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Taking action to end poverty
Katrina G. Hull
Elder Rights Project Attorney
Legal Action of Wisconsin Inc./SeniorLAW
230 W. Wells St. Room 800
Milwaukee, WI 53203
414.278.7722
KGH@legalaction.org

Estelle Ray spent the last years of her life fighting a lawsuit against her stepchildren to recover her life savings. Estelle’s stepchildren, James Ray and Diane Ray Duffer, withdrew more than $135,000 from Estelle’s bank account during the twenty-two months they served as Estelle’s agents under a power of attorney for finances.

Estelle appointed James and Diane to handle her finances after her husband died. Estelle had a sixth-grade education and left financial affairs to her husband during their marriage. “By all accounts, [the couple] lived very frugally and gave only inexpensive gifts.”

Yet, Estelle’s bank account had dwindled to $10,000 when she filed a lawsuit demanding that her agents account for her finances; her attorneys claim her stepchildren took at least $135,000 from the account for their own use.

Estelle’s story illustrates how family members trusted to handle finances for an elderly relative can impoverish that person. Estelle’s story also is a backdrop for my focus here on remedying financial abuse by an attorney-in-fact, in other words, an agent named in a financial power-of-attorney document.

I first examine the popularity of powers of attorney, the potential for abuse, and difficulties litigating elder financial abuse cases. I discuss fraud’s legal presumptions available in cases brought to remedy financial abuse under powers of attorney. I review recent case law developments that deal with the relationship between powers of attorney and joint bank accounts, and I recommend litigation strategies to pursue in these cases.

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1From the facts in Basham v. Duffer, 238 S.W.3d 304 (Tenn. Ct. App. 2007).
2Id. at 307.
I. Financial Abuse by Agents Is a Growing and Difficult Problem

A durable power of attorney is a popular end-of-life planning method. According to a study by the American Association of Retired Persons, 45 percent of individuals 50 and older reported preparing a durable power of attorney. Of individuals surveyed, 70 percent reported having a durable power of attorney by age 70.

The “durable” nature of the document “enhances the autonomy of the principal by enabling a principal to make decisions for himself or herself while competent that will continue to be effective if the principal becomes incompetent.” More important, a durable power of attorney keeps courts out of principal’s lives by negating the need for the court to declare an individual incompetent, and this in turn leads to the appointment of a court-supervised guardian.

A. Popularity of Powers of Attorney Creates Potential for Elder Financial Abuse

Powers of attorney are easy and inexpensive to prepare. Many states have forms available that individuals can complete on their own without hiring an attorney.

Power-of-attorney forms that purport to be valid in all fifty states are also available for free online.

For most individuals, especially those who cannot afford to consult a lawyer for end-of-life planning, completing a durable power of attorney is a simple, affordable, and well-advised action. However, principals must take great care when deciding who will serve as their agents. Principals must trust the agents unconditionally and have the foresight to predict whether the agents will remain trustworthy even when the agents themselves face economic strife, when access to a principal’s bank account may seem like a necessity rather than merely a temptation. Indeed, the dark side of a durable power of attorney is the ease with which an agent gains access to and control of the principal’s property and finances: “[W]ith one signature, you [give] another person the ability to sell your house, empty your bank accounts, and cancel your insurance.”

Given the popularity of powers of attorney, financial abuse of the elderly is reportedly the fastest growing form of elder abuse; cases of financial abuse under powers of attorney are widespread.

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2. Id.
4. See, e.g., id. (benefits of a durable power of attorney available “without having to declare the principal incompetent and without having to seek court supervision”); Nina A. Kohn, Elder Empowerment as a Strategy for Curbing Hidden Abuses of Durable Powers of Attorney, 59 Rutgers Law Review 1, 6 (2006) (“a durable power of attorney ... is designed specifically to survive incapacity and thereby avoid the more time-consuming and burdensome process of petitioning for a court-appointed guardian or conservator”).
5. See Kohn, supra note 6, at 6 (the purpose of the first model power-of-attorney act was to create a “simple and inexpensive” way for persons of relatively limited means to make provisions for their affairs); see also Linda S. Whitton, Navigating the Uniform Power of Attorney Act, 3 National Academy of Elder Law Attorneys Journal 1, 11 (2007) (because the “reality is that a proliferation of [power-of-attorney] forms [is] available to the public through the internet and office supply stores” that the modern statutory power-of-attorney form is designed to be “layperson friendly.”)
6. Whitton, supra note 7, at 6–7 (twenty states and the District of Columbia have standard statutory forms for use by attorneys and nonattorneys).
8. See Kohn, supra note 6, at 3–4 (simplicity of executing a power of attorney; why powers of attorney are “attractive planning tools for elders”; and “elders are often wisely urged to execute” a power of attorney); see also my sidebar, Tips to Prevent and Remedy Financial Abuse When Preparing Power-of-Attorney Documents.
Beyond the devastating financial consequences of a self-interested agent, the abuse represents a loss of control that affects an elderly person’s physical and psychological well-being. Moreover, elder abuse victims, including those hurt by financial exploitation, “are three times more likely to die at an earlier age than elders who were not victims of abuse.”

