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## FINANCIAL LITERACY TIP OF THE WEEK

FOR IMMEDIATE RELEASE

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### **Pension Advance Scams: *Are you an informed investor?***

Boise, Idaho .... Idaho Governor C.L. "Butch" Otter has declared April "Financial Literacy Month." As part of a continuing effort to promote financial literacy in Idaho, the Department of Finance offers Idahoans valuable tips on investments and those who sell investments.

*A pension is a type of retirement plan, usually tax-exempt, in which an employee makes contributions toward a pool of funds set aside for an employee's future benefit. The pool of funds is invested on the employee's behalf, allowing the employee to receive benefits upon retirement.*

- *Are you earning a pension from your employer and need cash fast?*
- *Are you an investor looking for new ways to grow your investment dollars?*

*If you answer "yes" to either question, you may be the target of a new wrinkle on an old type of swindle.*

#### **How it Works**

**For retirees**, the scam involves investors or promoters who promise immediate cash advances to pensioners who are willing to turn over future pension payments. The retirees often do not understand that their future cash payments are being bought at a fraction of their actual value and once their lump sum is gone, they are left with little or no income. In other instances, pensioners are approached by illicit and often unlicensed financial "professionals" who convince the retiree that they can make substantially more income by cashing in their retirement and reinvesting the lump sum with the promoter. Seldom is this the case and sometimes the funds are fraudulently invested and sometimes stolen.

**For investors**, the promise often is made that they are investing in a zero-risk transaction and the only question is how much money will be made. However, real risks do exist and go undisclosed. This is similar to investment frauds involving "viaticals" (insurance death benefit investments) and senior life settlements. Scammers offer to purchase the rights to those cash entitlements at a discount and then seek to sell investment interests in these rights to investors without disclosing the real risks faced by investors.

## **Investors: Questions to Ask Before You Invest**

- Is the investment registered? Check with the Idaho Department of Finance before you invest to determine if the offering is registered.
- Did you do a regulatory check on the background of the principal officers of the company offering the investment? Background information is available from the Idaho Department of Finance, or even on the internet.
- Is the transaction legal? Some pension rights cannot be transferred. Federal law prohibits the assignment of U.S. government pensions and disability benefits. Check out the source of the pension funds in which you will be investing.
- Can you afford to lose the money? These are risky investments. You should not invest more than you can afford to lose.
- Can you get your money if you need it? Many of these investments are illiquid and you may not have access to your money.

## **Retirees: Questions to Ask Before You Sell Your Rights**

- How financially secure is the company offering to buy your entitlement? Is the company registered to offer the product? Check the background of the principals before entering into the agreement.
- How does the company make its money? The company typically takes commissions and other fees that may result in the cash payout being lower than the future benefits you are assigning. Do these costs outweigh the convenience of a lump-sum payment?
- Do you know what restrictions, if any, apply to your ability to assign your pension benefits? Check with your pension administrator to determine what restrictions apply. The transaction could be illegal and therefore void.
- Does the company require you to purchase life insurance naming it as the beneficiary? If so, you should consider this increased cost when considering whether the payout is worth it.
- Did you consider the tax consequences? The lump-sum payment you receive may be taxable as income.

## **The Bottom Line**

Before making any decisions with your money, ask questions, do your homework and contact the Idaho Department of Finance. Also, visit the North American Securities Administrators Association (NASAA) Serve Our Seniors website at [serveourseniors.org](http://serveourseniors.org) for more information for senior investors.

To learn more about investment scams and how to safeguard your savings, please visit the Department of Finance website at <http://www.finance.idaho.gov>. Go to Education, then Financial Literacy.

*Department of Finance Press Releases and other information can be found on the Department's website at <http://www.finance.idaho.gov> and may also be obtained by contacting the Department at (208) 332-8000, or toll-free in Idaho at 1-888-346-3378.*