SAVE OUR

RETIREMENT

Demonstrating the Need for Greater Protections for Retirement Savers: Personal Examples of Conflicted Advice

Example 1: Janice

Janice worked for 29 years as a telecommunications engineer for Verizon. When she retired, her retirement plan gave her the choice of an annuity or a lump sum payout. Not feeling prepared to make this decision on her own, she picked an advisor after based on recommendations from coworkers, family and friends and relatives. **Her most important concern in selecting an advisor was trust** - that her advisor be guided by what was best for her and that they provide advice that would further her retirement savings goals.

The advisor she chose recommended that she take a lump sum from her defined benefit plan and roll her 401(k) plan into two individual retirement accounts. The advisor then steered her toward investing a quarter of her total assets in a variable annuity product. **They did not explain the product, why they were recommending it, nor the complex features and fees it featured.**

Janice has since had her retirement investment portfolio independently evaluated by another investment advisor who showed her that **she was paying fees that she did not know about, let alone understand**. According to their analysis, even without the high fees, Janice's total investment proposal was **not well designed in accordance with her best interest** - her investments were high cost, and her overall allocation was inappropriate for her long-term goals. The analysis was most critical of the placement of 25% of her assets in a variable annuity, which had annual fees equal to 3.3% of her investment. Some of those fees purchased **complex features that had no value to her**. The high annual cost to maintain these investments resulted in a **return of barely 0%** and Janice would **face financial penalties if she decided to move money out of the annuity.**

According to Janice, ***"I worked long and hard, and saved over my career, so that I could enjoy a decent retirement. And I should have been able to assume that investment advice given to me was crafted solely in my best interest."***

Example 2: Richard

Richard had just turned 65. After college he joined the Navy, retiring as a Lieutenant. He entered the private sector and saved to create a retirement nest egg. He was a

beneficiary of two very large corporate pension plans and a government pension, which provide retirees a monthly check for life.

Shortly after his birthday Richard got a phone call from an "adviser" who began by asking whether he was confident he'd have enough to live on for the rest of his life. **He insinuated that the employers with pensions – one a Fortune 40 company, and the other a Fortune 20 company – might go out of business, taking Smith's monthly pension payments with them.** He asked Smith: "What would happen to you then?"

He urged Richard to take lump sum payouts from his two corporate pensions – well into the six-figures – and roll that into a "guaranteed" annuity in an IRA. Each month**, it would pay Richard several hundred dollars less than the pension plan**, but, he said, "It would be guaranteed." He hounded Smith until he rolled one of his pensions into an IRA, ready for that annuity. This was a transaction that could not be undone, and caused irreversible harm to Richard's long-term financial security. On a rollover into an annuity that paid Richard $300 LESS per month than the pension plans would have, over the next 20 years, the impact of that rollover would cost Richard a whopping $72,000.

It is too late for Richard, but it's not too late to close this kind of loophole in which a service provider preys on the fears of people who are retiring – even when their pensions are as secure as these were.

Example 3: Jane

Jane used to work in corporate America but is now a teacher. A financial professional came to her school to discuss what do to with her previous retirement plan. Jane was in her 30s when this discussion took place. The professional recommended an annuity with a 14-year surrender period. That means **if she changed her mind the first year, she would pay a penalty of 18% that first year**. And for 13 more years she would surrender a significant part of her account. In addition, the funds in the annuity were not diversified and came with high annual administrative fees. **This account leaves her with few options and limits the long-term growth of her retirement account.** This financial professional has not spoken to her since selling this annuity and provided her with no financial plan or support outside of selling her this annuity.