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DEVILED NEST EGGS
SCAM ALERT

John and Carmen Migliaccio were looking for financial security in their retirement years. Their insurance agent said he had the answer: an annuity—essentially a form of retirement insurance that provides, upon maturity, a regular, steady stream of income, much like Social Security.

So, at his urging the Migliaccios in January 2003 moved $43,000 from other investments into a tax-deferred annuity. But when John died in May 2004, just weeks shy of his 75th birthday, his widow learned the truth about their nest egg. The payments weren't scheduled to begin until January 2045—when John, who had endured several small strokes and was battling Alzheimer's, would have been 115 years old.

Carmen, as the beneficiary, now has access to money in the annuity account, but that's little solace. "We were counting on that money to help us get along in our retirement," says the Palm Desert, Calif., resident. "He was a sick man, and they took advantage of us."

"That's the typical scam," says Barbara Jones, an AARP senior attorney. Jones cautions that long-term investments are not a good option for many older people, who may need fast access to their money for medical care or other emergencies. Some kinds of annuities don't allow withdrawals for 15 years or more—and if money is taken out earlier, a hefty "surrender charge" can be as high as 22 percent on the amount withdrawn.

"These products are actively being sold to people 65 and older, but in many cases the stream of income they are promised doesn't start until after their life expectancy is over," says Claremont, Calif., attorney William Shernoff, who recently brought two class action lawsuits against insurance companies selling these products, charging that they dupe retirees of billions of dollars.

The way these annuities are sold is also under fire. In February the California attorney general and the insurance commissioner sued several financial planning firms for luring older residents to free seminars that purportedly offered "expert" advice on living trusts and then peddling annuities to them. The Pennsylvania attorney general filed a similar lawsuit, and other states are investigating such practices, which can reap a 15 percent commission for sales agents.

The come-on for these products is a high "teaser" introductory rate of return for the first year, says Adam Bold, chief investment officer of the Mutual Fund Store and host of a nationally syndicated radio show. "They may pay 12 percent in the first year, but then it goes to a floating rate, usually the minimum of about 3 percent—what you'd get with a CD."

Financial advisers say that certain types of annuities may be appropriate for certain, usually younger, investors, but potential investors need to check out the insurance companies and the fees before committing. (If you already have an annuity and were not told of its restrictions and risks, contact your state attorney general or state insurance commissioner.)

Financial experts generally have one word of advice for people over 65 planning to buy a long-term annuity:

Don’t!