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Consumer Advisory Bulletin

Avoid Pyramid Schemes

Pyramids schemes are illegal -- and are destined to fail.

Here are some pitches that often herald illegal pyramid schemes:

- "Make good money quickly and easily!"
- "Get in on the ground floor of an opportunity that's sure to snowball and make you rich."
- "I'm sure you can recruit others to get involved!"

Those pitches should ring warning bells. The attraction of quick and easy money -- and lots of it -- is hard to resist, but people who get pulled into pyramids typically find themselves lighter in the pocketbook than when they started. And sometimes they are in trouble with the law.

Scores of illegal pyramid schemes ripple across Iowa every year. Pyramid schemes promise that if you pay in some money and then recruit others to join, you will receive an attractive pay-out in short order. As long as new people keep entering, others will make money (especially those at the top!), but, by definition, the pyramid can't go on forever and newcomers who toss in their money ultimately will lose out.

Promoters of illegal pyramids often try to get around consumer protection laws by claiming they are really selling a product.

Here are questions to help you decide if a multi-level selling plan is really an illegal pyramid:

- Do presentations emphasize money-making and recruiting new participants, rather than selling a product?
- Is the product simply treated as a ticket to participate in the money-making scheme, with little interest in the product for its own sake?
- Is the product substantially overpriced, so others higher up the recruitment chain will get more money?
- Is anyone buying the product outside the pyramid network?

Pyramids may be disguised as games, motivational courses, buying clubs, mail order operations, chain letters, or multilevel marketing businesses. There are countless variations, but disappointment and loss is the rule for most participants.

Pyramids typically violate federal, state and local laws, both criminal and civil. Steer clear of pyramids. If you join the rush for cash, your money isn't the only thing you put at risk. You also risk your reputation and your relationships with the unhappy recruits who look to you when the scheme collapses -- as all pyramids eventually do.

For more information or to file a complaint, contact the Consumer Protection Division, Hoover Building, Des Moines, IA 50319. Phone 515-281-5926.

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