



Pension Advance Schemes

From the Office of Minnesota Attorney General Keith Ellison

Some companies attempt to convince people to hand over some of their monthly pension payments in exchange for a short-term loan. Exchanging future pension benefits for quick cash now might seem enticing but can be a very expensive way to borrow money and result in low monthly pension payments for years to come.

How the Scheme Works

You might find a website online, see an ad that promises quick cash, receive a telephone call from an outfit with an official-sounding name, or get referred to a company by an acquaintance.

The company offers a lump sum payment (i.e., a loan) today in exchange for the right to a portion of your future monthly pension payments. These agreements are an expensive way to borrow money. In addition to taking some of your pension check for as long as the next five or ten years, these agreements may include additional hefty fees. The payment you get today is often only a small fraction of the amount you must eventually pay back to the company. You should also be aware that, despite what companies say, courts may consider these agreements to be loans subject to state lending and usury laws.

For example, a company may offer a lump sum payment of \$1,500 to a Minnesota veteran in exchange for the right to receive \$300 a month for the next five years from his future military pension payments. In total, the veteran is required to pay the company \$18,000 from his military pension payments, which is a 240% interest rate on the \$1,500 he borrowed.

Points to Consider Before Agreeing to a Pension Advance:

- Check with the Minnesota Department of Commerce on whether the company is licensed as a lender in Minnesota.
- Check with the Better Business Bureau and online to see if there are any complaints on the company.

- Compare how much you must repay to how much you borrow. For instance, you may borrow \$2,000 but be required to repay \$20,000.
- Know how much of your future monthly pension payments the company will take and for how long, and how this will impact your budget and ability to pay your monthly bills.
- Research all fees and whether the company requires you to buy life insurance that names the company as beneficiary.
- Consider possible cheaper alternatives.
- Know whether you can cancel the contract if you change your mind.

Military Pensions

Regardless of what the company may tell you, be aware that federal law generally prohibits the assignment of your military pay or pension benefits to a pension advance company. In addition, as of August 1, 2018, Minnesota law also generally prohibits such assignments.

Consider Alternatives

As an alternative to a pension advance, you might consider a loan through your bank or credit union. If you are behind on bills, your creditors may be willing to work with you if you contact them right away and ask for more time. If you would like assistance in managing your finances, you may wish to contact a reputable nonprofit credit counseling agency, which may be able to help you develop a budget or debt management plan.

For more information, you may contact the Minnesota Attorney General's Office:

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