



Military Pension Advance ALERT

Armed services members, military retirees and potential investors should exercise caution before engaging in a pension advance plan.

Persons receiving monthly pensions, especially military and government retirees, may be targeted by salespeople offering an immediate lump sum in exchange for rights to future pension or disability payments. Such cash payouts typically are significantly lower than the total value of the future income stream. In addition, some lenders require participants to purchase life insurance policies with the lender as beneficiary.

Pension advance plans may not be allowed, depending on the source of the pension. The assignment of U.S. government pensions and disability benefits is prohibited by federal law.

Questions to consider before entering a pension advance plan:

- **Is the transaction legal?** Federal law prohibits the assignment of pension or other federal benefits to a third party. Before selling your pension, you should check with your pension administrator to see what restrictions apply under federal and state law. You also may wish to consult an attorney.
- **What is the actual cost of the transaction?** Ask for the “discount rate” that the lender will apply to your income stream to arrive at your lump-sum payment amount. The larger the discount rate applied to your pension payments, the lower its value in today’s dollars. Also factor in commissions, fees and other administrative costs. Compare costs to alternatives such as a traditional bank loan.
- **Will you be required to buy life insurance?** Some pension advance companies will require you to buy a life insurance policy naming them as beneficiary. If you die before all the payments you assigned have been received, funds will be paid out from the policy to cover any remaining balance. Note that purchasing a life insurance policy will add to your transaction expenses and reduce your payout.
- **What are the tax consequences?** The lump-sum payment you collect may be taxable and can put you in a higher tax bracket. Consult with a tax advisor for information and advice.
- **Can you cancel the transaction?** Some pension advance companies might not let you cancel once you’ve completed the deal. Make sure you ask the company about its cancellation policy before you sign the contract.
- **Is the seller properly registered with a state or federal regulator?** Check with the appropriate regulator to verify the registration status of the financial professional or firm offering the product.

Always check with the Department of Business Oversight on a company’s license BEFORE entering into an agreement regarding financial services.

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