B. Abuse Under a Power of Attorney Can Be Difficult to Establish

The facts of Estelle Ray’s case are all too common for elder law advocates. By the time these cases reach an attorney, the seniors are often in emergency situations and cannot afford food or shelter. The financial abuse may have spanned years, requiring a detailed review of bank records. A further possible complication is the senior’s reluctance to take action against the abuser, who is frequently a formerly trusted family member.

The durable nature of a power of attorney can also complicate recovery for the victim. The amorphous standard, simply that an agent is required to follow the principal’s wishes, can make proving that abuse occurred difficult. “Such a standard may be fine when the principal can supervise the agent. The standard, however, may be subject to abuse when the principal can no longer supervise the agent and cannot testify because the principal is incompetent or deceased.”

Estelle’s case demonstrates how courts struggle to protect vulnerable individuals within the context of a fiduciary or agency relationship that requires an agent to obey the principal. The agency relationship framework adequately protects a principal such as Estelle as long as she gives guidance and can ensure that agents such as James and Diane follow her wishes. When a principal’s desires are unclear or undeterminable, however, the agency relationship offers insufficient protection.

Estelle died before her case went to trial, and her counsel did not preserve her testimony. Without Estelle’s testimony regarding how her agents failed to follow her instructions, there was a lack of evidence, and a troubled trial court dismissed the charges that Estelle’s stepchildren had breached their fiduciary duty to her. A disgusted trial court judge determined that because Estelle could “read and write,” she voluntarily gave away her lifetime’s wealth as a gift:

As far as the money, it’s really hard to believe what happened to the money. It’s really hard to believe … Diane and Ray Duffer and James Ray did withdraw through various means … more than $135,000. It’s really hard to believe … I don’t know how you accept from a widow who has nothing.

II. Abuse of Power of Attorney Creates Presumption of Fraud

Courts recognize the grave potential for an agent to abuse his authority and, accordingly, have created a presumption

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13See Kohn, supra note 6, at 25–33 (a power of attorney’s impact on the principal and how in some situations it creates a psychologically devastating loss of control).
14Black, supra note 12, at 291.
15See id. at 290 (in elder-abuse cases, including financial abuse cases, the most common relationship between victims and perpetrators is that of parents and children or between other family members).
16Besides the difficulty of determining the principal’s wishes, financial abuse can be difficult to prove because elderly victims “try to keep such troubles private in order to avoid embarrassment. Many victims will refuse to acknowledge the betrayal of those who are closest to them…. these victims are less likely to come forward due to their failing memories or deteriorating mental capacity.” Black, supra note 12 at 294–95.
17Russ, 734 N.W.2d at 890.
18Basham, 238 S.W.3d at 308.
19Id.
20Id. at 308–9.
of fraud against the self-dealing agent. When an agent uses his power-of-attorney status to transfer the principal’s property to himself, a presumption arises that the transaction is fraudulent and the burden is on the agent to prove that the transaction was fair to the principal.21

The presumption of fraud is a powerful tool for attorneys seeking to remedy financial abuse. Estelle Ray’s case exemplifies when the presumption arises. In fact, the only money the appeals court determined that Estelle’s estate could recover came from the withdrawals that James Ray, the agent, signed in his capacity as power of attorney: “James exercised his status as Ray’s power of attorney, placing the burden on him to prove by clear and convincing evidence that any of the transactions were fair to Ray.”22

