RETIREMENT AT RISK; Nest egg to goose egg in no time; Brokers with rosy sales pitches lure unwary 401(k) holders. The results can be ruinous. Series: RETIREMENT AT RISK

[HOME EDITION]

Los Angeles Times - Los Angeles, Calif.

Subjects:	Risk assessment, Retirement plans, Securities markets, Pensions
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Date:	Dec 17, 2006
Start Page:	A.1
Section:	Main News; Part A; Metro Desk
Text Word Count:	2536

Document Text

Like many of his co-workers, Bradley Simon had put in decades at the Exxon Mobil refinery, building up a stout 401(k) retirement account and enviable pension benefits.

So he listened carefully to the investment broker's pitch that he should seize a head start on the golden years.

"He said, 'Why are you still working?' " Simon recalled. "He said, 'I can make you more money staying at home.' "

At 54, Simon quit his job making ethylene and turned over more than $700,000 to David L. McFadden, a broker for Omaha-based Securities America Inc. McFadden promised to keep the portfolio growing and told Simon that he could safely withdraw $65,000 a year for living expenses.

Then the stock market tanked. Simon's savings dropped even more than the market, 65% over two years.

Regulators later said McFadden defrauded his clients by exaggerating the returns they could expect under his program, steered them into overly risky investments with high fees and encouraged them to withdraw more than they could afford.

Simon had to sell his condominium on southwestern Louisiana's Vermilion Bay and go back to work, this time hauling oil equipment to distant cities with a used truck.

"That's my epitaph: 'This guy was stupid,' " said Simon, sitting at the kitchen table of his home in Vermilion Parish, deep in Cajun country. "I'm the rock star of stupid."

As guaranteed pensions are replaced by 401(k) plans, more and more Americans have been left to make their own investment decisions for their retirement savings. As Simon's experience shows, the results are sometimes tragic.

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

"The increasing responsibility on individuals to manage their long-term financial security has reached an urgent stage in American society," Blandin said. "Too many people are getting scammed; and too many people are becoming targets."

Regulators last month banned McFadden from working as an investment broker for life, saying his actions squandered the savings of dozens of Exxon Mobil Corp. retirees and others in the Baton Rouge area.

Common pattern

The case fits an increasingly common pattern: Workers with limited investment experience fall for rosy sales pitches. Required warnings are soft-pedaled or omitted. Brokers steer retirees into investments that pay lucrative sales commissions.

In New York, early retirees from Eastman Kodak Co. are pressing claims against Morgan Stanley. In Mississippi, Chevron Corp. workers are taking action against a broker for Prudential Financial Inc. In North Carolina, BellSouth Corp. retirees sued brokers from Smith Barney, now part of Citigroup.

Telecommunications workers in California's Central Valley, airline pilots in Texas and railroad workers in the Midwest say they have been victimized by brokers who persuaded them to stop working and live off their assets. Many other cases have been settled in secrecy.

"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," said Joseph P. Borg, president of the North American Securities Administrators Assn. "Securities regulators around the country are hearing from increasing numbers of investors."

After the retirees realize that they have made a calamitous mistake, there is often little they can do.

"Now they're 60. They can't get a job at the plant where they were working," said Peter J. Mougey, a Pensacola, Fla., lawyer who is representing Chevron retirees in the Mississippi case. "They're out mowing lawns. Who's going to hire them when they're 60 years old? The advice ruins them for the rest of their life."

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.

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

NASD, formerly the National Assn. of Securities Dealers.

'A little bit greedy'

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.

At seminars in a Baton Rouge seafood house, McFadden talked up the benefits of escaping the refinery, a sprawl of tanks and smokestacks near the Mississippi River, and the industrialized slice of Louisiana that some call "Cancer Alley."

"I think we were a little bit greedy ourselves," Simon said. "I bet some of us thought deep down inside we were taking too much money."

