CARP

CANADIAN ASSOCIATION OF RETIRED PERSONS

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Financial Self-Defense Guide for Seniors

Seniors are vulnerable

Seniors have accumulated savings through hard work and determination. Many often have equity in their homes. Seniors are a popular target because many of them have saved and accumulated a comfortable nest egg. These are the funds that are supposed to support them in retirement, which is why elderly people are generally prudent investors who don't take on much risk. Their assets can be a target of a rogue advisor.

Seniors are also a target due to diminished capacity. They may not hear as well as they did when younger, vision isn't quite as good as it used to be, memory isn't as sharp. They may be suffering from a painful illness. With increasing longevity, their numbers are increasing. Their vulnerability creates opportunities for advisor abuse. Unfortunately, there are financial advisors who will seek to take advantage of this type of situation. **Seniors have shorter time horizons than younger investors, and therefore have less capacity to take on the risk of investing.**

Establish a Power of Attorney (POA)

Plan ahead in the event of your own incapacity. Proper advice for any senior: be sure to arrange to give a Power of Attorney to someone you trust who can deal with property and financial matters.

Client Focused Reforms

Canadian securities regulators have developed a comprehensive set of rules, known as the Client Focused Reforms. They're based on the fundamental concept that clients' interests come first in their dealings with firms and individuals that are registered to give investment advice and trade in securities. Under the conflict-of-interest rules, registered firms and investment advisors are required to address material conflicts in their client's best interest, which should be placed first when recommending or choosing investments for seniors—and, indeed, any investor. Canadian financial experts who are ready to offer advice are limited by the rules about what they can say or do.

Know Your Client (KYC)
Advisors are required to gather personal and financial information about their clients. Called Know Your Client (KYC) information, this includes details about investment objectives and goals, income and net worth, investment experience, their time horizon (how soon they'd like to reach goals or how long they're willing to keep money invested) and their willingness and ability to accept risk.

The relationship between a financial advisor and a senior, who is a client, is important and highly significant. It's one based on mutual respect with the expected result being a better financial outcome for both parties.

Advisor compensation can drive conflicts-of-interest
Mutual fund salespersons are compensated via sales commissions buried in the cost of the fund, some advisors are paid per transaction, others based on the dollar level of assets. Some advisors are fee- only so have no conflict-of-interest. Distortions can occur when advisors must meet sales targets or receive a higher commission rate for selling one product over another. The more you understand the method of advisor compensation, the better chance you have of not being exploited.

Here are some self-defence guidelines to help seniors—who are clients– avoid being exploited by advisors who act out of greed or negligence:

Check out your advisor
Conduct a background check on any advisor you are considering working with, no matter how personable or highly recommended. Check into her/his business practices, education and experience. Contact existing customers before signing on. Make sure as a client that you're given a document describing the services to be provided.

Engage only with registered advisors

Seniors need to set aside time to select an advisor with the skills and experience to meet their needs. To check registration with a regulatory authority, visit https://www.securities-administrators.ca/registration/are-they-registered/
Seniors can check if any disciplinary actions have been taken against the potential advisor. If the person is not registered with a regulator, do not engage.

Get the facts on advice fees

Regardless of whether an advisor charges sales commissions or gets paid according to fee-based arrangements, the senior, who is a client, needs to know how much the relationship with the advisor is costing. If the advisor is receiving embedded commissions from fund companies, it's deceiving for them to say that their "advice is free." Read the annual statement on fees and performance which should be received early in the calendar year for each account owned. Ask questions if something doesn't feel right.

Review Account Opening Documents

An advisor may be a great stock picker, but he or she is still obligated to respect the client's wishes, objectives, and risk profile when investing money. Account opening documents are part of a contractually binding agreement between the client and the financial dealer, which limits the type of investments and financial products/services an advisor can provide. Review account opening documents and make sure the advisor has recorded your profile accurately. Again, your KYC profile will determine how your money is invested. ***Retain a copy of the signed and dated copy of the completed KYC form.***

Clearly communicate your investment objectives

As a senior, your investments may be entirely dedicated to financing your retirement. Or you may wish to leave a legacy to family members or friends or make a charitable donation. These objectives, which should be documented in writing with your advisor, will influence the choice of investment recommendations and portfolio construction that will be made to you.

