Scammers Aim Again At Victims of Fraud

YOUR MONEY
ANN CARRNS

The latest scam targeting older consumers is particularly cruel, because it homes in on people who already have lost money in previous fraudulent schemes.

So-called asset-recovery firms target people who have lost money in another type of fraud — often, a bogus work-at-home scheme or a fake time share investment, according to the Consumer Financial Protection Bureau.

The firm promises the victims that it can recover much of the lost money, for a hefty upfront fee. But after taking the payment, the firm does little — or takes steps consumers could do on their own at no cost.

Stacy Canan, deputy assistant director of the bureau's Office for Older Americans, said the agency became aware of the problem after noticing an increase in complaints filed online not by consumer victims, but by asset-recovery companies — apparently, as part of the "service" the firms were supposed to be providing. (There is never any fee to file a complaint with the agency, she noted.)

When the bureau followed up with some of the consumers, they didn't know a complaint had been filed with the bureau on their behalf, and told similar stories about being contacted by a firm offering to help them recover lost funds. Consumers generally reported paying a few hundred dollars, but some paid $1,000 or more. Many of the complaints originated with a company in Florida, but the victims came from multiple states.

"It's a nationwide issue," Ms. Canan said. The bureau identified more than 400 complaints.

The Federal Trade Commission took action last October to shut down an asset-recovery firm in Florida that had duped consumers who had previously lost money on fraudulent investments in time shares or precious metals.

It's not clear how the operators of these firms identify consumers who have been previous victims.

But Amy Nofziger, director of regional operations with the AARP Foundation and manager of its Fraud Watch Network call center, said criminals often re-targeted the same victims, having had success the first time. Criminals, she said, also maintain and sell lists of people who have been previously tricked. "They're re-scamming that same victim," she said.

Consumers may feel embarrassed that they were duped out of their money, she said, so may be susceptible to offers of getting it back.

Maggie Flowers, associate director for economic security with the National Council on Aging, said older people were often targeted for fraud because they are perceived as having money, even if it is just a monthly Social Security check. "Criminals are creative," she said, "and are constantly coming up with new ways to scam older adults."

Q & A

¶ What should I do if I receive a phone call offering to recover money?
"Hang up the phone," Ms. Nofziger said, and contact the consumer regulator in your state. The Fraud Watch Network's website contains links to relevant state authorities.

Ms. Flowers said older people should always ask for information in writing if they receive offers for services over the phone, and discuss it with a trusted family member or friend before taking any action.

¶ What if I have paid a fraudulent recovery firm?
The Consumer Financial Protection Bureau advises that if you used a credit or debit card to pay the company, contact your bank immediately to explain the situation and prevent further charges. If you paid by credit card and notify the issuing bank within 60 days, you may be able to dispute the charge.

You should also contact local law enforcement and file a complaint online with the Federal Trade Commission.

¶ Is the income tax telephone swindle still active?
Yes, and callers are becoming more aggressive now that it's tax season, Ms. Nofziger said. The swindle involves calls from people claiming to be Internal Revenue Service agents who threaten to arrest or deport consumers if they don't immediately pay taxes they supposedly owe. Consumers should know that the I.R.S. will not call and threaten people, she said, and if you have an actual tax issue with the agency, you'll get a formal notice by mail first.

"Don't be fooled by callers pretending to be from the I.R.S. in an attempt to steal your money," John Koskinen, commissioner of the I.R.S., said in a prepared statement. "We continue to say if you are surprised to be hearing from us, then you're not hearing from us."

BRENNA THUMMLER

The Poor, Not the Rich, Know a Dollar's Value

SAVING
SENDHIL MULLAINATHAN

I try to be frugal. But my instincts as a consumer are mistaken. Behavioral economics suggests that I'm often frugal in the wrong way and that you may be, too.

Consider this situation: You're shopping for headphones. A store has the model you want for $50. But a sales clerk says: "You know our other branch has this item on sale for $40." Going to that store will take 30 minutes. Do you go to the other branch?

Before you answer, consider a modified version of the situation: Instead of headphones, you are buying speakers. You go to the store and find the model you want for $400. Again, the price seems reasonable but the sales clerk says it's on sale at the other branch for $385. What do you do now?

Research by Daniel Kahneman and Amos Tversky, the psychologists whose work helped spawn behavioral economics, suggests that people are more likely to make the trip for the $40 headphones than for the $385 speakers.

At first glance, this makes sense. By taking the trouble to go to the other store, you can save 20 percent on the headphones and only 3.75 percent on the speakers. The bigger percentage in savings is more appealing.

Though intuitive, this way of looking at the choices is mistaken. In each case it will take 30 minutes to save some money. But with the headphones, you save $10; with the speakers, you save $15.