The problem, regulators say, was that McFadden shirked his obligation to warn clients about the risks of certain investments, especially those promising higher returns.

McFadden also told clients they could make sizable withdrawals from their nest eggs without compromising their financial security.

His sales presentations showed hypothetical customers withdrawing as much as 11.9% of their savings each year. Financial planners typically recommend withdrawing no more than 4% to 5% annually.

"Customers who followed McFadden's program," NASD said, "could not maintain the recommended withdrawal amounts without depleting their retirement accounts to levels that threatened their incomes."

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 criticized these products, saying it is cheaper to buy the mutual funds directly.

Simon gave McFadden $716,500 to invest by closing his 401(k) savings account and liquidating his pension benefits. Most of that nest egg was invested in a variable annuity with Nationwide Life Insurance Co. Simon paid annual fees that averaged about 2.5% of assets. Many mutual funds charge less than 1%.

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

All told, 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. McFadden employed a federal tax code provision that allowed penalty-free withdrawals from 401(k) plans while people were still in their 50s.

After workers started down that route, they could not cut back on the withdrawals without incurring huge tax penalties.

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

'Learn to spend'

McFadden was hard not to like. When a client's softball team won a national championship, McFadden sent him a framed poster of the team. He remembered clients' birthdays, hobbies and the names of their grandchildren.

McFadden also puffed up his credentials. He described himself as a certified public accountant, although his license had lapsed in 1987. In October, the Louisiana board of certified public accountants fined him $15,000 for misrepresenting himself.

"He's one of those guys who could sell refrigerators to an Eskimo," said Willard Beard, 62, a hazardous materials specialist whose life savings of $974,000 was reduced to less than $300,000 under McFadden's watch.

Dickie White, 63, recalls attending a seminar at the Drusilla Seafood Restaurant with his wife, Donna, in 1998, where McFadden served up free food and a PowerPoint presentation on the good life that awaited retirees.

"I looked up there and I said, 'Donna, that's us,' " White said. "Look at what we could get if we left Exxon right now. He told us we'd have to learn to spend our money."

Experts say people should move a large share of their savings into the relative safety of income-generating bonds as they get older. McFadden bet overwhelmingly on stocks. The approach seemed to pay off in the boom of the late 1990s, but then the bubble burst in 2000.

As worried clients raised questions, their advisor told them to stay the course: "I feel you should continue taking the $4,000 a month and enjoy yourself and let me worry about the market," McFadden advised retired nurse Pat Salatich in a May 2001 letter.

By then, Salatich's nest egg of $565,000 had lost half its value. A year later, McFadden put much of her remaining money in an especially risky mutual fund. When Salatich fired McFadden in November 2003, she had $73,000 left.

ProFund's Ultra OTC fund, where Salatich's money was invested, is an aggressive growth fund that aims to double the annual return of the Nasdaq 100 stock index.

The fund delivered returns of 233% in 1999 but lost 74% in 2000 and 69% in 2001.

"He told us, 'Don't worry,' " recalled White, who was invested in the same fund. "Everything was going to be fine."

Many of the retirees were crushed by the realization that their golden years would be much different than they had envisioned.

"I trusted him to know the stuff I was ignorant of," former Exxon Mobil technician Allen Pourciau, 63, said of McFadden. "That was his job."

Pourciau's 44-year marriage fell apart, and he now lives in a trailer. One refinery worker took a job as a Wal-Mart greeter. Another returned to his old plant -- this time to load snack machines.

After losing his fortune, Simon went knocking on doors, looking for work.

"People said I'd never find a job," he recalled recently, leaning brawny forearms on the table as his wife, Billie, served a Cajun feast of fried shrimp, seafood gumbo and soup of crawfish and corn.

They were wrong. Simon hired himself out as a "hotshot" trucker taking jobs on short notice. He worked without charge at first, just to get a foot in the door. Instead of enjoying a tranquil retirement, he was rumbling around the South in a 5-year-old truck, delivering oil equipment to Alabama, Mississippi, Texas and Oklahoma.