Calibrate Your Risk Profile

Upon reviewing your account opening documents, you will find your stated risk profile from when you initiated the account. Make sure this was and is still accurate. Far too often, a communication breakdown occurs between a client and advisor that leads to an inaccurate risk assessment. Many investors who think of themselves as "conservative" find that, upon review of their account opening documents, their advisor has mis-categorized them as "100% growth." This could lead to riskier, unsuitable recommendations.

Borrowing to invest

Often referred to as leveraging or margin investing, this term involves using borrowed funds to buy investments with the expectation of creating returns that exceed the cost of borrowing. Make sure you understand how it works, including the interest rate, how interest is calculated, and any other risks and conditions associated with the arrangement. The primary risk of taking out a loan to invest is the potential for significant loss and loan repayment. A big loss in retirement can be life-altering.

Unsuitable investments

An advisor can purchase financial products or investment funds that are inappropriate for your risk profile, time horizon or goals but will generate high commissions for the financial advisor. Don't hesitate to ask tough questions before agreeing to a transaction.

Understand the product
Make sure you ask about more than just the benefits of the product. Ask about risks and product costs. What will the financial professional be paid if you buy the product? Can you get your money when you need it? Will you pay a redemption fee to access your money?

Think twice about being sold complex products
If you don't understand it, maybe don't buy it. Ask about fees, risks, liquidity, costs for an early withdrawal, the product's performance track record, and advisor compensation. Get a second opinion if needed. There are no dumb questions when protecting your money. If answers are evasive, take a pass on the opportunity.

"Sign here, this is just administrative paperwork."
If your advisor says this, watch out. **Never sign a blank or partially completed form.**

Seek a second opinion
Some seniors may be handicapped by lack of investment experience, or by diminished capacity, or both. These are the seniors who are most vulnerable to financial exploitation, and who are the least capable of articulating and looking out for their best interests. If you have doubts about the investment strategy being recommended for you, seek a second opinion. Get support. Your support person could be a trusted relative, friend or a professional such as your accountant or lawyer.

Keep your KYC up to date
Keep your advisor up to date on your financial and personal situation so she/he can adjust advice accordingly. Changes in employment, marital status, health, residence, income needs, dependents and the like are transformational. As we age, life altering events will occur. For seniors, some of the more common are a serious illness or disability, or the death of a spouse. When major events like these occur, it's important to let your advisor know so that the suitability of your investments and your tax situation can be adjusted.

Name a Trusted Contact Person (TCP)
As part of the Know Your Client (KYC) process, advisors are required to ask you if you want to name a TCP. The TCP is a person the client knows and trusts. If the advisor believes the client/senior is dealing with a fraudster or suffering from diminished capacity, she/he could contact the TCP person to check things out. If the proposed transactions seem suspicious, the advisor can put a temporary hold on a transaction to prevent fraud. Naming a TCP can be a wise self-defence step.

Watch out for salespeople who prey on fears
Slick advisors know that seniors worry about outliving their savings. Fear can cloud good judgment. An investment that is right for a client will make sense because it is properly understood. The client should always be comfortable with the risk and reward involved.

Avoid "Free lunch" educational seminars
These seminars are just marketing hype disguised as education. Some of the meals can be great but they may turn out to be very expensive if clients end up being sold an unsuitable product. Best to avoid" free lunches." **THERE'S NO SUCH THING AS A FREE LUNCH.**

Don’t be impressed with advisor titles
Advisors use all kinds of impressive titles most of which are just marketing smoke and mirrors.

Check your eligibility for lower fees
Depending on the size of your investments, you may be eligible for a lower cost series of the mutual fund you own. Don’t be shy: inquire about available lower cost funds.

Psst, have I got a deal for you
Some advisors have side arrangements with external entities that promise higher yield or exceptional capital gains. Never deal with anyone other than through your registered Dealer. New “friends” can be frauds. Never provide a payment to anyone but the Dealer with whom you have an account. If a transaction is not done through a registered dealer, your chances of recovering losses are very low**.**
If it sounds too good to be true, RUN.

Look out for account churning
Churning involves making excessive trades to generate commissions. Ask questions about the frequency of trades. Retirement accounts generally do not involve significant trading.

Watch out for reverse churning
Reverse churning occurs when an advisor is paid a flat fee but does little or no trading to earn that fee, which is a percentage of the assets they are managing for you. A fee-based account means paying an advisory fee based on the dollar value of the account. There is no charge for trading. The problem is that for Buy and Hold investors, the fees paid are greater than if you simply maintained a regular trading account.

Unauthorized trading

This tactic involves making trades without your consent. This is a red flag for the client that your advisor does not have your best interests at heart. Check trade confirmation slips and account statements. Do not delay in asking questions about any transactions you do not understand or can't explain.

