

DAILY NEWS

Golden fears: Retirement gone awry

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There is no denying the allure of retiring early, the possibility of finally having enough money to spend more time with loved ones, to travel and pursue favorite pastimes. When a financial professional assures you you're ready to take the leap and step away from the working world, many people are understandably eager to move forward.

But when the advice is wrong, for most people there's no second chance.

As 79 million American baby boomers near retirement age, many are targeted by advisers who try to persuade them that they, too, can retire early. Sometimes, the consequences are disastrous.

"Complaints from retiree investors have become the single largest area of concern in the securities industry," New York securities lawyer David Robbins said.

Some poorly advised New Yorkers in their 50s, who otherwise might have continued to work for at least another decade, handed over their life savings only to watch them dwindle, with little hope of recouping their losses.

Many had little to no investment experience. But they bought complicated packages, like variable annuities, without fully understanding the cost or the risk.

"We've heard heartbreaking stories," said James Shorris, executive vice president for enforcement at the Financial Industry Regulatory Authority, which investigates investor complaints. "Some suffered severe depression. Many had to go back to work."

The agency's workload is on the rise. In the past two years, it's imposed disciplinary action in 100 cases involving seniors, and ordered two firms, Citigroup and Securities America, to pay a total of \$30 million in fines and restitution related to early retirement schemes.

Just last week, a lawsuit was filed against Morgan Stanley claiming the brokerage giant fraudulently induced Kodak and Xerox employees to retire early based on unrealistic expectations. A broker allegedly told hundreds of employees they could withdraw 10% of their retirement accounts annually without risking their principal. "To do that their accounts would have had to grow by 12% a year," said Robert Pearl, a lawyer representing the workers.

The cases follow a similar pattern. Armed with charts, flyers and free lunches, brokers flock to companies offering early retirement. Some are accused of spinning a tantalizing sales pitch, with would-be retirees told they can withdraw as much as 10% of their money each year, far more than the 3% to 5% recommended by financial experts. They are then steered to unsuitable investments, often variable annuities that come with high fees, commissions and surrender charges.

"It sounds great — but it's not," said Joseph Peiffer, who's represented dozens of early retirees. "It's a matter of when, not if, they run out of money."

The toll can be especially harsh because victims don't typically have many working years left to gain back what they lost. "These are irreplaceable assets," New York lawyer Jenice Malecki said.

The problem has the potential to become much wider as brokers target the first generation to have 401(k) savings, estimated at \$2.9 trillion. "This is a brand new pool of money," Pearl said.

Under securities rules, brokers are not allowed to recommend unsuitable investments and must fully disclose the risks of all investments.

In its case, Morgan Stanley insisted its brokers had done nothing wrong.

"Prior allegations by clients represented by Mr. Pearl against the same broker were unfounded," the company said in a statement. "None of those clients were improperly induced to retire by Morgan Stanley, and certain clients accepted retirement packages rather than face the prospect of imminent layoffs by their employers."

Clients "received appropriate investment recommendations, as well as risk disclosures," the statement added.

While there's a burden on brokerage firms to act responsibly, investors also must weigh investment risks and rewards carefully.

One thing is certain: If it sounds too good to be true, it probably is.

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