

## Annuities



*June and Larry, both in their 70s, got a postcard in the mail inviting them to a free dinner and financial seminar at a local hotel. The speaker was so persuasive they immediately signed up to transfer all of their money out of their 401(k) into a variable annuity... with a 20-year payout.*

Annuities are a sound investment for some people, but not for others. Watch out for high pressure marketing of annuities and learn whether an annuity is right for you.

### No Free Lunch

You've been invited to a meal and an investment workshop. After the free food, the hosts urge you to switch your current investments to variable annuities. The pitch may be misleading, flat-out wrong, or scare you into thinking only an annuity will protect you. Plus, the hosts may not have a license for what they are selling. Salespersons have been known to show up at the investor's home to continue the pressure to make a sale. Some may even falsely say they represent AARP.

### What You're Not Told

- Annuities often carry high commissions and punishing surrender charges.
- Annuities can complicate your taxes.
- Switching among annuities creates new sales charges, commissions, and penalties that go into the sales agent's pocket.
- Older investors may not live long enough to enjoy any benefit.

## Help after the Sale

If you have an annuity that is clearly not right for you:

- Contact the supervisor of the person who sold you the annuity.
- Call “up the ladder” of the insurance carrier or financial institution backing the annuity.
- Complain to your securities regulator (or insurance regulator in some states). You can find state regulators at:
  - **www.nasaa.org** (click “Contact Your Regulator”)
  - **1-888-OUR-AARP** (1-888-687-2277)
- Also file a complaint with:
  - **National Association of Securities Dealers**  
(www.nasd.org)
  - **Securities and Exchange Commission** (www.sec.gov)
  - **National Association of Insurance Commissioners**  
(www.naic.org)

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## Promissory Note Scams



*Bob visited a broker suggested by a friend when Bob inherited some money. The broker persuaded him to make an investment that, the broker said, was guaranteed and government backed. He would get his money back with 20 percent interest in three months. Bob handed over \$50,000, but the broker disappeared—and so did Bob's money.*

### How Promissory Note Scams Work

Bob had purchased a fraudulent “promissory note.” With a promissory note, the investor is in effect making a loan to a company. The company promises to return the buyer’s funds and make interest payments. But, although promissory notes can be legitimate investments, the real notes are almost never offered to the general public.

Promissory notes are a security—most must be registered, and the seller must have a securities sales license.

Scammers may find their marks through telephone calls, advertisements, or the Internet, but often they persuade life insurance agents to sell promissory notes. The agents may rely on the information they’ve been given and not realize it is false or misleading.

### Red Flags to Look Out For

1. Claims that an investment is “risk free.”
2. Promises of quick, guaranteed double-digit returns.
3. Investments for a start-up company that are labeled “prime quality.”
4. Notes that are for a period of nine months or less.

## Do Your Research

People offering honest investments welcome questions. They give you time to do some research.

- **Check the product.** Most promissory notes must be registered with state securities regulators or the SEC.
- **Check the person.** People selling most promissory notes must be licensed by state regulators.
- **Don't be pressured to act quickly.** Be ready to say, "I'm not making a decision today."

## What You Can Do

To check on an investment offer or salesperson, or to file a complaint, contact your state securities regulator. You can find state regulators at:

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## Ponzi Schemes



*Sally, a retiree living in Santa Fe, heard from a financially successful friend that he was getting interest rates of over 20 percent from an investment he'd made. She invested too, and over the next few months, statements arrived regularly with results just as promised. But it turned out to be a scam. Most of the \$100,000 she'd invested was gone.*

### How Ponzi Schemes Work

Scammers use anything for bait—pay telephone franchises, stocks, nonexistent certificates of deposit, start-up companies. They find their marks through phone calls, advertisements, the Internet, and personal connections.

In some scams, investors are lured with the promise of high returns and, at first, they may get those returns. But if they've been hooked by a Ponzi scheme, their money may not really be invested at all. In a Ponzi scheme, a kind of pyramid scheme named after a 1920s con artist, interest paid out is actually the money paid in by later investors. As long as more investors join in, which happens for awhile because of word-of-mouth advertising spread by the first investors, everything seems fine. But since no real investments are being made, it can't last long. After a time, the con artists usually pocket the investors' money and disappear.

