishandled her account. Schottenstein has since been barred from the industry.

Sadly, he won’t be the last of his kind. Financial professionals need to remain vigilant in protecting their elderly clients.