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.

Example 4: Anonymous

This comes from the retirement saver’s widow. Her husband died in 1995 and had a $120,000 life insurance policy and a 401(k). She was 56 and not working. She was a recent widow and not sure what to do but needed to make the money last. She used $20,000 of the insurance policy to pay off the house and invested the rest with her brother's adviser who divided the money into good funds. (This money was in a taxable non-retirement account).

A few years later, she joined an investment club with friends. One friend recommended an adviser who he said he'd done very well with. Two men drove 100 miles to her house, they were very charismatic, she felt they were trustworthy and seemed knowledgeable. In 2000, she decided to move the money that was invested in the good funds to the new adviser. She also rolled over her husband's 401(k) that was spread around different investments to an IRA with that same adviser. In total, it was $400,000. She believes she was paying 1% every month (though it's likely she was paying 1% yearly) because she said she was paying between $400 and $600 a month, depending on her balance.

She told the broker her goal was to get to $500,000, but she also told him she thought she should invest in 50% stocks and 50% bonds. The broker told her she could reach her goal if she invested 100% in individual stocks, large companies she'd heard of, and that it was almost guaranteed the market would gain 10% a year. When the market fell, her $400,000 dropped to $200,000. She said, "I couldn't sleep when I let that guy have my money." In about 2005, she remarried, and her new husband convinced her to reinvest on her own because "you can't do any worse than those guys." She moved her money to low-cost index funds and has a current balance of approximately $450,000.

Example 5: Anonymous

A fee-only financial planner reviewed the following recommendations made to a newly retired 60-year-old with a $1,200,000 401(k) rollover IRA. The adviser recommended that the investor put $600,000.00 in AXA Equitable's (Retirement Cornerstone Series B variable deferred annuity). They recommended they split the other $600,000.00 between: Virtus Senior Floating Rate Fund (PFSRX), Principal's High Yield Fund(CCHIX), Lord Abbett's Short Duration Income Fund (LDLAX), First Trust's Global Bond Income Closed-End portfolio series 14(FSERCX), and Putnum's High Yield Trust(PCHYX). The retirement investor was also not planning to draw Social Security until FRA (66), for an estimated $2,200.00 per month. The retirement investor was aware that their adviser was paid "from the companies or funds whose products he sells." After completing a cost analysis, the fee-only financial planner made the following comments regarding these recommendations, specifically pertaining to the annuity and the mutual funds recommended:

"Overall, there is little opportunity for your portfolio to grow over time. Broader diversification, to include some U.S. and foreign equity mutual funds or ETFs, real estate funds and even equities that would respond well in an inflationary environment would offer better long-term sustainability of your portfolio. It is common for retiree accounts to include some portion in growth-oriented investments."

“The purpose of a deferred annuity is to continue to grow the funds, not to draw income. I assume this is why a deferred annuity and not an immediate annuity was recommended for you. Also, because your 401(k) funds are already tax deferred, it is not necessary to use a (costly) annuity to maintain that tax deferred status. Funds can be rolled to an IRA (free of the cost burden of the annuity “wrapper”). The annual cost associated with the recommended annuity is 1.3% (contract fees) plus annual operating expenses of between .62% and 1.68%. This translates into an annual cost on the $600,000 invested in this account, of between $11,500 and $17,800. (We used the lower of the range of fees for the variable annuity in our analysis.) In addition, there is a deferred load on the annuity should you wish to take remove all of the funds within the first 10 years. This is also factored into our analysis.

With respect to the mutual and closed end funds recommended: Based on an equal weight in these funds, totaling $600,000, the annual product-related cost is 1.80% or $10,800 per year. Assuming a 3% return on these investments (3% because of the large amount invested in fixed income investments), you may be astounded to realize that in excess of $20,000 per year will be paid in product costs to the broker and broker’s firm on your account (just over 40% of your required annual draw). You have several alternatives for lower cost investment management.

Example 6: CC, Salem, OR

C. is 59 years old. Her husband is 61 and an attorney. She has 2 grown children, both out of college. In addition, her mother lives with the family. C. has been retired for 3 years from a company where she worked for 26 years and ultimately rose to a senior position. C. was worried about her 401k money when she left her job. She was pitched hard to do a 401(k) rollover IRA. After a considerable amount of research and meetings, she decided to go with a major brokerage firm. After spending some time as a brokerage firm client, she felt burned by the firm -- paying 1.25% in fees and not receiving much in the way of advice or service. For example, her new contributions to the IRA would sit in her account for over a year without being invested. She then moved her retirement account to another brokerage firm and eventually she felt as if she was getting overcharged and not receiving good retirement investment advice. As a successful businesswoman, C. was surprised how hard it was to find conflict-free, transparent retirement investment advice. She did research and sought out a new adviser as she was looking for a fee-efficient, sophisticated investment strategy for her and her husband’s retirement investment accounts.