



# Protecting Yourself: Avoiding Fraud, Scams, and High Fees



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# Today's meeting

- Guarding against identity theft
- Managing credit security and access
- Recognizing financial scams
- Understanding high fee financial products



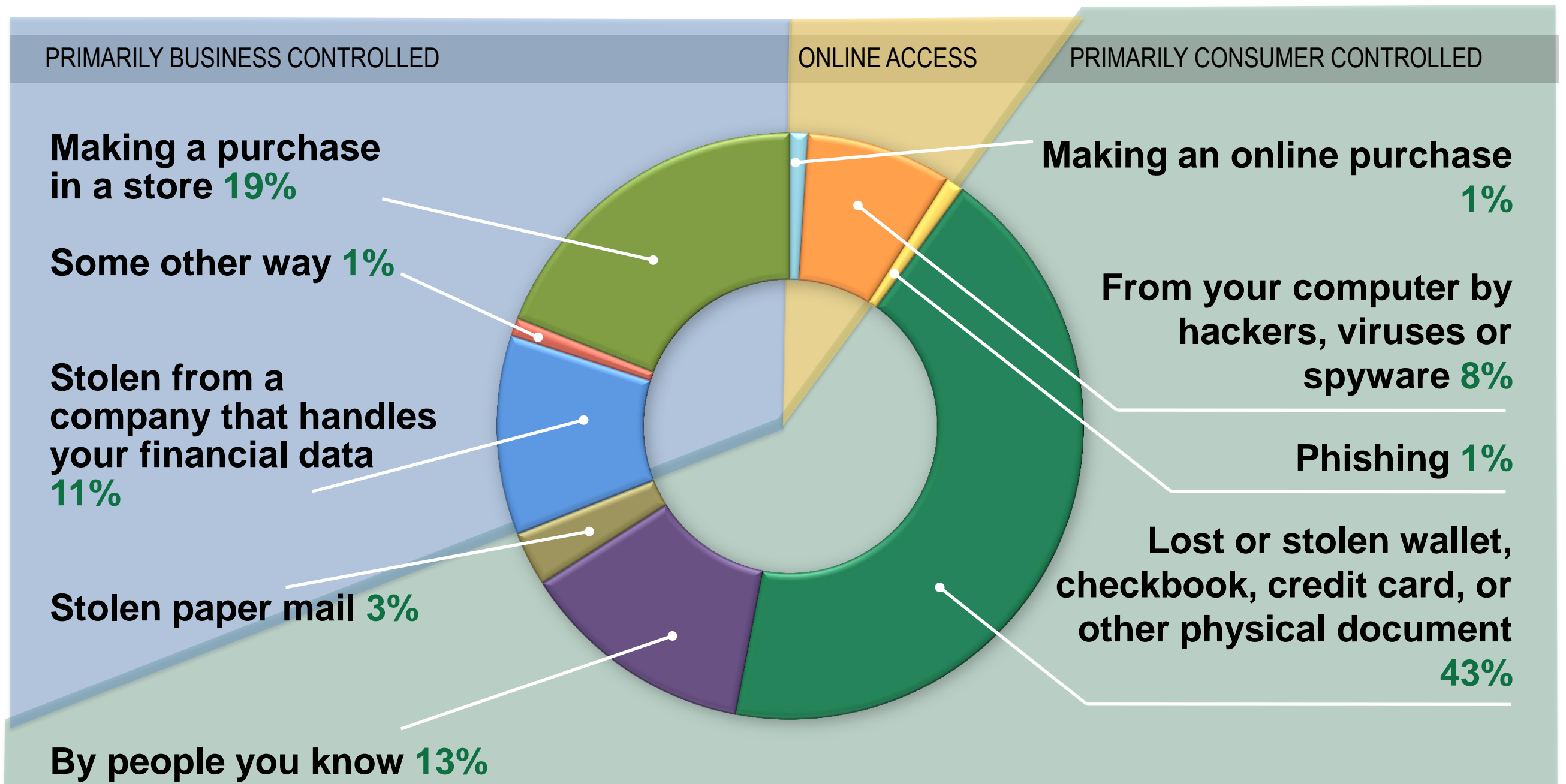
# 11.1 Million Americans are Victims of Identity Theft Annually

- 4.3 million fraudulent accounts were opened by thieves
- \$54 billion lost from fraud
- 13 percent of victims knew the thieves