The court viewed the other transactions that impoverished Estelle as falling outside of the fiduciary relationship she had with James Ray and Diane Ray Duffer.23 The consequence of this ruling was that the law required Estelle’s attorneys to prove that she was either incompetent or the victim of undue influence with respect to the checks written to her stepchildren.24 Estelle’s counsel never challenged the defendants’ contention that Estelle was competent and knowingly signed the checks to the defendants.25

Difficulties proving the principal’s intent can also arise with respect to multiple-party bank accounts held jointly by a principal and an agent. Although a principal may intend a joint account to allow an agent access to pay bills, the law may presume otherwise. A jointly held account is subject to a presumption that money held in the account belongs to, and can be accessed equally, by all account holders.26

Recent supreme court decisions in Wisconsin, North Carolina, and Nebraska address the intersection between the fiduciary duties imposed on agents under powers of attorney and the “shared wallet presumption” that applies to multiple-party accounts.27 A recent Colorado Court of Appeals case extends liability to a financial institution with knowledge that a principal and agent owned a joint account when the agent made transfers inconsistent with the fiduciary relationship.28 The cases demonstrate some of the remedies available for recovering from self-dealing agents such as Estelle Ray’s stepchildren.29 The cases also provide guidance for shaping litigation strategies to construe fiduciary duties broadly and to re-
cover from financial institutions, which are often in the best position to prevent and detect financial abuse.\textsuperscript{30}

### III. High State Courts Tackle Problems with Powers of Attorney and Joint Bank Accounts

Wisconsin’s highest court directly addressed the intersection of multiparty accounts and fiduciary duties under powers of attorney in \textit{Russ v. Russ}.\textsuperscript{31} In 1999 Johnnie Russ named her son Elliot as her power of attorney.\textsuperscript{32} Six years before the appointment, when Johnnie moved into her son’s home, they opened a joint bank account.\textsuperscript{33}

Johnnie’s suit sought to recover $34,000 from Elliot for checks he wrote from the joint account for his benefit after she appointed him her power of attorney.\textsuperscript{34} The court created a conflicting-presumptions test and upheld the factual findings of the trial court that the agent did not breach his fiduciary duty for using a bank account he held jointly with the principal.\textsuperscript{35}

#### A. Wisconsin Supreme Court Considers Conflicting Presumptions

Wisconsin law presumes that money held in a joint account, when withdrawn by one of the account holders, is a gift from one account holder to another.\textsuperscript{36} Wisconsin law also presumes that an agent who engages in self-gifting, by transferring a principal’s funds to himself, commits fraud unless the power-of-attorney document explicitly authorizes self-dealing.\textsuperscript{37}

When a presumption of gifting conflicts with a presumption of fraud, “the circuit court is then free to make a determination based upon the facts and credibility of the witnesses.”\textsuperscript{38} In other words, the presumptions cancel one another out and the facts of each case take on paramount importance.

The \textit{Russ} court limited its holding to cases when the joint account is established before a fiduciary relationship is created and made it clear that “in cases where a power of attorney agent actively uses his or her authority to create a joint account with the principal” a presumption of fraud still applied.\textsuperscript{39}

The circumstances under which agents are considered to have wrongly used their authority to create a joint account in the first place are unclear from the majority opinion in \textit{Russ}. A lengthy concurrence attempts “to put this case in the larger societal and legal context of elder abuse generally and durable powers of attorney and joint accounts more specifically” and concludes that agents need more guidance regarding their roles\textsuperscript{40} The concurrence also cautions that when considering presumptions “a primary function of the court is to protect the incompetent.”\textsuperscript{41}

\textsuperscript{30}Although I focus on remedying abuse, advocates with opportunities to counsel and assist clients in preparing power-of-attorney documents are in the best position to prevent abuse. My sidebar consists of tips and suggestions for counseling clients and drafting powers of attorney.

\textsuperscript{31}\textit{Russ}, 734 N.W.2d at 874.

\textsuperscript{32}Id. at 878.

\textsuperscript{33}Id.

\textsuperscript{34}Id. at 879.

\textsuperscript{35}Id. at 886–87.

\textsuperscript{36}Id. at 880 n.7.

\textsuperscript{37}Id. at 878. The presumption is so strong that Wisconsin prohibits extrinsic evidence (i.e., any evidence outside of the written power-of-attorney document) of the principal’s intent to allow gifts (id. at 885 n.11).

\textsuperscript{38}Id. at 885.

\textsuperscript{39}Id.

\textsuperscript{40}Id. at 887–91.

