

Financial Services Issues for Senior Citizens

*This document was developed by the **State Financial Regulators Roundtable (SFRR)**, a group of State Regulators' Membership Associations including banking, consumer lending, credit unions, insurance, money service businesses, mortgage lending institutions, savings institutions, and securities. The associations that make up the State Financial Regulators Roundtable are listed at the end of this document.*

The purpose of this document is to provide a comprehensive analysis of financial products and services directed toward senior citizens and to outline some of the challenges and issues related to those products. The goal is to prevent abusive products or practices targeted towards seniors and to assist seniors in making sound financial decisions.

While this information is expected to have a broad audience, it is directed to examiners and professional staff of regulatory agencies, organizations that serve as advocates for the senior community, financial service companies and others interested in making certain that seniors are given the tools to make sound financial decisions and are not subject to inappropriate products, services or marketing practices.

The members of the State Financial Regulators Roundtable want to ensure the safe and appropriate delivery of financial services to all citizens in our states, with a special emphasis on senior citizens, an important and growing market segment of consumers.

A number of recent trends have been observed by state financial regulators relating to the marketing and provision of financial services to senior citizens:

- Threats to the ability of citizens approaching retirement to provide for a safe and comfortable retirement, due to the lack of adequate investment and saving; these are valid concerns that require careful analysis and proper strategies by those that are preparing for retirement.
- A proliferation of financial planners and experts, including certain individuals that hold themselves out to be experts in financial and related issues for senior citizens; the qualifications of those individuals holding themselves out as financial experts is deserving of particular attention.
- Growth in the volume of financial, insurance and investment products, some of which have which have been targeted to the senior population; some of these products may have investment features, risk characteristics and fee structures that raise questions as to their appropriateness for senior citizens.
- Certain borrowing products, such as reverse mortgages, targeted to seniors as a method of increasing cash flow during retirement; while these products can be a useful tool, they have characteristics, which consumers need to be aware of before entering into such a significant financial transaction.

- An unprecedented level of marketing to senior citizens particularly as the “Baby Boomer” generation begins to enter the ranks of the retired; some of these marketing seminars, often with a free meal, where investment products and services are marketed as providing financial advice or planning, require careful analysis and consideration by consumers.

While the State Financial Regulators Roundtable involves regulators in a number of different areas of financial services, we have a number of common observations regarding the marketing and provision of financial services to senior citizens

Marketing and Suitability of Financial Products Sold to Seniors

First, it always important that the marketing and provision of any financial services to senior citizens be done in an appropriate manner and that the financial services be appropriate to these consumers, based on their age, their risk tolerance, and their understanding of the product being offered. In the case of securities, there is also potential legal exposure for parties who sell investment products that are not suitable for the purchaser.

For example, it would most likely be inappropriate for a salesperson to sell 30-year, zero coupon bonds to an 80-year old woman, since the bond doesn't yield any income until maturity and the date of maturity is beyond the life expectancy of the purchasing consumer. In addition to potential legal and regulatory requirements, individuals and companies engaged in providing services must maintain high ethical standards requiring that the marketing and sale of products be done in an appropriate fashion, that representations regarding products be fair and appropriate and that products sold be appropriate and beneficial to senior citizens purchasing these products.

Investment Products

It is always appropriate for investors, especially senior investors, to assess the risk characteristics of the financial product being considered, the ability to recoup the purchase price or principal on the product, the relative liquidity and marketability of the product, the anticipated return on the product under differing market assumptions and the fees and commissions that are associated with a product offering. In recent months, state securities regulators have investigated the widespread marketing of auction rate securities as cash equivalents, followed by the collapse of the ARS auction market in February, leaving thousands of investors without access to their money. The investigations have divulged that the average age of investors affected by the collapse of the ARS market is 55.

Often, the more complex the investment product, the more difficult it is to develop an understanding of the characteristics of the product. It is also appropriate in the case of all financial services and products to shop similar products with different companies to determine that as a consumer you are getting the best deal.

Savings and Deposit Instruments

It is important for the security and peace-of mind of many senior citizens that savings products be insured depository products insured by the full faith and credit of the U.S.

Government. Regulators recently investigated an instance where some seniors bought debenture products with many of the characteristics of certificates of deposit, but without this important safeguard of insurance to protect principal. These instruments were yielding more than 200 percent of the prevailing CD rates at the time the finance company offering these products ultimately failed. It is axiomatic that a consumer cannot receive two or three times prevailing market interest rates unless he or she takes on a higher level of risk.

Much has been written regarding the relative lack of adequate savings and investment by individuals who are approaching retirement. It is appropriate for consumers to increase their levels of savings and investment and hopefully begin this process of saving for retirement earlier, as it appears that fewer consumers are covered by defined benefit pension plans and demographics reflect that people will spend a longer period in retirement than previous generations. Seniors should carefully consider the risk profiles of their investments as well. It is appropriate to seek proper diversification of risk, and an appropriate balance of investments by type to provide for adequate protection of principal and sufficient growth and income characteristics. Most seniors will require personal savings and investments in addition to Social Security in order to maintain a comfortable standard of living in retirement.

