Senior scams

Scamsters pose threat

Regulators also worry that as the eldest boomers retire, shady advisers will seize on their need for financial advice -- and fear of outliving their money -- to sell them products that are, at best, inappropriate, and at worst, fraudulent. This is especially true at a time of market volatility, when people tend to fret about their portfolios and succumb to promises of outsize returns.

"With the dollar going down, with the fear of recession, it's a scammer's paradise," says Joseph Borg, past president of the North American Securities Administrators Association (NASAA). "Now's a good time for a scammer to say: 'Do you really want to risk (your portfolio)? Let me give you something with a (high) guaranteed return, where you can't lose your money.'"

Already, 44% of investor complaints in the 2005-2006 fiscal year came from people 50 and older, compared with 28% the year before, according to preliminary numbers from the NASAA. Faulty investment advice is likely to surge as the eldest baby boomers swell the retiree population and seek places to park their lump-sum nest eggs.

"When you're facing retirement, and you're feeling desperate (because you haven't saved enough), you're more apt to fall for those too-good-to-be-true pitches," says Jean Setzfand, director of financial security for AARP, the advocacy group for those over 50.

By law, workers who have more than $5,000 in their company's 401(k) plan can leave their money there, even after they've retired. But most retirees over 60 choose to move their 401(k) money into an IRA or similar plan, according to the Employee Benefit Research Institute. In 2006, the average sum rolled into an IRA was $334,176, Cerulli says.

Financial advisers are "drooling" at the prospect of managing this huge pool of assets as boomers retire, says Sheryl Garrett of the Garrett Planning Network, which caters to middle-income families.

Boomers' lump sums are generating a cacophony of sales pitches from the financial-services industry. Last year, Bank of America launched its largest-ever retirement-related ad drive to attract rollover dollars. The AXA Equitable insurance company has run TV and print ads featuring an 800-pound gorilla pitching the AXA variable annuity to ready-to-retire investors as a way to lock in guaranteed income for life.

As boomers retire, "more money will be coming out of these accounts than any other time in history," says Ed Slott, an IRA expert in Rockville Centre, N.Y. "Everyone's looking to access this money."

A Ponzi scheme

Especially scamsters. In Sterling, Ill., Nevin Gillette pleaded guilty to mail and wire fraud in May in a Ponzi scheme that securities and postal inspectors say fleeced many investors who had retired or were on the verge of retiring. Gillette persuaded investors to invest in a product he touted as offering a high return, according to the U.S. Postal Inspection Service. He used money from new investors to pay other investors some of their money back but also funneled investors' proceeds into personal items, postal inspectors say.

In March, Corey Minor, of Dallas, pleaded guilty to mail fraud in an investment scheme that regulators say bilked clients, including members of his church, of millions of dollars. Minor persuaded at least 64 people to invest in so-called securities, court documents indicate. Postal inspectors say that many of these people had rolled money out of their 401(k)s to give to Minor but that he used this money on himself. Minor was sentenced to 20 years in prison, Gillette, to 11 years.

In a sign of how intense the competition has grown for boomers' assets, a growing number of advisers aren't waiting for them to retire. They're arranging to give seminars in workplaces, urging boomers to retire early and move their 401(k) money into often-inappropriate high-risk investments, regulators say.

"Early retirees are becoming a new target," says William Galvin, secretary of the commonwealth of Massachusetts. "They're coming into a large pool of money, and many of them are very unsophisticated."

In particularly egregious cases, the advisers are persuading people to cash out of their traditional pensions -- roughly half of private-sector workers can take a lump sum from these plans -- thereby converting a guaranteed income stream into an investment beholden to volatile market movements. These investors are typically people with scant financial knowledge. They've "worked all their lives, had expected a comfortable retirement and instead find they have to go back to look for work" when their portfolio tanks, says Howard Hoffman, a California lawyer who's represented investors in early-retirement cases.

These pitches have become such a problem that the Financial Industry Regulatory Authority, a self-regulating body for brokers, last year began a "sweep" of 16 brokerages' sales materials and seminars related to early retirement. FINRA has also ordered two firms to pay more than $30 million in fines and restitution to settle charges that they let their brokers entice telecom and oil company employees to retire early with promises of exaggerated investment returns. The firms, in paying the fines, didn't admit or deny guilt.

In Massachusetts, Galvin filed a complaint against A.G. Edwards for allegedly allowing a broker to use "high-pressure cold calling, along with false promises and guarantees" to persuade utility-company retirees to invest with him. Retirees lost hundreds of thousands; the state is trying to recover that money, it says. A.G. Edwards declined to comment. The broker couldn't be reached for comment.

Edward Rodriguez, of Everett, Mass., invested with the broker, according to Massachusetts regulators. Rodriguez, who retired in 1999 at age 62, says the broker promised him he could "double his money." During 20 years of toiling underground for a utility company, Rodriguez had saved $180,000 -- a sum he thought would "make life a little better" in retirement.

Rodriguez, now 71, blames, in part, his financial inexperience. He'd asked the broker to put his life savings into "safe things" but doesn't believe that happened. A few years after he first invested with the broker, his portfolio plunged to less than half its original value, he says. Today, he has $19,000 to last through retirement. Rodriguez says he's living "day to day," renting a room and subsisting mainly on his Social Security checks.

Pat Keyes, 67, who entrusted his money to the same broker, according to Massachusetts regulators, says he lost a quarter of his nest egg. His wife has had to return to work. "We should be in the sun in Florida, but it's not going to happen," says Keyes, of Winthrop, Mass.

Tank, the retiree in Harrison Township, says he avoids scams by managing his money himself. His concern? Conflicting advice can be "overwhelming."

He knows it's not just scams that pose a risk. One mistake by a do-it-yourselfer can sink a retirement portfolio. "Once you do lose your money," Tank points out, "you don't get another chance."