It's as if you had two identical job offers, but one paid $20 an hour and the other $30. Yet you consistently chose the lower-paying job.

We focus on the percentage rather than the amount we save, and fall prey to a mental illusion. After all, when your shopping is done, it is dollars — not percentages — that will be in your bank account.

This error is pernicious because it leads to misdirected frugality. Ofer H. Azar, an economist at Ben-Gurion University in Israel, asked consumers in the United States how much they needed to save to justify spending an extra 20 minutes. The same pattern emerged. When shopping for a $10 pen, they required only a $3.75 savings, on average. For a $30,000 car, though, they needed $277.83.

This kind of foolish frugality is common. Consider how easy it is to fritter away time surfing the web for, say, a great deal on a $50 pair of jeans. Yet many of us spend no time at all on our investments. The result is that we barely glance at the fees charged by mutual funds: Without thinking much about it, we will choose a fund that charges an extra 0.25 percentage point rather than spend the time to find a cheaper one. But that seemingly tiny percentage difference can easily amount to thousands of dollars of lost money. We brag to our friends about how much we saved on the jeans, never mentioning the money we threw away on our investments.

Another of Professor Azar's papers summarizes the problem perfectly: "Do Consumers Make Too Much Effort to Save on Cheap Items and Too Little to Save on Expensive Items?" The answer is, resoundingly, "Yes."

Complicating matters is the fact that marketers understand this all too well. When you go to buy a new car, at the very end of the transaction, the dealer may suggest some add-ons. And you may be tempted. Once you're paying tens of thousands of dollars, what's an extra $200 for a better sound system?

What this amounts to is a tendency to think in relative rather than absolute terms.

But these kinds of errors aren't inevitable. We can control how we manage our money.

For one thing, lower-income people behave more consistently as consumers than more affluent ones. Poorer people tend to value a dollar more consistently. It is not simply that those with less money pinch more pennies; it is that they value those pennies in absolute rather than relative terms.

Whereas the well-off may dabble in frugality, necessity makes them poor experts in it. To them, a dollar has real tangible value. A dollar saved is a dollar to be spent elsewhere, not merely a piece of token accounting.

The insight here is simple: When it comes to money, stop looking at relative values and start looking at absolutes. Dollars, not percentages, matter. In this case, the well-off can learn something about money management from the poor.

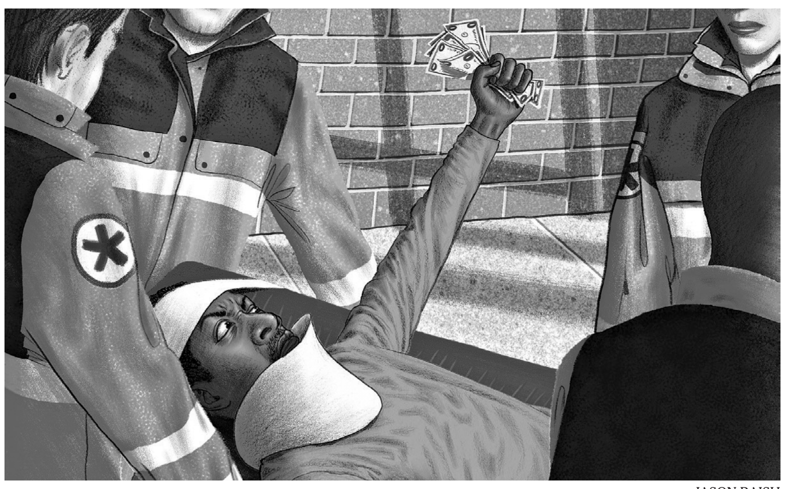
Sendhil Mullainathan is a professor of economics at Harvard.

Q: Does it make more sense to make a 30-minute trip to save $10 on a $50 pair of headphones, or to save $15 on $400 speakers?

A: Although the 20 percent you'd save on the headphones seems more appealing than the 3.75 percent on the speakers, the $15 for the speakers is more savings than the $10 for the headphones.

The Out-of-Pocket Remedy

HEALTH
MARGOT SANGER-KATZ


JASON RAISH

When Bernie Sanders released his long-awaited health care plan last month, it was light on the details. But it did include one major, crowd-pleasing promise: Under his Medicare-for-all proposal, no American would ever have to pay a deductible or co-payment again.

Deductibles and other forms of cost-sharing have been creeping up. A typical employer health plan now asks an individual to pay more than $1,000 out of pocket before coverage kicks in for most services. The most popular plans on the Affordable Care Act exchanges require customers to pay several times as much. Even Medicare charges deductibles.

People tend to hate these features, but they were fashioned with economic theory in mind. Deductibles and co-payments are intended to make patients behave more like consumers. People who have to pay the full cost of magnetic resonance imaging on their knee, for example, might be more likely to shop around and pick the $500 one instead of the $3,000 one.

