

SUSAN TOMPOR: New retirees should beware rosy pitches

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Thousands of Ford and GM workers contemplating buyouts and early retirement incentives need to hear the story of George Moore, who thought he had it made when he retired at 55 from ExxonMobil Corp.

Moore, a blue-collar worker at an Exxon refinery in Baton Rouge, La., didn't have to retire. But a broker convinced him that he'd be crazy to keep working, especially when, the broker said, Moore could be making more money by investing than he could staying on the job.

"Well, he was lying," Moore told me by phone last week.

Moore retired in 2000. He invested nearly \$640,000 with the one broker. And, roughly four years into retirement, he and his wife, Elaine, had lost so much money they had trouble making the mortgage.

Now, regulators are concerned that Ford Motor Co. and General Motors Corp. employees could be just as vulnerable to similar, overly rosy pitches as they take early retirement incentives and buyouts.

"Collectively, they've got millions of dollars," said James Shorris, executive vice president and head of enforcement for the NASD. The NASD, the self-regulatory agency for the U.S. securities industry, has issued an alert to warn investors to be skeptical of those who make such claims as "Everyone Can Retire Early!"

The Moore case resulted from a well-choreographed pitch from broker David L. McFadden, who held seminars for Exxon employees in the late 1990s.

He invited potential clients to free dinners at restaurants. He claimed they could afford to retire early by trading in their pensions for lump-sum payouts and liquidating assets in their 401(k) plans -- and investing in accounts with him.

His slide show included projections in which workers might earn 14% on their investments while being able to withdraw 8% or more of savings each year.

"If I cannot get you 10% to 14%, you should fire me," he often told clients.

Taking sensible steps to early retirement

- The American Savings Education Council offers online calculators to figure out such issues as how much monthly income you'd have in retirement or how much it could cost to start a new business. See www.asec.org. Also look for the Ballpark Estimate to see if you're saving enough for retirement.

- Get a realistic spending plan. Most people cannot afford to withdraw 7% or more of their savings each year to cover their expenses in retirement, especially if they retire in their 50s. They'd outlive their money. Aim to take out about 4% a year

- If you're forced to take an early retirement but you haven't saved enough, you'll need to cut costs and possibly find another job.

This month, the NASD, once known as the National Association of Securities Dealers, fined Securities America Inc., based in Omaha, Neb., \$2.5 million for failing to supervise the broker.

- See www.nasd.com for its investor alert on early-retirement investment schemes that promise way too much.

The NASD charged McFadden in a separate complaint with securities fraud. McFadden, who has resigned from Securities America, could not be reached for comment.

Shorris charged that the unsuspecting investors lost their life savings after following advice that benefited no one but Securities America and its representative.

- Walk away from any financial planner who guarantees double-digit returns each year. It's not going to happen. A more conservative approach is to plan get a return of 6% a year on a diversified portfolio of stocks, bonds and certificates of deposit.

The complaints and losses faced by Exxon employees led to a \$22-million arbitration award, one of the largest of its kind, against Securities America, a division of Ameriprise Financial Inc. The award involved 32 former Exxon Mobil employees, but others have outstanding claims.

Paul Johnson, a spokesman for Securities America, said the company has agreed to pay \$14 million in compensatory damages, including interest, based on the award.

But Securities America is likely to appeal other portions of the decision, he said.

Susan Tompor

Pitfalls to avoid

For local autoworkers, the situation faced by the ExxonMobil employees offers several common traps to avoid:

- **Watch out for anyone who suggests you can withdraw a lot of money from savings.**

The employees in the Exxon case were told they'd be able to take out 9% or more each year from their investments, says James Swanson, a lawyer for the retired Exxon employees.

The way the broker explained things, Moore thought he could easily take out \$60,000 or so a year.

And he needed to withdraw that kind of money if he wanted to retire at 55 and keep his current lifestyle.

Moore traded in his traditional pension, which would have offered him a steady monthly paycheck, for a lump-sum payout to invest. The broker also coaxed Moore into selling his \$400,000 in Exxon stock and investing that money elsewhere.

At Ford and GM, hourly and salaried employees are not offered the option of trading a pension for a lump sum.

Realistically, most financial advisers tell clients they could withdraw 4% a year from a 401(k) or other investments.

At 4%, Moore would have been able to get about \$26,000 a year, not \$60,000. He said he would not have retired early had he known that.

The problem with taking out too much money is that you're not earning interest on any money after you've spent it -- and you're more vulnerable to running out of cash.

"You may all of a sudden wind up nine or 10 years down the road with a surprise: There is no more money," said John Gannon, vice president of investor education for the NASD.

For Moore, the money didn't even last five years, thanks to high-risk investments, high-cost variable annuities and other expenses.

At first, the couple felt so horrible that they didn't even talk about all the money they lost.

"We didn't even tell our kids," said Elaine Moore, 60. "We kept a terrible secret."

• **Take a realistic approach to investment returns.**

During some seminars, the Exxon employees heard claims that returns could climb as high as 18%.

While such claims should sound to good to be true, attorneys for the retirees maintained that the Exxon chemical plant and refinery workers had a limited experience with investing.

"The naive folks he was talking to then thought that McFadden, as an experienced financial planner and CPA, understood finance the way they understood the plant equipment they operated," the brief said.

But many financial planners say retirees might expect a conservative return of 6% a year on a diversified mix of stocks, bonds and certificates of deposit.

• **Know what you're investing in, how much it will cost you and how much the broker could make in commissions.**

Swanson noted that his clients often ended up investing in high-cost variable annuities that had expenses in some cases of 3% a year. So they'd pay \$15,000 in a year in expenses on \$500,000 in investments.

Attorneys charged that McFadden sold these annuities without appropriate disclosure about their high expenses, and that he sold some of the highest-commission products available.

He was one of Securities America's biggest producers, earning as much as \$1.5 million a year, according to briefs in the case.

For many employees in the auto industry, one of their safest and least costly options could be just keeping their money in the 401(k) plan, according to the NASD.

Moore, who had to go back to work, told me that he'd advise autoworkers looking at retirement options to be careful about being sold a bill of goods.

"It's your money," Moore said. "Don't let someone take control of your life like that."

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