\textsuperscript{41}Id. at 891.
B. Nebraska Supreme Court Construes Fiduciary Duty Narrowly

The Nebraska Supreme Court focused on the agent’s use of authority when opening a multiple-party account in *Eggleston v. Kovacich*. Lydia Mullis and her daughter, Ardeith Kovacich, held two joint bank accounts. Both accounts were opened after Lydia signed a power-of-attorney document naming Ardeith as her agent. The mother and daughter opened the accounts together and both signed the accounts’ signature card. Although Ardeith was serving as her mother’s power of attorney, mother and daughter left the section meant to designate the agent for the first account blank.

A few weeks before Lydia’s death, Ardeith opened a second joint account with her mother, and this time only Ardeith signed as Lydia’s power of attorney the signature card for Lydia. Again, the section for designating an agent on the signature card was left blank. Following Lydia’s death, nearly $43,000 in the second joint account passed to Ardeith as the surviving joint-account holder.

The court found that Ardeith made a gift to herself by using the power of attorney only with respect to the second account. “[I]rrespective of the moral guilt” of Ardeith, formation of the second account was fraudulent unless Ardeith could prove that the power-of-attorney document expressly authorized the gift.

The Nebraska court offers little explanation as to why Ardeith’s fiduciary duty did not extend to the first jointly held account other than noting that Lydia, as the principal, signed the signature card herself.

C. North Carolina Supreme Court Liberally Applies Presumption of Fraud

In contrast to the *Eggleston* court in Nebraska, the North Carolina Supreme Court recognizes that an agent’s fiduciary duty may extend to jointly held accounts regardless of the principal’s involvement in opening the accounts.

In 1991 elderly sisters Bonnie Newell and Augusta Sustare both named their nephew Beverly Lee Neal as their power of attorney. The sisters executed wills that left their respective estates to each other. Bonnie opened two bank accounts in 1996. She alone signed the signature card for the first account and designated her nephew, Beverly, as the beneficiary on the payable-on-death account. She then opened a second joint account.

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42 *Eggleston*, 742 N.W.2d at 471.
43 *Id.* at 476.
44 *Id.*
45 *Id.*
46 *Id.*
47 *Id.*
48 *Id.*
49 *Id.*
50 *Id.*
51 *Id.* at 482.
52 *Id.*
53 *Id.* at 484.
54 *Forbis*, 649 S.E.2d at 382.
55 *Id.* at 384.
56 *Id.*
57 *Id.*
nature card for the second joint account with a right of survivorship.\(^5\)

In 1998 Bonnie and her nephew set up a third joint investment account.\(^6\) Only Beverly signed the account application, as Bonnie’s agent, and listed himself as joint account holder.\(^6\)

Bonnie died in 1999 shortly before her 91st birthday.\(^6\) Her death certificate listed Alzheimer’s as the cause of death.\(^6\) Bonnie’s nephew received nearly $250,000 from the three bank accounts, which passed to him outside of Bonnie’s will. Augusta, Bonnie’s sister, received less than $6,000, as per the terms of the will.\(^6\)

Augusta soon ran out of money and her nephew refused to help.\(^6\) Augusta sued Beverly for fraud and constructive fraud for the $250,000 that Beverly received from Bonnie’s three accounts.\(^6\) The trial court dismissed Augusta’s fraud and constructive fraud claims on summary judgment.\(^6\)

The North Carolina Supreme Court reversed the dismissal of the constructive fraud claims with respect to all three accounts and reversed the dismissal of the fraud claim with respect to the third investment account.\(^6\) The court concluded that “where, as here, the superior party obtains a possible benefit through the alleged abuse of the confidential or fiduciary relationship, the aggrieved party is entitled to a presumption that constructive fraud occurred.”\(^6\) Despite Bonnie’s signature on documents opening the first two accounts, the court applied a presumption-of-fraud standard because Bonnie’s nephew owed her a fiduciary duty when the accounts were opened.\(^6\)

D. Colorado Appeals Court Extends Responsibility to Credit Union

The Colorado Court of Appeals also considered the relationship between multiple-party accounts and powers of attorney in Bryant v. Community Choice Credit Union.\(^7\) This case differed, however, in that the court addressed the bank’s responsibility when the bank was aware of the principal-agent relationship between the account holders.\(^7\)