### Red Flags to Look Out For

1. Unexpected telephone calls, letters, emails or even personal visits from strangers who offer quick profit schemes requiring an immediate investment from you.
2. Promises that you can double your money within a short time.

3. Irregular interest payments.
4. Stalling by the seller when you ask to withdraw your investment.
5. Requests for you to recruit more investors.

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## Viaticals



*Gary was told to expect huge payoffs within a year when he invested \$25,000 to buy the life insurance policies of five terminally ill patients. Some seven years passed and only one of the five patients died, despite life expectancies that had been estimated as short as six months. Gary hasn't seen any return on his investment.*

### How Viaticals Work

When you buy a viatical, you purchase the life insurance policy of a terminally ill person at a discounted price. The ill person gets needed money to help pay expenses, and the investor gets the full face value of the policy when the person dies.

Brokers also sell a spin-off of viatical settlements—life or senior settlements—in which the investor is offered the life insurance policy of an older, healthy person. The investors are told they are helping older people stay financially solvent in their golden years.

### Pitfalls

Viaticals can end up costing investors a lot of money. The North American Securities Administrators Association calls viaticals one of the top ten investment scams. Here are a few of the ways people have lost money:

- With improved medical care, the ill or older person may live longer than expected.
- The insured person may have purchased the life insurance through fraud, and the company will later refuse to pay the settlement.

- Sometimes the insured person is not ill at all, so the investor will need to make insurance payments—sometimes for years—or the investment is lost.
- The insurance company or viatical settlement company may go out of business—along with your invested money.

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## Fraud of the Day



*Con artists like to promote “easy money” investments that are long on promises and short on details. They might scan the headlines to come up with a story that sounds good...or even too good to be true. Take note and avoid some of the more common frauds.*

### Rare Coins

Typically only the most experienced investors make money in rare coins, because they base their purchasing decisions on a lot of research. It is important to learn all you can about the coins being offered, such as their rarity, as well as who is offering the coins. Be wary of promises to buy back the coins at or above the purchase price. Get a second opinion about the value of the coins, and if that opinion differs from that of the seller, make sure you know in advance the seller’s buy-back policy—and get it in writing.

### Oil and Gas Schemes

Since the first oil gusher, people have sought to strike it rich through oil investments. But some ventures originate in boiler rooms that consist of nothing more than bare office space and a dozen or so desks and telephones. Boiler room telemarketers are trained to use high-pressure sales tactics and follow a carefully scripted sales pitch to generate high profits.

### Business Opportunities

Beware of offers to start a business with little or no money down. Promoters of these business opportunities promise earnings of up to \$1,000 a day, or more, and claim that it

doesn't involve selling a product. But details are often hard to come by. In many cases, these offers include a telephone number to call for details. You'll be told to leave your name and number so a salesperson can call you back with the high-pressure sales pitch.

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## Spotting a Scam



*Joe and Alice had known Ernest for years. But when Ernest offered Joe the chance to make guaranteed big money, at no risk at all, Joe wasn't sure. All their friends had already made some money, and they all said that Ernest made it so easy. So Joe and Alice used more than half of their life savings and wrote a check to Ernest. Sadly, it didn't take long for their money to disappear.*

No matter who offers you that “great” investment deal, there are steps you should take before you invest your money. Whether the offer comes from a financial professional, a pop-up ad, your brother-in-law, a phone call from a stranger, a friend...or anyone: Check before you invest.

- Check the product: Is it registered in your state or with the SEC? If not, you won't want to invest. And, is it the right kind of investment for you?
- Check the person: Is the person selling you this investment licensed in your state or with the SEC? If not, beware.

### Warning Signs to Look Out For

- “Your profit is guaranteed.”
- “It's an amazingly high rate of return.”
- “There's no risk.”
- “You can get in on the ground floor.”
- “This offer is only available today.”
- “I'll get you the paperwork later.”
- “Just make your check out to me.”
- “You would be a fool to pass this by.”

If you hear any of these lines, or feel pressured, **STOP!**

Remember: Check before you invest. And, most important, remember that if a deal sounds too good to be true, it probably is!

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