

Reproduced with permission from Pension & Benefits Reporter, 41 BPR 1451, 7/15/14. Copyright © 2014 by The Bureau of National Affairs, Inc. (800-372-1033) <http://www.bna.com>

## *Plan Distributions*

### **Pension Advance Transaction Firms Use ‘Questionable’ Practices, GAO Report Says**

**A**n undercover Government Accountability Office investigator looking into firms that offer pension advances received offers with effective interest rates that mostly ranged from 27 percent to 46 percent, at times far exceeding the legal limits set by states on the interest rates assessed for various types of personal credit, the GAO said in a new report.

The investigator made undercover phone calls to 19 pension advance companies, and six of the companies made a total of 99 pension advance offers to fictitious residents of four states, the report said.

The GAO had identified 38 pension advance companies, but “conducted a more-detailed nongeneralizable assessment of 19 of these companies selected based on factors such as marketing claims and presence of or lack of complaints,” said the report, “Pension Advance Transactions: Questionable Business Practices Identified” (GAO-14-420), released July 7.

The report didn’t name the companies.

Almost all of the offers (97 of 99) had effective interest rates of 27 percent to 46 percent. That was the range in Maryland, which involved 63 of the offers. The state limit for personal credit interest rates is 24 percent, the report said.

The investigator also posed as a fictitious resident of California, Florida and Texas, it said.

Some pension advance companies market their products as “a quick and easy financial option” that retirees can use when in financial distress or for other purposes, the report said.

“However, pension advances may come at a price that may not be well understood by retirees,” the report said.

“As illustrated by examples in this report and by related consumer complaints and lawsuits, the lack of transparency and disclosure about the terms and conditions of these transactions, and the questionable practices of some pension advance companies, could limit consumer knowledge in making informed decisions, put retirement funds at risk, and make it more difficult for consumers to file complaints with federal agencies, if needed,” it said.

The GAO said it was asked by members of the Senate Health, Education, Labor, and Pensions Committee to review these business practices because of “recent concerns about companies attempting to take advantage of retirees using pension advances.”

The report defined a pension advance as an up-front lump sum provided to a consumer in exchange for a certain number and dollar amount of the consumer’s future pension payments plus various fees.

The report also identified such practices among pension advance firms as targeting financially vulnerable consumers with poor or bad credit, and failing to disclose relationships with affiliated companies, among other strategies.

The GAO recommended that the Consumer Financial Protection Bureau and Federal Trade Commission review pension advance practices and exercise oversight or enforcement as appropriate, and coordinate with other agencies, such as the Department of Labor’s Employee Benefits Security Administration and the Pension Benefit Guaranty Corporation, to increase awareness of pension advances.

**Comments.** “‘Questionable’ seems like a tactful way to describe these practices,” Nancy Hwa, communications director for the Pension Rights Center in Washington, told Bloomberg BNA on July 7 in an e-mail.

“‘Shady,’ ‘deceptive,’ and ‘predatory’ are more like it. The report raises a lot of important concerns about pension advances. The mere fact that they’re marketed to people with poor or bad credit should be enough to set off alarm bells,” she said.

Arielle Cohen, a staff attorney with the National Consumer Law Center in Boston, told Bloomberg BNA on July 8 that these businesses haven’t received greater attention because they aren’t high-volume.

The NCLC has sued two pension advance companies, both of which had only hundreds or up to 1,000 customers, she said.

Nevertheless, she said that “one of the main points to remember about these scams is that they are in fact scams. They’re illegal under existing law.”

Marc Hopkins, spokesman for the PBGC, said that “we understand that cashing in a pension for a large sum of cash is tempting, but doing so increases the risk that dollars meant for retirement will be quickly spent on today’s needs. We advise anyone faced with this choice to carefully consider giving up lifetime income for a short-term infusion of cash.”

The GAO report was requested by Sens. Tom Harkin (D-Iowa), chairman of the HELP committee, and Lamar Alexander (R-Tenn.), ranking member of the panel.

New York and Massachusetts also launched investigations into pension advance companies in 2013, which were still under way when the GAO concluded its study in April, the report said.

By SEAN FORBES

To contact the reporter on this story: Sean Forbes in Washington at [sforbes@bna.com](mailto:sforbes@bna.com)

To contact the editor responsible for this story: Phil Kushin at [pkushin@bna.com](mailto:pkushin@bna.com)

---

*Text of the GAO report is at <http://op.bna.com/pen.nsf/r?Open=sfos-9ltnuq>.*