

**PREPARED STATEMENT OF**

**THE FEDERAL TRADE COMMISSION**

**on**

**IDENTIFYING AND FIGHTING  
CONSUMER FRAUD AGAINST OLDER AMERICANS**

**Before the**

**SENATE SPECIAL COMMITTEE ON AGING**

**Washington, D.C.**

**July 27, 2005**

## **I. Introduction**

Mr. Chairman, Ranking Member Kohl, and members of the Committee: I am Lois C. Greisman, Associate Director of the Division of Planning and Information in the Federal Trade Commission's Bureau of Consumer Protection.<sup>1</sup> I am pleased to be able to discuss with you today how consumer fraud and identity theft affect older Americans; how we at the FTC identify and prosecute these frauds; and how we use our consumer education program to help older consumers guard against fraud and identity theft in the first place. With complaints received by the FTC in 2004 showing \$152,000,000 in fraud losses by consumers age 50 and over, this is a problem that deserves an aggressive response.<sup>2</sup>

FTC consumer complaints and survey data indicate that fraud against older consumers mirrors fraud against the population as a whole. For example, Internet auction fraud is the top category of fraud complaints for consumers both younger and older than 50 years. Our FTC data show that in some respects, however, older consumers are more likely to fall victim to certain types of frauds. Prize and sweepstakes fraud is more prevalent among older consumers than among the public at large, and is particularly prevalent among consumers age 70 and older. And although we tend to think of the Internet as the domain of the electronic generation, older consumers are finding benefits – and scams – online. Consumers over age 50 who filed

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<sup>1</sup> This statement represents the views of the Commission. My oral presentation and responses to any questions you have are my own, however, and do not necessarily reflect the Commission's views or the views of any individual Commissioner.

<sup>2</sup> Much of the data referred to in this testimony is drawn from the FTC's *Report on Fraud and Identity Theft Complaints Received by the Federal Trade Commission from Consumers Age 50 and Over*, May 2005 (hereafter *Older Americans Report*), attached to this testimony as Appendix 1.

complaints with the FTC reported losing roughly \$43.5 million due to Internet-related fraud in 2004. As discussed below, the FTC is using its resources to identify the nature of these problems, working with our state and federal law enforcement partners to bring actions in appropriate cases, and working with private and public groups to educate consumers on how to spot and steer clear of fraud.

## **II. An Overview**

From fraud to identity theft, the FTC has developed a rich collection of data that enable us to detect activities that cause significant consumer harm. Consumers who contact the FTC provide the greatest source of data. Consumers reach us through our toll-free hotlines (877 FTC HELP and 877 ID THEFT) and online complaint forms (found at [ftc.gov](http://ftc.gov) and [consumer.gov/idtheft](http://consumer.gov/idtheft)). We also receive valuable complaint data *via* external data contributors such as the FBI's Internet Crime Complaint Center, Canada's Phonebusters, local Better Business Bureaus, the US Postal Inspection Service, and the Social Security Administration's Office of Inspector General. We enter these complaints into the FTC's Consumer Sentinel system, a web-based network that links more than 1,300 law enforcement agencies throughout the United States, Canada, and Australia to over 2 million fraud and identity theft complaints.<sup>3</sup> These agencies have direct access to complaints that enable them to develop cases, locate witnesses, and seek enhanced sentences for criminal prosecutions. Membership in the Sentinel

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<sup>3</sup> Consumer Sentinel, which is available to law enforcement agencies free of charge, also provides access to other investigative tools, including a library of telemarketing tapes, points of contact in domestic and foreign agencies, and model forms and pleadings for both criminal and civil fraud prosecutions. Sentinel has been an exceptionally successful model of law enforcement cooperation.

network ranges from local police departments to every

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<sup>4</sup> *Older Americans Report, Page 3.*

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<sup>5</sup> *Older Americans Report*, Page 7; *2004 Annual Trends*, page 7.

<sup>6</sup> The *Federal Trade Commission - Identity Theft Survey Report* (September 2003) can be found at [ftc.gov/os/2003/09/synovaterreport.pdf](http://ftc.gov/os/2003/09/synovaterreport.pdf). The fraud report, entitled *Consumer Fraud in the United States: An FTC Survey*, Federal Trade Commission Staff Report (hereafter *Fraud Survey*) (August 2004) can be found at [ftc.gov/reports/consumerfraud/040805confraudrpt.pdf](http://ftc.gov/reports/consumerfraud/040805confraudrpt.pdf). The Fraud Survey targeted ten specific types of fraud which were selected because they cover the most prevalent types of complaints reported in the FTC's complaint database and are frauds that have frequently led to FTC enforcement actions.

### III. Internet Fraud

The Internet helps keep older Americans connected to their families, world events, and the marketplace in ways unimaginable 10 years ago. However, just as older Americans have reaped the benefits of this powerful medium, so too have they experienced its dangers. Thus, it is not surprising to find that 41 percent of all reported fraud complaints from consumers age 50 and older were Internet related.<sup>10</sup> This figure is all the more dramatic when one considers that Internet-related fraud represented only 33 percent of all fraud complaints from this age group in 2002. The most common Internet-related fraud involves Internet auctions (43 percent), followed by online shop-at-home and catalog sales (14 percent), and Internet access services. Consumers age 50 and older reported being defrauded of over \$43 million in 2004 through Internet-related scams.

