

SENATE SPECIAL COMMITTEE ON AGING

Susan M. Collins, Chairman

Claire McCaskill, Ranking Member

“Pension Advances: Legitimate Loans or Shady Schemes?”

Sept 30, 2015

2:30 PM

Dirksen Room 562

Testimony of Dr. Louis Kroot, CMDR, USN, Retired and wife Kathie Kroot.

Chairman Collins, Ranking Member McCaskill, distinguished Senators on the Committee. Thank you for the opportunity to appear before you today and to testify about our family’s experience with pension advances. We are here today as husband and wife because in the 34 years of our marriage we have always operated as a team, and ours is a shared cautionary story.

For 22 years I served our country in the Navy as a physician. When I retired as a Commander I intended to continue to work as a doctor, and I did so, working as an ER attending physician in several hospitals. Today I continue to work as an ER attending at a VA hospital in Lexington, Kentucky. My wife Kathie has been at my side throughout my career and has done incredible work as an advocate for organ donation and a devoted volunteer at our synagogue.

When I left the military we planned to continue to provide for our family through work and through my military pension, but due to a perfect storm of

unfortunate events we were left with debt spiraling out of control. First, we received bad tax planning advice when moving funds from a 401(k) and incurred around over \$100,000 in unexpected fees and penalties. Second, we suffered over \$10,000 in unexpected home repairs. Third, we incurred an enormous amount of medical expenses when it became necessary for our adopted special needs daughter to be repeatedly hospitalized for serious medical conditions.

We were financially desperate at this point and did not know where to turn. We had incurred extraordinary and unexpected debt. We were looking for any way to pay off this debt. We had seen advertisements in military magazines for companies that gave lump sum payments for military pensions. We contacted one of these companies, Sturctured Investments, which was doing business under the name of Retired Military Financial Services, and they offered to provide us with a lump sum payment against my future pension payments. We jumped at the opportunity. We felt that the lump sum payment Structured Investments offered would allow us to pay off much of our existing debt.

We understood at the time that we were taking out an advance on monies that would be due from future retirement payments, and we understood that there would be fees for this service. But we didn't realize how expensive it was going to be. We simply did not get out the calculator and unpack the complex language in the agreements. We were desperate and we were panicked.

After the fact, we realized that we had been taken to the cleaners by Structured Investments. We were shocked when the complex math in the contract was broken down, and it was explained to us that we were paying over 30 percent interest on our advance. The paperwork we signed did not disclose the interest rate and did not break down how the numerous fees we were paying to Structured Investments raised our interest rate. An example of these fees are the thousands of dollars we paid to ensure that there was a life insurance policy on me that designated Structured Investments as the beneficiary. We ended up paying more in interest with our pension advance than we would have paid if we simply paid off the interest over time on our existing debt load. Moreover, we learned after the fact that there were alternatives we could have used to reduce our debt load while avoiding paying the high interest rates charged by Structured Investments.

We have fully paid off Structured Investments. Partially as a consequence of the high interest rates we paid we have been forced to delay full retirement.

Looking back on our experience it is clear that we made a mistake: We should have been more aware of what we were buying. We also want to make clear that we accept that we signed the contract and we accept responsibility for that. We should have known better.

As we said, ours is a cautionary tale, and we want to make two points to those who may find themselves in a situation similar to ours. First. You have other options. You should explore those options and should resist the urge to reach for easy, immediate cash. Second. Had we known what we now know we never would have taken out the high interest pension advance from Structured Investments. We wish we could do everything over again and make better decisions. It is our fervent hope that by testifying today we can prevent other individuals from making the same mistake we did.

Thank you again for the opportunity to be here, and we look forward to your questions.