

RECENT NEWS (from Michigan Attorney General's Office)

Schuette: Consumers Should Proceed with Extreme Caution on Pension Advances

January 27, 2015

LANSING – Michigan Attorney General Bill Schuette today issued a consumer alert through his Corporate Oversight Division cautioning consumers of the high risks associated with pension advances.

"Seniors who have worked hard through retirement deserve to know the high risks involved with pension advances," said Schuette. "I hope pensioners from across Michigan find our Consumer Alert helpful and do their due diligence to read the fine print before considering pension advances."

Pension advances, also known as pension sales, loans or buyouts, require you to sign over all or a portion of future monthly pension checks, typically for a five to ten-year term. In return, consumers receive a one-time lump sum payment from the pension advance company for an amount less than the total future pension payments signed over. Even if you don't have a pension, you may be approached to invest in funding someone else's pension advance while being promised that your investment is "guaranteed."

"Consumers always need to be vigilant about protecting themselves and their families when they consider any kind of loan, advance or investment," said Lisa Dedden Cooper, Manager of Advocacy for AARP Michigan.

What You Need to Know Before Getting a Pension Advance or Loan

- **Not all pension advances or loans are legal.** There are Michigan laws that prohibit the assignment or sale of State or local pensions. There are also federal laws that either prohibit or restrict the assignment or sale of military, federal employee and private employee pensions. The way the pension advance is structured as well as the interest rate will determine its legality. Learn about the structure of the pension advance and determine if the advance is legal before agreeing to one.
- **Before you get a pension advance or loan, know how much you will actually be paying.** To receive a lump sum, you will actually be receiving less, often much less, than the future sum of your pension payments. This is due to transaction costs, fees, and commissions of the pension advance salesperson. The APR for a pension advance typically ranges from 27% to 106% a year. Consumers need to find out how much pension income they are giving up to receive the lump sum payment.
- **Some advances require you to buy life insurance to name the company or the individual funding your advance as the beneficiary.** In the case of your death, life insurance payments would be paid to the beneficiary to cover the balance owed. This specific requirement is yet another cost of a pension advance; be sure you take this into account when you are calculating the total cost.
- **You cannot repay a pension advance early.** Repayments to the investor funding the advance depend on extracting your pension benefits for the full five to ten-year period you agreed to.
- **Know the potential tax implications.** Consider the tax implications of a pension advance, determining if the lump sum payment will put you in a higher tax bracket.
- **Don't agree to a joint account and get all the details in writing.** Make sure to never give a pension advance company or salesperson joint access to a bank account. Also, know exactly what you are signing up for and make sure you have everything in writing.

Less Costly Alternatives to Pension Advances

There are many less costly alternatives to receiving a loan that do not hinder your future pension payments. Consider a small loan from a bank or credit union, or from a licensed small loan company. Even a cash advance on a credit card may be cheaper than the 27% to 106% rate that a pension advance charges. If possible, talk to an independent financial advisor to look into alternatives and determine the impact of a pension advance on your future financial goals.

Investors - Be Aware of Hidden Risks, Fees and Fine Print from Salespeople

No investment is "guaranteed," and investing in someone else's pension advance carries numerous risks despite what a salesperson may tell you. Because of the increased risks of a pension advance investment, these salespeople may not disclose all the material facts of the investment. Ask them if the investment is properly registered and ask for company financial statements, a prospectus and other documents that disclose the risks of investing. Make sure the salesperson also discloses their own compensation for your investment, and how much he or she is keeping for commissions and fees. Check to see if the salesperson is registered to sell securities with state or federal regulators.

More Helpful Resources on Pension Advances

Read Schuette's full consumer alert, *Pension Advances Are a Shaky Deal for Borrowers and Investors Alike* by visiting the following link: <http://1.usa.gov/1L30bCc>. Additional information about pension advances is available from the Federal Trade Commission, "[Pension Advances: Not So Fast](#)". The American Association of Retired Persons (AARP) also provides [resources for pensioners](#).

How to File a Complaint with the Attorney General's Consumer Protection Division

Complaints about an advance or loan on your pension, or about investing in someone else's pension advance or loan, may be made to the Attorney General's Consumer Protection Division at:

Michigan Department of Attorney General
Consumer Protection Division
P.O. Box 30213
Lansing, MI 48909
517-373-1140
Fax: 517-241-3771
Toll free: 877-765-8388
www.michigan.gov/ag (online complaint form)

Contact the LARA Corporations, Securities, and Commercial Licensing Bureau

Complaints about an investment in a pension advance loan may be made to the Enforcement Division of the Corporations, Securities and Commercial Licensing Bureau, Michigan Department of Licensing and Regulatory Affairs at:

Department of Licensing and Regulatory Affairs
Corporations, Securities & Commercial Licensing Bureau
Enforcement Division
P.O. Box 30018, Lansing, MI 48909
517-241-9202
<http://www.dleg.state.mi.us/bcsc/forms/enf/lce-992.pdf>