Because Internet auction fraud has reached so many consumers, the Commission has an ongoing program to address these high-tech rip-offs. First, in addition to prosecuting Internet auction fraud cases itself, the Commission uses outreach and training to support local, state, and federal law enforcement agencies throughout the nation in their efforts to investigate and prosecute Internet auction fraud artists. The FTC's Consumer Sentinel plays a key role in identifying Internet auction fraud artists and providing consumer complaints about those fraud artists to law enforcement. Second, through formal meetings and informal discussions with the

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<sup>10</sup> *Older Americans Report* page 4. A fraud complaint is "Internet-related" if: it concerns an Internet product or service; the company initially contacts the consumer *via* the Internet; or the consumer responds *via* the Internet. It is interesting to note that Internet-related fraud drops off for consumers age 70 and older. For example, Internet auction is the top complaint for consumers age 50-59 and 60-69. However, it drops to number 6 for consumers 70 and over. See, *Older Americans Report*, page 11.

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<sup>11</sup> *Older Americans Report*, page 10.

<sup>12</sup> *Id.*

<sup>13</sup> *See, e.g., FTC v. World Media Brokers, Inc., et al.* (N.D. Ill. July 29, 2004) (ordering payment of \$19 million in redress to consumers); *FTC v. Duraisami*, (W.D. Wash.); (continued...)

Other cross-border scams have involved the sale of alleged fake credit card protection services and discount drug services, advance-fee credit cards, and other benefits.<sup>14</sup> Preying on consumers' greatest fears, one particularly egregious fraud involved telemarketers who allegedly represented themselves as calling from Social Security or Medicare. They allegedly told the consumers that unless they provided their Social Security number and bank account information, they would no longer receive Social Security benefits. They also told the older consumers that, for a \$299 fee, they would be enrolled in a new Medicare program.<sup>15</sup> The FTC took swift action, obtaining a preliminary injunction freezing the defendants' assets and shutting down their operation.

The increasingly international nature of fraud presents a growing challenge for law enforcement. In June 2005, the FTC released a report to Congress recommending legislative changes that would enhance the agency's ability to combat cross-border fraud.<sup>16</sup>

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<sup>13</sup> (...continued)

*FTC v. D&C Nat'l Holdings, Ltd.*, Civ. No. 02-1134 (W.D. Wash. final judgment entered Jan. 23, 2004); *FTC v. Dillon Sherif*, Civ. No. 02-0294 (W.D. Wash. final judgment entered April 14, 2003); *FTC v. NAGG Secured Investments*, Civil No. C00 - 2080Z (W.D. Wash. final judgment entered July 7, 2003). These cases ordered \$1.5 million in consumer redress.

<sup>14</sup> *FTC v. 120194 Canada Limited*, Civ No. 04C 7204, (N.D. Ill) (complaint filed November 8, 2004).

<sup>15</sup> *FTC v. Xtel Marketing*, Civ No. 04C-7328e (N.D. Ill) (stipulated preliminary injunction entered December 17, 2004).

<sup>16</sup> See: *US Safe Web Act: Protecting Consumers from Spam, Spyware, and Fraud*, June 2005, found at [ftc.gov/reports/ussafeweb/USSAFEWEB.pdf](http://ftc.gov/reports/ussafeweb/USSAFEWEB.pdf).



## V. Health-Related Fraud

Although health care-related complaints are not among the top categories reported to the FTC by older consumers, they nonetheless represent a great concern to the Commission because the consequences of health-related fraud can be so dire.<sup>17</sup>

The Commission has taken a range of actions to curtail deceptive or unsubstantiated claims by dietary supplement marketers and other health care service providers. For example, marketers of a dietary supplement dubbed “Senior Moment” settled charges that they made unsubstantiated claims that their products could prevent memory loss and restore memory function in adults.<sup>18</sup> In another recently concluded case, a Canadian defendant claimed that its cancer treatment, “Zoetron Therapy,” could cure cancer. Consumers allegedly misled by the defendants’ claims paid up to \$20,000 to travel to Mexico for this treatment. A final judgment prohibits the defendants from promoting this therapy, and imposed a suspended judgment of \$7,650,000.<sup>19</sup>

Following up on these and other law enforcement efforts, Commission staff conducted a surf of the Internet and identified 90 marketers selling dietary supplements and products that purported to have anti-aging benefits, including reducing fat, cholesterol, and blood pressure while increasing muscle mass and improving cognitive, immune, and sexual function. In June

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<sup>17</sup> “Health Care” ranks 9<sup>th</sup> among fraud categories, just after “Business Opportunities.” It is not represented on the pie chart on page 5 of the *Older Americans Report* because it represents less than 2 percent of all complaints from consumers age 50 and older.