Everald Grace Nichols, 81 years old, presented the Community Choice Credit Union with a power-of-attorney document when she opened a joint account with her agent, Charles Richard Lynch.\(^7\) Within two weeks of opening the account, Charles used assets from the joint account to secure two personal loans with the same credit union.\(^7\) He defaulted on the loans and emptied the account.\(^7\)

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\(^5\)Id.
\(^6\)Id.
\(^7\)Id.
\(^8\)Id.
\(^9\)Id.
\(^10\)Id. at 384–85.
\(^11\)Id.
\(^12\)See id. at 387–88 (fraud claims).
\(^13\)Id. at 385.
\(^14\)Id. at 389.
\(^15\)Id. at 388.
\(^16\)Id. at 389.
\(^17\)Bryant, 160 P.3d at 266.
\(^18\)Id.
\(^19\)Id. at 269.
\(^20\)Id. at 269–70.
\(^21\)Id. at 270.
Holding that the credit union was not responsible for auditing multiple-party accounts, the trial court granted a directed verdict for the credit union.\textsuperscript{75} The court also found that Everald “knowingly opened the account, after the rights and risks of co-ownership of the account were explained to her, including, the full authority of either party to deal with all funds in the account.”\textsuperscript{76}

The appellate court, considering the “statutory scheme pertaining to financial institutions, commercial transactions, fiduciaries and trusts as a whole, and giving consistent, harmonious and sensible effect to all provisions,” concluded that financial institutions with “actual knowledge” of the fiduciary relationship had a duty of care to the principal, despite the money being in a joint account.\textsuperscript{77} The appeals court not only reversed the directed verdict in the credit union’s favor but also reversed summary judgment dismissal of the plaintiff’s conversion claim against the bank.\textsuperscript{78}

The decision takes a commonsense approach that acknowledges the important role of banks in catching and preventing financial abuse. The case is also an argument for pursuing conversion claims against a bank that has knowledge of the fiduciary relationship between a principal and an agent.

The cases discussed here demonstrate two litigation strategies worth pursuing when advocates encounter financial abuse cases involving agents acting under powers of attorney.

First, fiduciary duties should be construed broadly so that any gift to an agent shifts the burden to the agent to establish the fairness of the gift and its consistency with powers specifically granted in the power of attorney. For example, even the checks that Estelle Ray allegedly wrote to her agents should have been suspect because Estelle’s agents owed her a duty to act in her best interests even when accepting gifts. Under this strategy, any joint bank account, regardless of how it was formed, should be scrutinized.

Second, financial institutions should share liability when they are aware of the fiduciary relationship between a principal and an agent. This strategy requires educating clients to avoid joint bank accounts and to inform banks of limitations that the agent has when accessing a principal’s account.

By litigating elder financial abuse cases with these strategies in mind, advocates can develop case law that provides appropriate legal remedies for a growing type of elder abuse.

\textsuperscript{75}Id. at 270–71.
\textsuperscript{76}Id. at 270.
\textsuperscript{77}Id. at 275.
\textsuperscript{78}Id. at 276.
Tips to Prevent and Remedy Financial Abuse When Preparing Power-of-Attorney Documents

Client counseling suggestions to prevent financial abuse:

- Meet with the principal individually to explain the nature of the power-of-attorney document and make sure the principal completely trusts the agent.
- Ask the principal to communicate to the agent the role that the principal wishes the agent to play with respect to the powers granted in the power of attorney.
- Explain to the principal the principal’s rights to revoke the power of attorney and give confidential information to the principal on how the principal can revoke the power of attorney.
- Explain to the agent the duties arising under the power of attorney and the presumptions of fraud for self-dealing, and document that you gave this explanation to the agent.

Drafting suggestions to prevent and remedy abuse:

- Include a provision for an accounting even after revocation of the power of attorney.
- Specify and limit any gifts authorized by the principal such as charitable donations and birthday or holiday gifts to relatives.
- Consider prohibiting joint accounts and requiring the agent to access the principal’s accounts as an agent rather than as a joint account holder.
- Limit withdrawals that deplete a certain percentage of the assets, and inform financial institutions of the limitation.
- Include a provision requiring the agent to communicate with the principal about financial matters in addition to or as part of a regular accounting.
- Consider requiring third-party approval for major transactions, such as the transfer of real estate or changing beneficiaries on a life insurance policy.

Katrina G. Hull

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