Source: Javelin 2010 Identity Theft Report



# How Thieves Get Your Identity



Source: Javelin Strategy & Research 2009

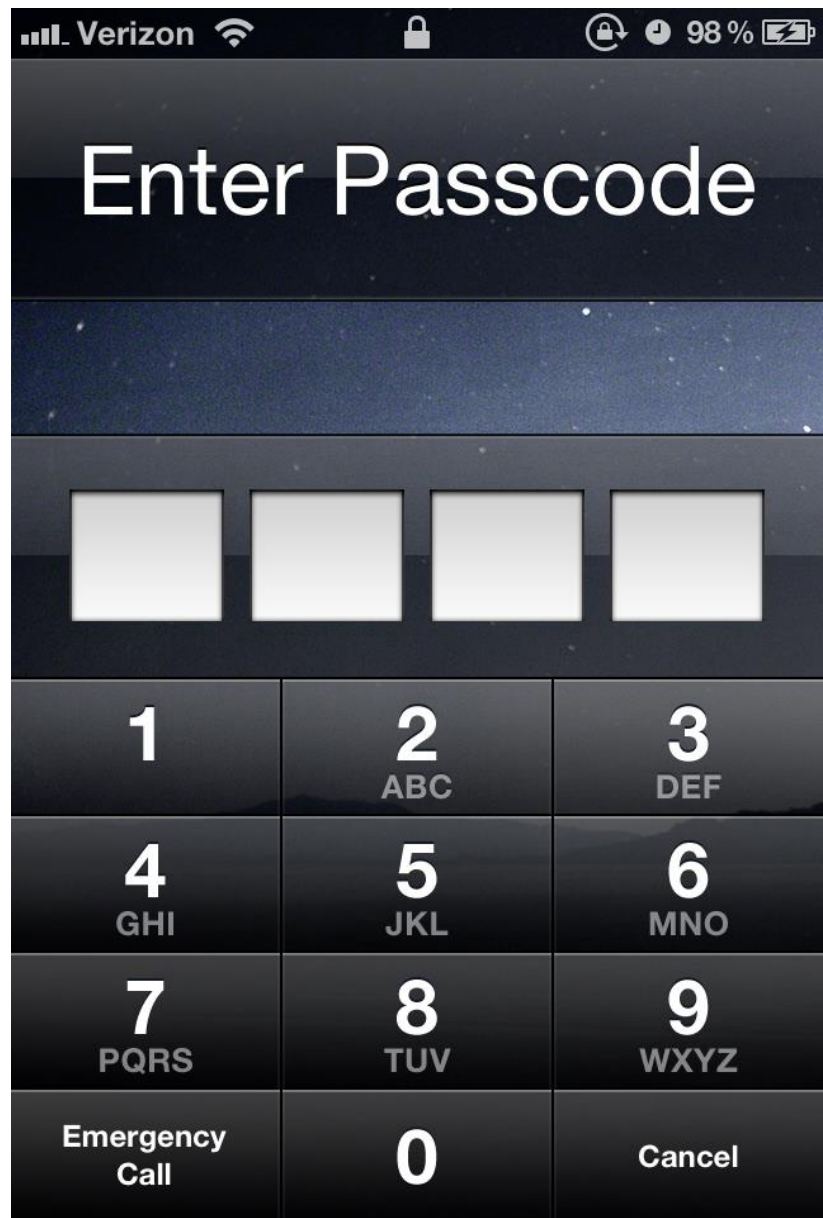


# Physical Security = 65% of thefts

- Buy (and use!) a cross-cut shredder
- Protect credit card information
- Watch the clerk when they swipe your card.
- Keep Social Security card at home or in safe deposit box
- When traveling, keep wallet in front pocket



# Electronic Security = 10% of thefts



- Passcode your phone!
- Password protect computers & tablets
- Virus Scanners - AVG, McAfee, Norton
- Never use a debit card online.



