

# BUSINESS

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▲ Dow Jones: 12,407.63  
+64.41  
▲ S&P 500 1,416.90  
+6.14  
▲ Nasdaq: 2,413.51  
+12.33

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## Retirement payouts tempt unscrupulous brokers

LOS ANGELES TIMES

BATON ROUGE, La. — Bradley Simon had put in decades at the ExxonMobil refinery here, building up a stout 401(k) retirement account and enviable pension benefits.

So when the investment broker said he should seize a head start on the golden years, Mr. Simon, 54, quit his job and turned over more than \$700,000 to David McFadden, a broker for Securities America Inc., of Omaha.

Mr. Simon said Mr. McFadden promised to keep the portfolio growing and told him he could safely withdraw \$65,000 a year for living expenses.

Then the stock market tanked, and Mr. Simon's savings dropped 65 percent over two years.

Regulators said Mr. McFadden defrauded his clients by

exaggerating the returns they could expect, steered them into overly risky investments with high fees, and encouraged them to withdraw more than they could afford.

**Companies are under no obligation to offer retirees guidance on how to manage savings in 401(k) plans**

Now, Mr. Simon said, "I'm the rock star of stupid."

Americans have \$2.9 trillion in 401(k) accounts and similar plans that are largely funded and controlled by workers.

When employees retire, companies are under no obligation to offer guidance on how to manage this money.

Most do not, said Don Blandin, president of Investor Protection Trust, a nonprofit company that promotes financial education.

"Too many people are getting scammed, and too many people are becoming targets," Mr. Blandin said.

Said Joseph Borg, president of the North American Securities Administrators Association, "The retirement security of American workers is at risk from unscrupulous salesmen pitching 'pie in the sky' investment programs to those about to retire from a lifetime's work."

The potential for harm is rising as employers push older workers to take early retirement. In the automotive industry alone, an estimated 200,000 hourly workers became eligible this year for buyout offers.



LOS ANGELES TIMES

Bradley Simon, who turned over \$716,500 in retirement funds to a broker, calls himself 'the rock star of stupid.'

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## Payouts

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"It's almost the perfect storm in terms of the opportunities it presents for folks to be taken advantage of," said James Shorris, head of enforcement at NASD, formerly the National Association of Securities Dealers.

The Louisiana retirees, most of whom made their decisions in the booming stock market of the late 1990s, concede that they lacked financial savvy.

They put their trust in McFadden, a Baton Rouge broker who conjured visions of wealth and teased workers that they would have to learn how to spend their newfound riches.

"I think we were a little bit greedy ourselves," Mr. Simon said. "I bet some of us thought deep down inside we were taking too much money." He gave Mr. McFadden \$716,500 to invest by closing his 401(k) savings account and liquidating his pension benefits.

Mr. McFadden invested much of his clients' money in variable annuities, which are contracts with insurance companies in which returns are tied to the performance of related mutual funds. Many financial experts have said it is cheaper to buy the mutual funds directly.

Most of that nest egg was invested in a variable annuity with Nationwide Life Insurance Co. Mr. Simon paid annual fees that averaged about 2.5 percent

of assets. Many mutual funds charge less than 1 percent.

Mr. McFadden collected a commission of \$42,349 from Nationwide Life for bringing in Mr. Simon's account, according to evidence from an arbitration hearing.

All told, Mr. McFadden testified, he took in more than \$1 million a year in commissions from accounts held by about 200 clients between 1998 and 2003. Monthly withdrawals by the retirees took an even bigger bite out of their savings.

"The combination of those things was just a killer for these people," said Joseph Peiffer, their attorney. "It was a matter of 'when' clients would run out of money, not 'if' clients would run out of money."