Those choices, over time, could reduce the amount of health care used and the price of services.

A famous randomized experiment in the 1970s and '80s helped demonstrate that part of this theory worked. Researchers from the RAND Corporation gave insurance with high cost-sharing to some people and lower cost-sharing to others. Over time, they found that the people who had to pay more of their bills in cash used less health care and were no less healthy than people whose insurance covered everything.

"If you make something free, people will spend a lot on it," said Michael Chernew, a professor of health policy at Harvard.

Employers who asked workers to pay a higher share of their bills have also seen overall spending decline. A particularly good case can be made that cost-sharing has helped steer patients toward generic drugs.

But the type of cost-sharing can make a big difference, and new research suggests that high deductibles in particular may not work as intended. A team of researchers at the University of California, Berkeley, and Harvard recently published a paper on what happened when a large employer switched to a health plan with a high deductible. The typical worker in the company was young and Internet savvy, and earned more than $125,000 a year. The company gave employees a web tool to compare health care prices, and a health savings account for the full amount of the deductible. Amitabh Chandra, an economist at Harvard, said he was convinced the study would prove the value of deductibles, at least for well-off and well-educated workers.

High deductibles have not achieved all that some expected.

He was wrong. Spending fell by about 12 percent. But the way workers achieved those savings gave the researchers pause. There was no evidence workers were comparing prices or making wise choices on where to cut. They visited the same doctors and hospitals. They reduced low-value services and medically important ones at about the same rate, raising questions about their long-term health.

The other problem with high deductibles is the obvious one: Many Americans simply do not have the savings to afford them. Dr. Peter B. Bach, an oncologist and the director of the Center for Health Policy and Outcomes at Memorial Sloan Kettering Cancer Center in New York, said he had seen patients discontinue lifesaving treatments when they could not afford another big deductible.

But even if deductibles have their downsides, it seems clear they have helped make insurance more affordable. Without them, far fewer Americans would be able to pay for health insurance at all.

Some health economists say the solution to the problem may be health insurance that provides important care free, but charges for treatments with fewer proven benefits.

Accepting Uncertainty In Our Financial Lives

SKETCH GUY
CARL RICHARDS

I have a friend who is an emergency room physician in Salt Lake City. The other day, he described to me an interaction he had with a distressed, uncomfortable patient. After doing all the tests he could and finding nothing wrong, all he could do was give the patient that age-old, wonderful doctor advice: "Go home, rest up, drink fluids and call me in the morning."

"The funny thing about this patient," my friend told me, "was that after I told him nothing was wrong and he should just go home, he actually seemed disappointed."

This happens all the time, according to my friend. It often seems like the patient would rather have a bad diagnosis than face an uncertainty that could well be labeled "good."

It's fascinating: We yearn so badly for clarity that we often prefer a negative outcome we're certain about to one that leaves us in suspense.

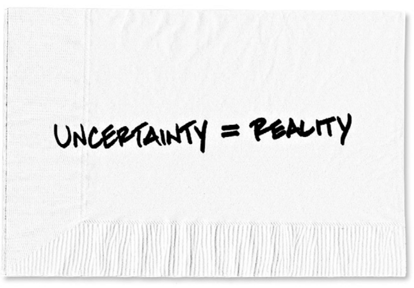
There is a lot of research about the relationship between uncertainty and worry. In 2001, a study by Michel J. Dugas, Patrick Gosselin and Robert Ladouceur said of the connections: "Considering that daily life is fraught with uncertain situations, individuals who are intolerant of uncertainty may perceive several 'unacceptable and disturbing' events in the course of a single day."

Clearly, that intolerance of uncertainty can cause all sorts of havoc at home, at work, at school or in relationships. It should come as no surprise that it can create major problems for us in our financial lives as well.

One way this fear manifests itself in our investments is when we make hasty or rash decisions based upon cataclysmic market forecasts, like the one this year from RBS suggesting that people sell everything in their portfolios except high quality bonds.

In spite of the abundance of evidence that proves that market forecasts are often wrong and lead individuals to make decisions that hurt them over the long run, we still embrace and act on them. We do something that we know is a bad idea just to eliminate that feeling of uncertainty. Selling when your portfolio is down 20 percent — we know that's a bad idea. But we prefer the negative outcome of locking in those losses because it's certain.

We all know that life is uncertain. You can't predict the future. You can't time the stock market. You can't forecast which years are going to be good and which years will be bad.



CARL RICHARDS

So how can we get better at accepting it? We can build a portfolio that matches our goals. We can own lots of different kinds of investments, with the knowledge that most of the time, they won't all fall sharply at once. We can keep the costs of those investments down.

But after we've nailed down all those things, there's still going to be uncertainty in the air. The sooner we can accept that the better. That's life. That's reality.