# Managing Credit Access



# Check Your Credit

- **[annualcreditreport.com](http://annualcreditreport.com)**

or contact bureaus directly for credit scores:\*

- **[experian.com](http://experian.com)**
- **[equifax.com](http://equifax.com)**
- **[transunion.com](http://transunion.com)**
- **[innovis.com](http://innovis.com)**
- **[choicetrust.com](http://choicetrust.com) / Lexis-Nexis**

\*Fee will be charged





# Opting Out of Credit Sharing

- Go to [optoutprescreen.com](https://optoutprescreen.com) or call 800-5-OPTOUT
- Free, federally mandated system allowing you to restrict companies who you do not do business with from accessing your credit scores and report
- "Opting out" reduces the amount of printed credit offers you receive, but does not limit your ability to apply for credit
- Consider "encouraging" your teenagers to opt out to resist credit card temptation



# Protect Your Credit

## **Security freeze (indefinite duration, most restrictive)**

- Credit file cannot be shared with potential creditors
- Cannot open new credit account
- Can request a temporary lift if you need new credit

## **Fraud alert (90 day duration, less restrictive)**

- A comment on your credit report
- Can prevent some fraudulent transactions



# Identity Theft of the Dead

- Identity thieves look for pertinent information in obituaries
- Thieves may hack personal computers or search databases of hospitals, financial institutions and the Social Security Administration
- They use this information to gain access to accounts, obtain credit and/or assume a new identity
- In 2010 the IRS paid \$12.1 million in fraudulent tax refund claims based on stolen Social Security numbers of 5,108 dead people





# What Can I Do?

- Only put general information in the obituary
- Report the death to all financial institutions and credit reporting agencies
- Close all credit cards of the deceased immediately
- Forward their mail to your address
- Be careful of what you throw away
- Monitor your own personal information and accounts
- Beneficiaries are targets too





# Identity Theft Recovery Resources

- LifeLock and other paid services
- Riders to existing homeowners or renters insurance policies
- AllClearID for iPhone and iPad (and Android soon!)
- FBI Child ID





# Common Scams



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*“If it Sounds to Good to be True,  
It Probably is!”*

# The Ponzi Scheme



- Promises extreme returns
- Current investors paid with money from new investors
- Anyone heard of Bernie Madoff?