<sup>18</sup> *In the Matter of Nutramax Laboratories, Inc.*, Docket No. C-4116 (final consent order August 31, 2004)

<sup>19</sup> *FTC v. CSCT*, Civ No. 03 C 00880 (N.D. Ill.) (Final Judgment entered February 17, 2004)

2005, staff issued warning letters to these marketers, informing them that health claims must be supported by competent and reliable scientific evidence. The letters further stated that the Commission was unaware of any such substantiation to support their claims of anti-aging benefits and instructed the marketers to discontinue any deceptive claims immediately.<sup>20</sup>

## **VI. Identity Theft**

Misuse of sensitive information threatens consumers' sense of economic security and undermines confidence in our financial systems. Although the published report from our identity theft survey did not include an age-based analysis, the survey did yield age-related data.<sup>21</sup> These data show that 31.6 percent of all victims were age 50 or older, with 10.3 percent in the age range of 50-54, 12.1 percent of all victims in the 55-64 range, and 9.2 percent older than 64. If we look only at the more serious types of ID theft – those that involved more than just having unauthorized charges placed on the victim's existing accounts – the victim was at least 50 in 21.7 percent of cases. Consumers who were 65 and over accounted for 4.5 percent of all cases of this type of fraud.

The Commission's own complaint data provide another window on the experience of older Americans. Last year, the Commission received nearly 250,000 identity theft complaints. Approximately 51,000, or 22 percent, came from consumers age 50 or older. The most striking difference between consumers under 50 and those over 50 was the greater prevalence of older consumers complaining that new credit accounts had been opened in their names. While such

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<sup>20</sup> See, press release at [ftc.gov/opa/2005/06/greatamerican.htm](http://ftc.gov/opa/2005/06/greatamerican.htm).

<sup>21</sup> Appendix 2 provides an age-based analysis of the *Identity Theft Report*.

complaints represented 16.5 percent of all ID theft complaints for the general population, 19.6 percent of complaints from older consumers involved this type of identity fraud. Our identity theft survey found that this form of “New Account” fraud was more difficult for consumers to discover, more costly, and posed greater challenges for recovery.<sup>22</sup> Not surprisingly, older consumers were less likely to experience fraud associated with others seeking or obtaining employment in their names. Among the general population, this represented 13 percent of all episodes.<sup>23</sup> However, only 5 percent of the instances of identity theft reported by older consumers involved employment-related identity theft.<sup>24</sup>

Combating identity theft is a high priority for the Commission. We have developed a comprehensive program to attack this problem that includes: (1) substantial consumer and victim assistance; (2) a virtual library of consumer resources including the central identity theft website at [consumer.gov/idtheft](http://consumer.gov/idtheft); and (3) a training program for criminal investigation conducted jointly with the US Department of Justice, the Secret Service, FBI, and American Association of Motor Vehicle Administrators for local law enforcers throughout the country on how to respond to identity theft victims, and how to build a case for prosecution.<sup>25</sup>

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<sup>22</sup> *Identity Theft Survey Report*, page 7.

<sup>23</sup> *Older Americans Report*, page 13.

<sup>24</sup> *See FTC National and State Trends in Fraud & Identity Theft* (2004), page 10. This report can be found at [www.consumer.gov/sentinel/pubs/Top10Fraud2004.pdf](http://www.consumer.gov/sentinel/pubs/Top10Fraud2004.pdf).

<sup>25</sup> For a comprehensive description of the Commission’s identity theft program, see recent testimony before the Senate Committee on the Judiciary, *Securing Electronic Personal Data*, April 13, 2005, pages 17-21.

## **VII. Consumer Education**

While the Commission has an aggressive program to combat fraud through litigation, an equally critical effort is reaching consumers before they fall prey to a scam. Consumer education is a key component to every element of our enforcement agenda, and we work to reach all segments of the population, including older consumers.

The FTC's web site provides a wealth of information for older consumers, including brochures on telemarketing fraud, Internet auction fraud, sweepstakes and lotteries, miracle health claims, reverse mortgages, and work-at-home schemes. We also have formed a partnership with the AARP to ensure that our messages reach as broad an audience as possible. Numerous articles about FTC anti-fraud and identity theft campaigns appear in AARP's publications, which reach millions of households. The AARP itself has reprinted and co-branded the FTC's identity theft publications, and links to many of our resources from their website. AARP also conducts valuable consumer research on the older American experience with fraud.

The FTC sends representatives to conferences and community events as well. At AARP's 2004 conference, the FTC was able to reach 27,000 attendees with information on a wide variety of issues, ranging from the Do Not Call registry to identity theft to spam. Our regional offices also organize and attend community events for seniors, where they offer information on avoiding scams, and referrals for those who have been defrauded.

## **VI. Conclusion**

Our data show that fraudsters and identity thieves do not discriminate when it comes to committing trickery - everyone is at risk. Because older consumers are often on limited incomes,

and may not have the support to identify and avoid scams, the FTC will continue to use all the tools in our arsenal to identify the problems, attac