After selling his condo on the bay in 2003, Simon found an old wood-frame house for $5,000 and had it hauled down Louisiana Highway 697 to family land in Vermilion Parish, a pancake-flat landscape of small bayous, prairie and fields of sugar cane.

After two years, the toll caught up with him: "On a trip coming back from Corpus Christi, I felt like I had a telephone pole on my chest. What it is, I was breaking down."

Simon needed three stents in his heart. His hotshot days were over.

$22-million payment

It was around that same time that some of the Louisiana retirees began meeting with lawyers in a Baton Rouge office park not far from the fish house where McFadden drummed up his business.

For almost three years, the legal conflict unfolded. In May, a three-member NASD arbitration panel ordered Securities America to pay the retirees $22 million.

Securities America, a unit of Ameriprise Financial Inc., has paid $14.3 million in restitution. It has balked at paying the rest, which includes attorneys' fees and punitive damages.

Asked to comment on the dispute, Ameriprise spokesman Paul Johnson read from a statement: "We take this matter very seriously, and Securities America is actively looking for ways to enhance its compliance policies, procedures and oversight."

Separately, NASD fined Securities America $2.5 million for failing to supervise McFadden sufficiently.

McFadden declined to comment. During arbitration hearings, he disputed claims that he had failed to offer sufficient warnings or respond to client requests that he change strategies.

Simon hopes that others might be spared a similar ordeal.

"I want to make sure that people will understand there are a lot of sharks out there," he said. "These boys in these suits and those nice ties -- they aren't looking out for you."

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Tips for investors

If you have a 401(k) or similar account, here are some things to consider as you near retirement:

* Converting your account: Some employers allow you to keep your 401(k) after you retire, but many experts recommend moving your assets into an individual retirement account at a brokerage firm or a mutual fund company, where you probably would have more investment options. Any money withdrawn from a 401(k) is taxable at ordinary income tax rates unless it is reinvested in an IRA.

* Getting help: Investment brokers and financial planners often charge commissions on the investments you select or take a percentage of your assets as their fee. You can hire a fee-only financial planner who charges by the hour. Know how you are paying and be aware that some advisors might recommend investments based on commissions they stand to earn.

* Helping yourself: Investment advice is freely available online. The Times offers articles on its website under Investing 101 and Investing 201. Go to latimes.com/business and select Money Library. More can be found under Investor Tips & Tools. The nonprofit Investor Protection Trust has advice at www.investorprotection.org. The websites of NASD (www.nasd.com) and the Securities and Exchange Commission (www.sec.gov) are useful.

* Allocating assets: Your portfolio should be weighted more toward bonds and less toward stocks as you get older. One rule of thumb: Subtract your age from 100 and put that percentage in stocks. For a 60-year-old, that would be 40% in stocks and 60% in bonds. With people living longer, some advisors say this formula is too conservative. Review your situation, perhaps with an advisor, to determine the right mix.

* Withdrawals: Many experts recommend that retirees take out no more than 4% to 5% of their savings annually so they don't outlive their nest eggs. This can vary, depending on individual circumstances.

Source: Times research

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Know your broker

Resources for checking on investment brokers:

* NASD, the brokerage industry's self-regulatory organization, has information on more than 660,000 brokers and 5,000 investment firms, including disciplinary actions, customer complaints and criminal charges. Go to the websites www.nasdbrokercheck.com or www.nasd.com or call the toll-free BrokerCheck hotline at (800) 289- 9999.

* For information from the

Securities and Exchange Commission, visit the website

www.adviserinfo.sec.gov or go to www.sec.gov and select Investor Information.

* For background on brokers in California, call the Department of Corporations toll-free at (866) 275-2677. The agency's website, www.corp.ca.gov, also provides links to relevant NASD and SEC Web pages.

Source: Times research

Credit: Times Staff Writer

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