The Use of Financial Planners and Investment Advisers

Many seniors seek the assistance of subject matter experts in planning for investments, retirement and estate disposition. While professional advice is often extremely useful. In most jurisdictions, individuals can hold themselves out to be financial planners without specific licensing or registration requirements. Individuals who sell investments or insurance products should have the proper licenses for the products and services they offer. The state securities or insurance regulator can provide information on whether or not the individuals have the necessary licenses.

Many financial planners may have professional designations requiring stringent written examinations, ethical and conduct standards and continuing education requirements which consumers should consider in seeking financial planning or advice. The method of compensation for services or products is also relevant, since a commission or fee might suggest an incentive to promote certain products or services. It may be appropriate to seek input from several financial service experts depending on the financial planning performed and the advice being sought, including a financial planner, attorney, an insurance agent and a securities sales person.

Recently, state securities regulators have become concerned about certain advisers using “designations” conferring an impression that the individuals have special qualifications or specialized education in addressing the needs of senior citizens or retirees, particular areas of finance, financial planning, estate planning, or investing. In response, regulators have adopted a model rule prohibiting the use of misleading senior designations,

A related trend is the “free lunch” sales seminar. These seminars are widely offered by financial advisers seeking to sell financial products, and they include a free meal for attendees. Sales seminars are often advertised in local newspapers, through mass-mailed invitations, mass-email, and on websites. While specific data is not available

regarding the actual number of sales seminars being conducted, regulators believe that the number of sales seminars has increased in recent years, as financial services firms are increasingly seeking to provide advice to seniors and those approaching retirement.

Reverse Mortgage Products

Reverse mortgages can be useful tools for a senior citizen who otherwise would not have a sufficient level of on-going cash income in retirement. However, a reverse mortgage is a borrowing transaction and in all likelihood the property will have to be sold in order to pay off the mortgage, unless there are other financial resources to pay off the balance of the mortgage.

The characteristics of a reverse mortgage should be fully understood by the consumer and should only be entered into after careful deliberation. The fees on reverse mortgages can be extremely high for the consumer relative to other forms of borrowing. Some issuers have begun to issue proprietary reverse mortgages. These proprietary mortgages may not contain certain of the safeguards and insurance features of federally conforming reverse mortgage products and which may have higher product costs.

Consumers are advised to compare the features and costs of these products carefully and only enter into these products after careful deliberation and analysis and comparison of different company's products. While these products can make sense for seniors who lack other means of providing cash flow for necessary living expenses, seniors must review and understand the products thoroughly before entering into the transaction.

Insurance Products Targeted toward Seniors

Insurance products are being marketed specifically to seniors to assist them in planning and meeting funeral and final disposition costs, often in the form of small dollar amount term life insurance. Such policies like any other insurance products should be carefully compared with similar products offered by other companies, regarding the premiums paid, the benefits paid under the insurance contract, and the conditions and restrictions of policies being offered. Additionally such insurance products should be prudently compared to similar investment products with similar risk characteristics and maturity periods, to make sure these policies make sense for the consumer.

Annuities are another insurance product often targeted at seniors. Sold by banks, insurance companies and brokerage firms, annuity products can be useful to seniors and those approaching retirement since they can provide an on-going cash flow, but they have features that require careful financial analysis by the consumer or trusted financial advisor.

Annuities are heavily sold because they often have hefty sales premiums for the broker or salesperson selling the annuity. These products may also have on-going maintenance fees and substantial surrender fees that make it costly to exit the annuity if the consumer changes their mind about the product. While annuities can provide for tax deferred investment growth, any growth in excess of the premium paid for the annuity is subject to ordinary income taxes (unlike securities, which receive lower capital gain tax rates).

There are different types of annuities, including fixed, variable and equity indexed annuities. Fixed annuities generally have a fixed scheduled cash flow, for either life or a term certain. Variable Annuities may have variable cash flows depending on the investment performance of the product. Such products may not be suitable for senior citizens, depending on their financial position and the decision to purchase an annuity should preferably be discussed with a trusted fiduciary or financial advisor. As with all financial products, it is advisable to compare similar products, particularly the cash flow characteristics, fees and financial stability of the company selling similar products. Individuals selling variable annuities need to be properly licensed to sell these products.

The members of SFRR are the American Association of Residential Mortgage Regulators (AARMR), American Council of State Savings Supervisors (ACSSS), Conference of State Bank Supervisors (CSBS), National Association of Consumer Credit Administrators (NACCA), National Association of Insurance Commissioners (NAIC), North American Securities Administrators Association (NASAA) and the National Association of State Credit Union Supervisors (NASCUS).