Avoid double billing

Some unscrupulous advisors will charge you an advice fee and then go and buy a mutual fund that has an embedded commission intended to cover the cost of advice. If you see a Series A mutual fund in a fee-based account, confront your advisor without delay and ask for a refund.

Lending money to your advisor

Your advisor is supposed to advise you on how best to invest your money, not have you act as a banker. **Never loan money to your advisor.** Keep the relationship professional.

Exploitation

Exploiting an older investor's funds can occur in several ways, including acting as their power of attorney (POA), convincing clients to make them the beneficiary in their will, or outright misappropriating their money. **Be alert to these nasty tricks.**

Review Your Account for Balance

Balance is essentially a way of reducing overrisk exposure in one direction or another. Balance is a tried and true way of managing risk. In the case of an investment portfolio, that means a sensible distribution between stocks, bonds, and cash tailored to your objectives and KYC profile. If your portfolio appears over concentrated in a few securities, speak up about your concern.

Never Name Your Advisor as a Power of Attorney or Executor
Never name your advisor as your Power of Attorney or an executor in your will because it may place your advisor in a material conflict-of-interest. You should also never name your advisor as a beneficiary of your will as this may also put your advisor in a significant conflict-of-interest. ***Keep the relationship professional***.

Avoid Greenwashing funds
Asset managers that claim they invest in accordance with ESG (environmental, social and governance) principles but invest in firms with low ESG ratings are said to be greenwashers. When you read the prospectus of an ESG fund, you should see its ESG focus included in the investment objectives. An investment fund must disclose the investment strategies used to achieve its investment objectives in its prospectus.

Read the annual report on fees and performance
This once-a-year total of fees paid, and account performance is useful. Keep informed of the cost and benefit of advice. Ensure you understand every charge and compare your performance to your goals. Make sure you are getting value for money.

Don't let embarrassment keep you from filing a complaint
Unfortunately, the elderly often endure financial assault in silence, afraid to file a complaint or uncertain about exactly what has happened. Advisors know that you might hesitate to report that you have been victimized in financial schemes out of shame or fear. They prey on your sensitivities and count on these fears preventing management and regulator notification. File a complaint if you are dissatisfied with the services provided. It's your money.

Appeal Dealer response if dissatisfied

If you have complained about your investments and are dissatisfied with the response, you can bring your complaint to the Ombudsman for Banking Services and Investments (OBSI: www.obsi.ca). OBSI is a free independent informal complaint review entity that will provide a fair resolution of your complaint. Its recommendations are non-binding, but the vast majority of recommendations are accepted by investment Dealers. In 2023, 44% of investment complaints were from people over age 60 and 33% of investment complainants indicated they were retired.

Decide on your withdrawal strategy

Seniors may be placed in an excessively risky portfolio in the mistaken belief that they need to rely entirely on the returns to live on. Advisors should point out that seniors can instead rely on a combination of investment income and savings drawdowns to finance their living expenses. You may wish to keep your original capital intact for your heirs. Even if you do, however, a withdrawal strategy should always be part of the discussions, if only to determine what is in your best interests from a risk perspective.

“Caveat Emptor“

For more information go to *CARP.ca/our-advocacy/frauds-and-scams/*

This resource was developed by Ken Kivenko. *Ken has volunteered as an advisor to CARP on investment related issues for over a decade.*

Ken Kivenko is President of Kenmar Associates. *Kenmar Associates is an Ontario-based privately-funded organization focused on investor education via articles hosted at www.canadianfundwatch.com Kenmar also publishes the Fund OBSERVER on a monthly basis discussing consumer protection issues primarily for retail investors. Kenmar is actively engaged with regulatory affairs. An affiliate, Kenmar Portfolio Analytics, assists, on a no-charge basis, abused consumers and/or their counsel in filing investor complaints and restitution claims.*

CARP (Canadian Association for Retired Persons)
is Canada's largest advocacy association for older Canadians.

Our mission is to enhance the quality of life for older adults by fostering social engagement, and by influencing public policy in the fight against ageism.

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The Canadian Association of Retired Persons (CARP) is a national, non-partisan, non-profit organization that advocates for financial security, improved health care and freedom from Ageism for Canadians as we age. With over 255,000 members and 23 chapters across Canada, CARP advocates on behalf of older Canadians with all levels of government and collaborates with other organizations on health, ageism, housing, healthcare and financial issues.