

# Opening Address

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Conference on Aging, Cognition, and Financial Health  
Federal Reserve Bank of Philadelphia  
Philadelphia, PA

November 28, 2017

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Patrick T. Harker

President and Chief Executive Officer  
Federal Reserve Bank of Philadelphia



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The views expressed today are my own and not necessarily those of the Federal Reserve System or the Federal Open Market Committee (FOMC).

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Good morning and thank you. That video is a powerful reminder that the issue of financial predation doesn't just have a financial cost; it affects health, family bonds, and overall well-being. I'd like to take a moment to acknowledge Philip Marshall for attending this conference, but more importantly, for his courage, his example, and his continued advocacy. The fact that this case was so high profile helped turn attention to the growing problem of financial exploitation of older Americans, and your sustained work has helped to keep it focused. I hope today that we will add to the conversation.

Before that conversation begins, however, I should issue the standard Fed disclaimer that the views I express here today are mine alone and do not necessarily reflect those of anyone else in the Federal Reserve System.

While the question of protecting our older citizens is always important, it is increasingly taking on wide-ranging implications, owing to the simple math of demographics. With the boomers, we will see the largest generation in history ushered into retirement and older age. Not to mention that they are living longer than any generation before them. As a boomer myself, I think this is great news. But from both a regulatory and an economic perspective, it's something that deserves full attention.

This conference will cover some of the key problems and conundrums of the often murky subject of financial safety for our aging population. I don't expect that we will manage to solve each of them in the space of two days — though hope springs eternal — but I do think that this is a platform to discuss them frankly and address them head-on.



The first is to outline the scope of the issue or, in some cases, the lack of scope. While there has been some excellent research, we don't yet have firm data on exactly how large the issue is. Estimates of the annual cost of exploitation alone range from just under \$3 billion to over \$36 billion.<sup>1</sup> And that's not necessarily taking into account the wider range of fraud.

There is also the matter of how and when victimization may be exacerbated. While the extended golden years are in and of themselves a good thing, they are often accompanied by flagging physical and cognitive health, each of which can affect both access and attention to finances, leaving people more vulnerable.

Add whatever unknown unknowns are out there to the known unknowns, and we're in brand new territory. Without a greater understanding of its size and scope, we're limited both in combatting the problem and knowing how effective our efforts are.

Like virtually every issue of import, this is not a problem that stands in isolation. It is woven into other segments of the economy — health care, for instance, or student debt. As an example, the Consumer Financial Protection Bureau (CFPB) has reported that in the decade before 2015, the number of adults over 60 taking on student loans fully quadrupled, with roughly three-quarters assumed on behalf of children and grandchildren.<sup>2</sup> Not only does that have the potential to spill over to the real economy, it's poised to become a multigenerational problem.

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<sup>1</sup> Consumer Financial Protection Bureau, "Recommendations and Report for Financial Institutions on Preventing and Responding to Elder Financial Exploitation," March 2016, [http://files.consumerfinance.gov/f/201603\\_cfpb\\_recommendations-and-report-for-financial-institutions-on-preventing-and-responding-to-elder-financial-exploitation.pdf](http://files.consumerfinance.gov/f/201603_cfpb_recommendations-and-report-for-financial-institutions-on-preventing-and-responding-to-elder-financial-exploitation.pdf).  

<sup>2</sup> <https://www.consumerfinance.gov/about-us/newsroom/cfpb-warns-student-loan-servicing-problems-can-jeopardize-long-term-financial-security-older-borrowers/>

I should also note the obvious, that more people living longer means more people entering retirement with plans that may have estimated a shorter life expectancy — on fixed incomes that could be further compromised by the health issues that become more common as we age. That could add to debt, and, in turn, to the possibility of default. Research from the New York Fed shows that debt held by people between 50 and 80 increased some 60 percent from 2003 to 2015.<sup>3</sup>

While each of these factors — student debt, retirement costs, eldercare — might not be crisis inducing in and of itself, the interconnectivity could make the sum more systemically dangerous than its individual parts. It may be that the problem of elder financial exploitation is not fully contained but could spill over into the larger economy. The sheer size and complexity pose a challenge for industry and regulators alike.

I don't mean to sound alarmist, but this is a set of circumstances ripe to balloon.

But that doesn't mean it has yet, and the best guard against a future crisis is building a bulwark in the present.

That brings me to the second issue: financial institutions' concerns about the conundrums posed by current laws and regulations. While institutions want to help protect their customers, especially vulnerable seniors, they're worried about the legal consequences of putting holds on suspicious electronic transfers and deposits because they're legally bound to expedite the process. They're also reluctant to share information about potentially suspicious account activity with other institutions for fear of violating federal and state privacy laws.

That's particularly unfortunate because we have evidence that sharing information could be a huge help. Larry Santucci just published a paper that looks at how data sharing among financial institutions could improve the financial health of older Americans, specifically those with cognitive difficulties. He'll be discussing it tomorrow, so I urge you to stick around for day two.

There will be some relief from these regulatory concerns when the FINRA (Financial Industry Regulatory Authority) rule changes go into effect next February. Brokerages will be allowed to

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<sup>3</sup> <http://libertystreeteconomics.newyorkfed.org/2016/02/the-graying-of-american-debt.html>

place temporary holds on disbursements of funds or securities when they have reasonable belief that certain customers may be victims of financial exploitation. Additionally, new rules will require those institutions to make an effort to obtain names and information for trusted contacts on such customers' accounts. But I understand that there is still more that needs to be done.

That leads me to the third issue that should be addressed today, which is banks' engagement and responsibility on both an individual and an industry level.

Like much of the other information, we are in Wild West territory regarding exactly who is pursuing solutions. And while I know that "data" isn't the plural of "anecdote," I am concerned that some of my research staff estimates a relatively low number of institutions actively looking for and implementing safeguards.

Again, there has been some regulatory constraint, and I understand the predicament. But I know it can be done because there is already some very good work being done by individual banks, some of which we will hear from during the course of this conference. The more we discuss the issue in venues like this, the more we can learn about best practices. It makes sense to address the problem early on, so industry can inform regulation as it develops. The interest of regulator and institution is the same here: protecting the customer.

From our perspective, it's the sine qua non of regulation. From the industry's, it's an essential business component because it's fundamental to trust. The entire financial system, and each of its constituent parts, is dependent on consumer trust to function correctly. Getting out in front of an issue, particularly one this potentially significant, is good for everyone.

As a Fed president, I draft neither regulation nor legislation; so you're probably thinking it's easy to make the call when you're not on the field. And I'm not telling anyone how to run their own organization. But I would urge everyone to study the issue and embed solutions. Share your ideas so we can learn from one another. Make working on those ideas a business priority. And finally, work together. Whether it's a task force or a set of industry standards, finding a way to guide the solution in real time, instead of waiting for reactive regulation, is in the financial

services industry's best interest, as well as the consumer's. In the words of an old proverb, if we don't change our direction, we're likely to end up where we're headed.

With that, I've done enough pontificating, and I'll relinquish the floor. Before I go, I want to say that I truly do value the industry insight and the work done by our regulatory colleagues. So thank you all for coming today and for your input. Thank you also to the team here, along with Dr. Jason Karlawish and his team at Penn Medicine, for bringing together such a great group of panelists and to everyone taking the time to present. This discussion is too important to let go quiet.