



FINANCIAL PREDATORS ON THE PROWL

What Retirees and Near Retirees Should Know About Recognizing and Avoiding Fraud

GREENWOOD VILLAGE, COLORADO—In a volatile economy consumers are susceptible to losing money. But one of the largest and fastest growing segments of society, the retirees, are being jeopardized by another risk—financial scams.

“Desperate to recover from market losses might compel investors to turn to alternative options. Retirees, in particular, are often lured by rogue investments or fraudulent scams,” says Brent Neiser, a Certified Financial Planner (CFP®) and director with the National Endowment for Financial Education® (NEFE®).

Many older Americans rely on their retirement savings nest eggs to supplement Social Security. But with frequent losses in the stock market, and receiving little to no return on some investments, many retirees seek ways to get higher returns and protect the assets that took a lifetime to build. This opens the door to the financial predators lurking in the shadows. While con artists don’t discriminate when it comes to initiating scams, perpetrators of investment and securities fraud frequently target wealthier Americans, particularly those who are retired or are nearing retirement. And the number of retirees as a percentage of the U.S. population will increase rapidly as approximately 75 million Americans turn age 60 over the next two decades.

“Avoidance of fraud by retirement-age Americans and their families is an essential part of retirement planning and management,” says Neiser, who is working on NEFE initiatives helping middle-income retirees protect their assets and make wise decisions about retirement. “Fraud can undo the best retirement plan and wipe out years of accumulated savings, assets and future investment returns to the point where they cannot be fully recovered.”

Defense against fraud comes with being able to identify the many different types of financial schemes that exist. According to the U.S. Securities and Exchange Commission, the following investment scams are commonly used to target Americans:

High-return or “risk-free” investments. Some unscrupulous brokers and investment advisers recommend unsuitable products that don’t meet the investment objectives or financial situations of investors. Inappropriate recommendations might occur when a broker sells speculative, high-risk investments such as options, futures or penny stocks to individuals who are near retirement or are retired and have a low-risk tolerance.

Pyramid schemes. In this classic scheme, fraudsters promise sky-high returns in a short period of time for doing nothing other than handing over money and getting others to do the same. Despite their claims to have legitimate products or services to sell, these deceivers spend much of the money on themselves and simply use money coming in from new recruits to pay off early stage investors. Although the products sold may be legitimate, eventually the pyramid will collapse. At some point the schemes get too big, the promoter cannot raise enough money from new investors to pay earlier investors and many people lose their money.

“Ponzi” schemes. These are a type of illegal pyramid scheme named for Charles Ponzi, who fooled thousands of New England residents into investing in a postage stamp speculation scheme back in the 1920s. Ponzi thought he could take advantage of differences between U.S. and foreign currencies used to buy and sell international mail coupons. He told investors he could provide a 40 percent return in just 90 days compared with 5 percent for bank savings accounts. Ponzi was deluged with funds from investors, taking in \$1 million during one three-hour period. Though a few early investors were paid off to make the scheme look legitimate, an investigation found that Ponzi had only purchased about \$30 worth of the international mail coupons. Today, the Ponzi scheme continues to work on the “rob-Peter-to-pay-Paul” principle, as money from new investors is used to pay off earlier investors until the whole scheme collapses.

Promissory notes. A promissory note is a type of debt that is similar to a loan or IOU and is used by a company to raise money. Typically, an investor agrees to loan money to the company for a set period of time. In exchange, the company promises to pay the investor a fixed return on the investment, typically principal plus annual interest. While promissory notes can be legitimate investments, those that are marketed broadly to individual investors often turn out to be nothing more than worthless paper. Most established companies have borrowing relationships with financial institutions, therefore this type of transaction among individuals is rare. Individual investors should exercise extreme caution with this type of investment.

Internet investment fraud. Internet investment fraud is similar to other fraud perpetrated over the phone or through the mail. Fraudsters use a variety of Internet tools, including bulletin boards, online newsletters, spam or chat rooms to spread false information. They also may build a sophisticated Web page to make their scam appear legitimate. The Internet has made off-shore scams very easy to implement and difficult to police because the perpetrators often reside outside of the U.S.

Affinity fraud. This fraud refers to investment scams that prey upon members of certain groups, such as religious or ethnic communities, the elderly or professional groups. Deceivers who promote affinity scams frequently are—or pretend to be—members of the group. They enlist respected community or religious leaders from within the group to spread the word about the scheme, by convincing people that a fraudulent investment is legitimate and worthwhile. Often, the leaders themselves become unwitting victims of the fraudster’s scheme.

8 Tips to Protect Yourself from Financial Scams

Regardless of race, age, income level or net worth, anyone may become a target of fraud. But, that does not mean you have to become a victim. The National Endowment for Financial Education offers the following tips as protection against financial scams:

- 1) Thoroughly research any person, organization or company that provides you with financial planning or investment advice, or sells products or services. Work with only those who have reputable credentials. Get a second or third objective opinion on every important decision you make regarding your retirement investments and savings.
- 2) Prevent identity theft by paying close attention to your credit report and checking for inaccuracies. You can order a detailed summary from the three major credit reporting agencies—Equifax, Experian and TransUnion—by visiting www.annualcreditreport.com. However, it is wise to stagger ordering reports from each agency every few months.
- 3) Never give out your personal information—especially social security number, bank account or other private data—to any person or organization you don't know. Even a financial institution that you work with will not contact you asking for this information.
- 4) Put your name on the “do not call” list, and discontinue any conversation where you are pressured or threatened about an investment, financial service or product.
- 5) Stop junk mail and credit card offers from being delivered to your home. You can stop most solicitations by calling 1-888-5OPT-OUT (1-888-567-8688), or online at www.optoutprescreen.com. Have a shredder on hand so you can destroy any credit card offers or other material that could be used by someone pretending to be you.
- 6) Don't give someone money in exchange for a promise to get money. Never spend money to become eligible to win something.
- 7) Assume that any get-rich-quick opportunity is fraudulent.
- 8) Know your specific risk tolerance—what you can and cannot afford to lose. Discuss your goals with any planner or advisor you work with and get all expectations in writing.

For more information about recognizing and avoiding fraud, visit the U.S. Securities and Exchange Commission at www.sec.gov.

For more tips on avoiding scams and protecting your assets, visit www.smartaboutmoney.org.

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