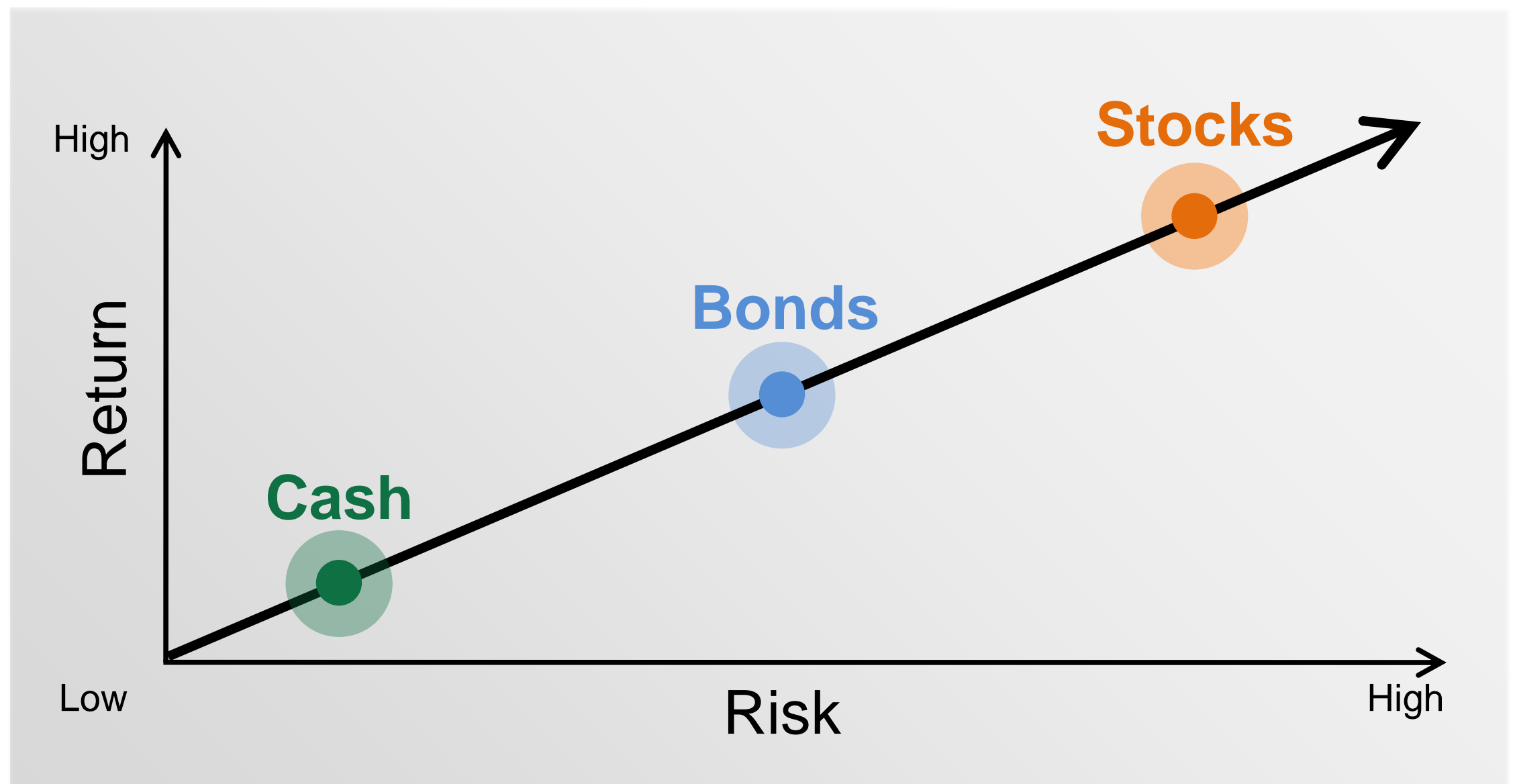


# Return and Risk

1926 to 2011		
<i>Investment</i>	<i>Average Return</i>	<i>Standard Deviation</i>
<b><i>Small Co. Stocks</i></b>	<b>11.9%</b>	<b>32.5%</b>
<b><i>Large Co. Stocks</i></b>	<b>9.8%</b>	<b>20.3%</b>
<b><i>IT Govt. Bonds</i></b>	<b>5.4%</b>	<b>5.7%</b>
<b><i>US T-Bills</i></b>	<b>3.6%</b>	<b>3.1%</b>
<b><i>Inflation</i></b>	<b>3.0%</b>	<b>4.2%</b>

Source: Ibbotson Associates

# Return and Risk



# Overpayment Scam or "Nigerian Scam"

- You receive a check for goods sold over the Internet
- The check amount exceeds the cost of your item
- The buyer tells you to cash the check and send him/her the difference
- The check is fake, you lose the money you sent since they deposited your check before their check came back fake



# Internet "Phishing"

- Phishing: attempting to trick you into going to a different website than you anticipated, and gathering information about you
- Always "mouse over" a link before you click it to make sure it goes where it says it does
- Phishing sites will often look like "[yahoo.com.cn](http://yahoo.com.cn)" or otherwise similar to a well known site
- Country codes like Russia (.ru), China (.cn), Brazil (.br) are red flags - don't click unless you're corresponding with a friend from or visiting those countries
- *If you doubt the source, just type in the website manually instead of clicking!*





# Loan Modification Scam

- A company offers to “refinance” your current fixed rate home loan to a new loan with an extremely low interest rate and low monthly payments
- You refinance the loan without reading the actual documents to understand the loan arrangement and pay thousands of dollars in additional closing costs
- After the first year your interest rate skyrockets and your payments are potentially more than your previous mortgage payments

The loan was actually a 1% 1 year Adjustable Rate Mortgage (ARM) with Variable interest rates after the first year. In addition, your broker added additional closing costs that were hidden in the refinance agreement.



# Loan Modification Scam Lessons

- Your "payment rate" can be less than your "interest rate" in a negatively amortizing loan
- Your initial monthly payment can increase later if you sign up for a "teaser rate" loan
- You may not be able to refinance your loan if the value of your property drops
- The story of the "NINJA" loans of the 2000's





# High Fee Financial Products



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# Payday Advance Loans

## Receive an advance on your paycheck - what could possibly go wrong?

- You cut a postdated check to the loan company, and you have option of coming in on your payday or let them deposit it then.
- Short term fees and interest typically exceed 300% APR!
- If your check bounces or you roll it into a new loan, you will incur additional fees and penalties, trapping you in a payday loan cycle
- Payday loan schemes are a 40 billion dollar a year industry in the US alone!

Source: USA Today, 2006





# Car Title Loans

**Similar to payday loans, but now you put your car at risk!**

- Short term loans taken out with your car title as collateral
- If you cannot or do not pay back the loan at the end of the short period of time, the loan company can (and will) repossess your vehicle!
- Loan with fees and interest also typically exceed 300% APR!
- Hint: Educate your children about these two predatory loan types!





