



When you start getting AARP letters, you will also start being asked out for “free lunches.”

How much does that “free” lunch really cost?

“Rumors and suspicions” also known as “An Invitation to a Free Informational Lunch.” *What could happen to you:*

Boston Globe Report # 1 July 13th, 2005.

Bank of America announced that they will offer refunds to elderly customers who bought variable annuities over the past two years. Massachusetts Secretary of State William F. Galvin, who initiated the suit against Fleet Bank prior to its acquisition by B of A said: “*Elderly customers have been targeted and hunted down by banks.*”

A Surprising Fact

In 2004 over \$130 billion (that's \$130,000,000,000) of variable annuities were sold in the US. As of March 2005, over \$1.5 trillion worth of assets were in variable annuities. “Sold” is an interesting descriptor, since it is doubtful if anyone wakes up in the morning and says: “*Today I'm going to buy an insurance product that will cost me a lot in commissions, lock me in with bogus “surrender charges” for a long time so I can't sell and usually produce substandard investment results.*”

Boston Globe Report # 2

July 24th, 2005

Citizens Financial Group agreed to offer refunds to all its elderly customers who bought variable annuities in the last two years, becoming the second financial firm in two weeks to concede to Massachusetts regulators that such investments may not have been appropriate to sell to senior citizens. In addition to offering the refund, without penalty, to customers who were 75 or older when they bought a variable annuity in 2003 and 2004, Citizens' securities brokerage also agreed to pay a \$3 million fine and admitted to Galvin's findings that it engaged in “unethical or dishonest conduct.” *“It's an acknowledgment on the part of the bank that there was wrongdoing and that it was deliberate,”* Galvin said.

Observations.

All of you over that age when you start getting AARP membership information sent to you will also be getting lots of these kind of flyers and postcards in the mail:

Do you have enough money for your entire retirement? (This is superim-

posed on a photo of a smiling senior couple on the beach, walking their dogs and holding hands). Call Linda K at (888) 123-4567 for a free consultation and learn how you can safeguard 100% of your principal. A very small footnote says: “Annuities are issued by Allianz Insurance Company.

“Little Known Money Traps That Routinely Cost Many Retirees Thousands.”

This informational dinner promises to reveal the secrets of these money traps and is free too! Call quickly and reserve your seat. This is not a sales presentation and attendees will get a special bonus called the Retired Taxpayers Awareness Guide. Dinner will be served promptly at 6 PM. Your choice of Prime Rib, Stuffed Haddock or Baked Chicken. Call Charles K at (888) 123-4567 to make your reservation today!

We get three or four of these kind invitations a week and they usually just go in the wastebasket. After all, as CFP professionals we know there is no free lunch and that risk and reward are joined at the hip-you don't get one without the other. But



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We've done the math on these "free lunches" and it turns out the only true free lunch programs are in grade school.

we've been thinking about all the other folks out there facing the incredible complexity of their retirement. The investment world is treated by the media as a contact sport and too many "advisors" play upon the fears created by confusion and complexity.

It is worrisome that these "free" seminars must be working—otherwise there wouldn't be so many of them offered. So we did the math.

The Real Cost of a Free Dinner

Assume 5,000 invitations are sent out to people data-mined as living within desirable zip codes and this has a 1% response rate – 50 people say they will come. Printing and mailing costs are usually paid for by the insurance company or broker/dealer.

Assume half of the 50 responders show up at each of the nights this is offered. 25 people eat dinner at a local restaurant that costs \$25 per head. That's \$625.

There is always a "take-home" gift such as the "Retired Taxpayer Awareness Guide". Assume these cost \$20 to prepare & print. That's another \$500.

There will usually be a pre-

sender and an administrative assistant there. Presenter time is free (this is sales overhead) but the administrator will be getting paid \$25 per hour for four hours work or \$100.

Total costs are about \$1,225 per night or \$2,450 for two shows. Do this 8 times a year in different parts of the area. That's a \$20,000 cost to market face to face to 400 motivated prospects. Assume 20% of them actually do take the next step and sign up for a follow-on meeting and half of those 80 people become clients and put their retirement future in the salesperson's hands.

So what level of sales is needed to make these seminars profitable? Well if an annuity has a 5% sales commission (and that's about average), then selling \$400,000 of these will breakeven on the \$20,000 marketing cost. Assume these 40 new clients (*which, remember are targeted as being relatively affluent by their zip code*) each invests \$250,000 in the wonderful new "low risk" variable annuity being recommend by the advisor. That totals \$10 million in sales from those eight seminars or \$500,000 in commissions in the first year. Plus this generates another \$25,000 in suc-

ceeding years in trailing 12-(b)1 sales commissions. Not a bad deal for the salesperson and the insurance sponsor! Know you know why you get so many of these postcards and free lunch offers for an "Informational meeting".

Buyer Beware—If you bite on that "free" informational lunch invitation, you may end up with what Bank of America and Citizens admitted they sold to those elderly retirees - "*An insurance product that costs me a lot in commissions, locks me in with bogus "surrender charges" for a long time so I can't sell and usually produces substandard investment results.*"

We suggest those enticing invitations should continue to end up in your wastebasket.

