

# The Office of the Massachusetts Attorney General

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## Consumer Advisories

### CONSUMER ADVISORY

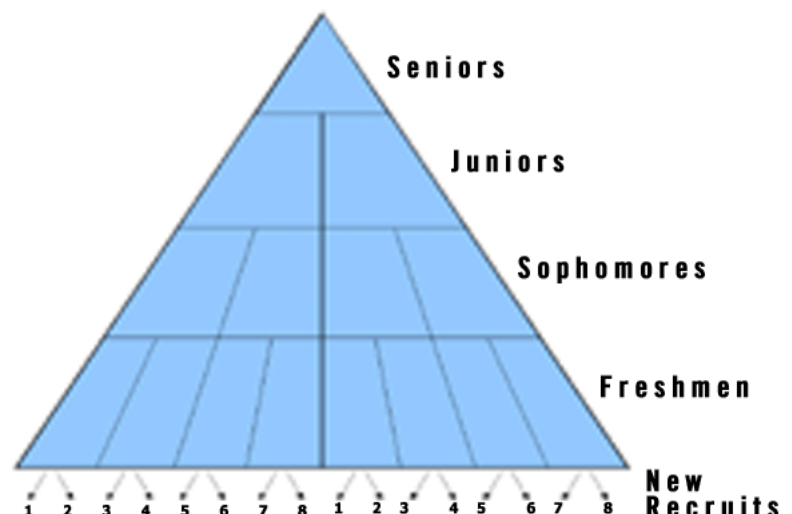
#### ADVISORY TO CONSUMERS REGARDING ILLEGAL PYRAMID SCHEMES MASQUERADING AS WOMEN'S CLUBS OR "GIFTING CIRCLES"

The Attorney General warns that illegal pyramid schemes may be spreading through Massachusetts disguised as women's clubs or "gifting circles." Consumers should be wary of invitations to join these clubs, even where friends, acquaintances, and other trusted members of their communities are involved. These clubs typically ask participants to donate or give "a gift" of several thousand dollars to join the club with the promise of receiving many times that amount in return from newly recruited club members. The Attorney General cautions that these clubs or gifting circles are usually illegal pyramid schemes which eventually collapse with the majority of the participants losing their money. To avoid being defrauded, consumers should be aware of the following:

#### **Q: What is a pyramid scheme and how does it work?**

**A:** An illegal pyramid scheme is a promotion or plan whereby a person gives money for the opportunity to join and, once "promoted" to the top of the plan, to receive money paid by others recruited to participate in the plan. New participants in the pyramid are typically recruited with the representation that everyone will receive a large sum of money. In theory, each new recruit eventually rises to the top of the pyramid as new members are added to the pyramid's bottom. Once the participant reaches the top, he or she is supposed to receive money paid by the newest participants at the bottom. In practice, almost everyone, except for the original organizers, lose their money.

Some of these pyramid promotions are targeted at women. Schemes disguised as women's clubs may involve mock "dinner" meetings in which participants are urged to bring new recruits. Women who enter the pyramid at the lowest level are characterized as "appetizers" and are asked to recruit other women who are willing to donate \$5,000 to the person at the top of the pyramid. These recruits are told they will eventually advance to the top level, the dessert stage, at which point they hope to receive as much as \$40,000. Other pyramids schemes use



the terms senior or captain, juniors, sophomores, and freshmen to describe the different levels on the pyramid. And still other pyramid schemes are being promoted over the Internet.

**Q: Why are pyramid schemes illegal?**

**A:** As a result of the pyramid structure, club members must continually recruit ever-increasing numbers of new members to perpetuate the pyramid. However, after only a few levels the number of required new participants is greater than the entire population of the town, city, or state you live in. When the club fails to attract enough new members, it collapses and almost everyone ends up losing all of their money. The Commonwealth has declared the pyramid schemes illegal because the only way participants make money through pyramid schemes is by defrauding others into joining and giving money based on the false promise that they will receive money in return when they make it to the top. In addition, participants who are required to characterize their investments as "unconditional gifts" may also be in violation of tax laws.

**Q: How can consumers identify if a club or promotion is really an illegal pyramid scheme?**

**A:** The following "red flags" signal that you are being solicited to participate in an illegal pyramid scheme:

- Pyramid promoters often target closely knit groups such as religious or social organizations, sports teams, and college students to increase pressure to participate. To further attract participation, promoters give these schemes appealing names such as "Changing Lives" and "Sharing Equally".
- New club recruits are often assured that the pyramid is perfectly legal or that a police officer, lawyer, or government official, such as an IRS agent, has declared it legal. Claims that the pyramid or gifting circle is legal are usually false. Such claims are merely part of the scam.
- If the promotion sounds too good to be true, it probably is. Be skeptical of success stories of huge payoffs. Remember that most participants in pyramid schemes lose all of their money.
- Avoid being misled into believing that a gifting club is legal because promoters or recruiters characterize membership payments as "gifts". Consider that a legitimate gift has no strings attached and is not an investment.
- Don't give into high pressure tactics. Promotional pitches that require you to join immediately or risk losing out on a great opportunity are clear indicators that such clubs should be avoided.

The Attorney General's office publishes brochures that provide information to consumers about various scams and unfair and deceptive trade practices. For free copies of these brochures, contact the Attorney General's consumer hotline: **617-727-8400**. Also, for additional information about fraudulent investment opportunities contact the **Federal Trade Commission at 1-877-FTC-HELP (382-4357)** or [[www.ftc.gov](http://www.ftc.gov)].

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