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## Beware of 'free lunch' retirement

By: GEORGE CHAMBERLIN - For the North County Times

There is good news and bad news on the retirement savings front.

The good news is that Americans have stashed away more than \$14.5 trillion in personal and employer-sponsored retirement accounts.

The bad news is that Americans have stashed away \$14.5 trillion in retirement savings and that there are a lot of unethical advisers out there who want to get their hands on this money for their own benefit.

The problem has become so bad that the National Association of Securities Dealers has been forced to issue an investor alert, "Look Before You Leave: Don't be misled by early retirement investment pitches that promise too much."

The NASD is the self-regulating arm of the securities industry. For the group to issue such an alert ---- which is really a warning to its own members to clean up their acts ---- the problem has to be very severe.

The NASD cites a situation where a broker allegedly lured employees of Exxon into retiring early in order to allow them to withdraw money from their 401(k) plans. He made exaggerated promises of obscenely high rates of return by reinvesting the funds in self-directed accounts.

In all, 32 Exxon workers fell for the scheme and handed over nearly \$14 million. The settlement says that Securities America, the company where broker David McFadden worked, must return all funds to the workers.

McFadden, of Baton Rouge, La., is being charged with securities fraud.

The broker attracted the Exxon workers through a series of seminars that suggested they could retire early, cash in their retirement funds, and reinvest the money in a way that would equal or exceed their current income.

For instance, McFadden wrote a letter to one couple promising that they could generate \$60,000 a year in income from the nest egg of \$718,000 in retirement savings. In reality, the funds would have been depleted in 11 years, leaving the couple with no retirement savings.

McFadden took the money from the workers and invested in variable annuities and high-commission mutual funds. He then "engaged in discretionary, and in some cases unauthorized, variable annuity subaccount exchanges and mutual fund switches."

The NASD alerts raise several important cautions. First, be careful when attending "free lunch" training workshops that promote early retirement strategies. Believe it or not, some of these bogus workshops even take place in corporate offices.

Watch out for programs that are based on so-called "little-known loopholes" in the IRS rules that allow workers to opt for an early retirement.

Before quitting your job and cashing out your 401(k), be sure to calculate all of the potential tax consequences. Talk to a tax professional and seek a second opinion before making a dangerous leap.

The rapid demise of defined-benefit pension plans is putting more pressure on workers to take responsibility for the bulk of their retirement savings and investing. The recent changes in the law give them tools to accomplish this task. But, as always, it also creates an opportunity for people who care little about others and think only of lining their own pockets.

More than ever, you have to be vigilant in protecting your hard-earned nest egg.

George Chamberlin is a regular contributor to the North County Times, and also is a TV and radio commentator. Contact him at [geoc1045@adelphia.net](mailto:geoc1045@adelphia.net).