# Deferred Variable & Indexed Annuities



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# Deferred Variable Annuity

**A contract with an insurance company that will yield payments at some future date**

- Investment is typically invested in funds similar to mutual funds
- Avoid taxes on investment earnings until you withdraw money
- Inherit full value of contract despite market fluctuations (if you have never withdrawn funds)

Source: U.S. Securities and Exchange Commission



# Pros & Cons of Deferred Variable Annuities

## Pros

- Stock market participation
- Death benefit
- Guaranteed income options
- Tax-deferral

## Cons

- Higher Fees
- Surrender periods
- Surrender charges
- Taxed as ordinary income





# When Might Deferred Variable Annuities Be Appropriate?

## Investors who:

- Do not need money in the near future
- Do not already enjoy tax deferral in 401(k), IRA or other tax-deferred account
- After maxing out all employer (or self-employed) retirement plans and IRA options, are still looking for additional tax-deferred savings



# Cautions for Deferred Variable Annuities

- Companies reserve the right to raise fees anytime
- Surrender periods may lock up money for 10 years or more
- Many contracts require annuitization, or annual withdrawals based on your life expectancy
- Once you annuitize you give up your asset to gain monthly payments
- Check out company and advisor's licensure and complaint records at [brokercheck.finra.org](http://brokercheck.finra.org)



# Deferred Variable Annuity with Guaranteed Income Rider

Return in sub-account*	<b>9.8%</b>
<b><i>Admin/portfolio fees, up to*</i></b>	<b><i>(4.64)</i></b>
<b><i>Guaranteed income option*</i></b>	<b><i>(0.65)</i></b>
<b><i>Net return</i></b>	<b><i>4.51%</i></b>

\* Illustrative purposes only. All figures are annual. AXA Equitable Accumulator plus variable annuity, additional fees may apply.

# Historical Returns

1926 to 2012	
<i>Portfolio</i>	<i>Average Return</i>
<b>100% Stocks</b>	<b>9.8%</b>
<b>70% Stocks / 20% Bonds / 10% Cash</b>	<b>8.7%</b>
<b>50% Stocks / 40% Bonds / 10% Cash</b>	<b>7.9%</b>
<b>30% Stocks / 50% Bonds / 20% Cash</b>	<b>6.7%</b>
<b>0% Stocks / 80% Bonds / 20% Cash</b>	<b>5.0%</b>

Source: Ibbotson Associates (annual holding period) Stocks = S&P 500, Bonds = Intermediate-term gov't bonds, Cash = US 30-day Treasury Bills.

\* Past performance is not indicative of future results.



# Indexed Annuities\*

- A special class of annuities that yields returns on your contributions based on a specified equity-based index.
- Insurance companies commonly offer a provision of a guaranteed minimum return with indexed annuities, so even if the stock index does poorly, the annuitant will have some of his downside risk of loss limited.
- However, it also is common for an annuitant's yields to be somewhat lower than expected due to the combination of caps on the maximum amount of interest earned and fee-related deductions.

\*Investopedia.com



# Cautions for Indexed Annuities

- All of the cautions of the Deferred Variable Annuity apply.
- Check your state's insurance board for information about the agent and company.



# Cautions for Indexed Annuities cont.

- The agent doesn't have to be a securities licensed registered representative.
- To find out if someone has securities licenses, or to check their experience level as well as any complaints lodged against them, go to [brokercheck.finra.org](http://brokercheck.finra.org)



*“Variable or equity-indexed annuities are high commission vehicles with long holding periods and gigantic early withdrawal penalties, making them **inappropriate for seniors.**”*

CONSUMER REPORTS, FEBRUARY 2007





# Insurance Company & Pension Plan Annuities are Different



# Comparison of Variable & Pension Plan Annuities

<b>Insurance annuities:</b>	<b>RS Plan:</b>
<p><i>Not insured by any federal government agency</i></p> <p><i>No guarantees outside of insurance companies</i></p> <p><i>May be subject to market risk and participation rates</i></p>	<p><i>Insured by the Pension Benefit Guaranty Corporation</i></p> <p><i>Guaranteed by your employer and the RS Plan Trust</i></p> <p><i>Not subject to market risk</i></p>

# Summary

- Practice physical security!
- Keep your software up to date!
- Check your credit at least once a year!
- If it sounds too good to be true, it probably is!
- The easiest investment gain you'll ever make is the fee you don't pay!





# We Are Here to Help You



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I welcome your feedback.

Please fill out an evaluation of today's program.

Thank you!