



July 30, 2006

## Yikes, Here Come The Retirement Raiders

By **TOM LAURICELLA**  
July 30, 2006

People approaching retirement with a bundle of money face a daunting task: Dealing with the armies of financial advisers who want to help them handle that nest egg.

After a lifetime of getting regular paychecks, it's certainly scary to know that your retirement savings must provide enough money to live on for 20 or 30 years, or even longer. So it's not surprising if your instinct is to seize upon fresh advice and make big changes in your investments.

Instead, take your time. You've got plenty. Even savvy investors can find themselves grappling with pitches for complicated products they don't fully understand. By saying 'yes' in such cases, you can end up doing more harm than good.

Michael Wenzel, a former software engineer now 59 years old, talked to several advisers last summer, when he weighed accepting an early-retirement package. He was intrigued by one pitch for an investment offering "guaranteed income for life," and returns tied to stocks but without stock-market risk, so he could "sleep well at night." This kind of investment, an equity index annuity, was also suggested by two other advisers.


### "A Siren Song"

On further research -- and despite having traded stocks, bonds and even options in his investment accounts over the years -- Mr. Wenzel was taken aback by the products' complications.

Ultimately, Mr. Wenzel decided the index annuities "were a siren song" that seemed to offer what retirees crave but that came with too many caveats and fees that would eat into his savings. Instead, a portion of his savings went into broadly diversified low-cost exchange-traded stock funds, in a portfolio managed by an adviser paid a flat hourly fee.

Among the lessons here for other retirees: While complicated products, including many types of annuities, work well for some people, you can also decide to just say no. If you roll money from your 401(k) at work into an individual retirement account, as many people do, you might initially invest in similar securities, such as a mix of stock and bond mutual funds.

#### DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit: [www.djreprints.com](http://www.djreprints.com).

- See a sample reprint in PDF format.
- Order a reprint of this article now.

Start a **FREE**  
trial of the  
Online Journal



Subscribe to  
The Print Journal



#### Free US Quotes:

- Symbol  
 Name

Get **FREE E-Mail** by topic

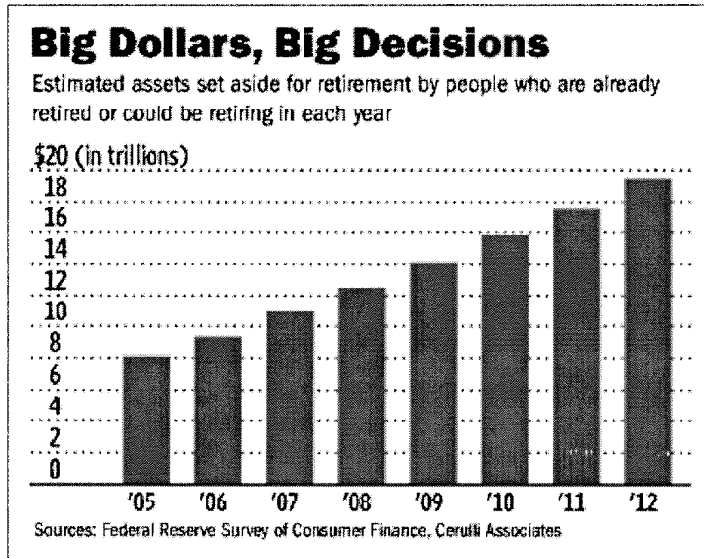
Check Out our **Mobile & Wireless Services**

#### DIGEST OF EARNINGS

Details of the latest corporate earnings reported for **FREE**.

Understand how much an adviser is being paid and by whom; if commissions aren't deducted directly from your account, that adviser may be being paid through fees within your investments which reduce your returns.

"I see a lot of emotional plays being made to folks" who are about to retire, says Allan Roth, a Colorado Springs, Colo., financial adviser who is now managing some of Mr. Wenzel's money. While the fear of running out of money during retirement can be a legitimate concern, Mr. Roth says, the question is "are those emotions being used to sell them something that will solve that concern -- or make it worse."



He suggests getting an adviser to explain in writing why an investment or strategy is suitable for you -- backed up by hard data.

When it comes to retirement planning, missteps can be dire. That was the case for a group of 32 former Exxon Mobil employees who received advice from David McFadden, a broker with Securities America, a unit of Ameriprise Financial. Mr. McFadden advised most of the 32 that they had enough money to retire early. He pledged a financial plan that would allow them to "sleep at night" and said their

"heirs will be fighting over all the money," according a complaint they brought against Mr. McFadden and Securities America.

### The Reality Got Ugly

Instead, some of the Exxon Mobil retirees, who live mainly in Baton Rouge, La., found themselves having to sell their homes and go back to work after the stock market collapsed.

Among other allegations, the group said they were directed to inappropriate investment selections within high-fee annuities that paid Mr. McFadden lucrative commissions -- and were advised to withdraw far more from their retirement accounts each year than most experts say is prudent.

In May, a National Association of Securities Dealers arbitration panel awarded the former Exxon Mobil employees \$22 million, one of the largest awards of its kind. Securities America and Mr. McFadden are challenging the decision.

With complicated products, even people who think they know what they are doing can make mistakes.

Take immediate annuities, which are insurance offerings in which a lump-sum investment is converted to a guaranteed stream of payouts. Kathleen Piaggese, a Scarsdale, N.Y., financial planner, says some investors are attracted to the idea of getting their payouts over a precise period -- such as 10 years -- because the individual checks are bigger than if they signed up for an

annuity that paid them for life.

But by taking an annuity with a fixed payout period, the investor is defeating the main benefit: never outliving the income, says Ms. Piaggese. For that reason, she prefers what is known as a "joint and survivor" option, in which annuity payments continue to be made to the survivor when one spouse dies.

Another misstep retirees make with annuities is paying too much attention to the juicy monthly payments and not investigating whether those payments will be adjusted for inflation, says Scott Dauenhauer, a financial planner in Laguna Hills, Calif.

A fixed payment "is guaranteed to buy you less and less for the rest of your life," he notes, so it's crucial for annuity buyers to also have other investments working to keep up with inflation.

### **Dig Into the Details**

It's vital for investors to be sure they understand the inner workings of a complex investment. In the case of the equity index annuities that retired engineer Mr. Wenzel considered, the Web site of Arizona insurance broker David T. Phillips advertises "unlimited" potential gains. But index annuities often have an "index cap rate" that limits the return an investor can earn even if stock prices soar.

In an interview, Mr. Phillips acknowledged that in cases where there were index caps, there was not "unlimited" potential for gains. He says his clients who invested in index annuities roughly 10 or 11 years ago have earned about 7% a year. (By comparison, the Standard & Poor's 500-stock index has returned 11.4% a year since the start of 1995.)

There are other potential restrictions with these annuities, such as requirements that investors hold the annuities for long periods of time or else face withdrawal charges. Mr. Phillips's company sold one that charged a withdrawal fee unless an investor held the annuity for 15 years. That fee started at 19% of the amount withdrawn and declined to 5%. The withdrawal-fee details were provided in footnotes to a marketing brochure.

**Email** [forum.sunday03@wsj.com](mailto:forum.sunday03@wsj.com)<sup>1</sup>

**URL for this article:**

<http://online.wsj.com/article/SB115420912765421478.html>

**Hyperlinks in this Article:**

(1) [mailto: forum.sunday03@wsj.com](mailto:forum.sunday03@wsj.com)

**Copyright 2006 Dow Jones & Company, Inc. All Rights Reserved**

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our **Subscriber Agreement** and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit [www.djreprints.com](http://www.djreprints.com).