

If you can recognise that an offer is actually a pyramid scheme then you can choose not to get involved. Watch out for:

- › **a high joining fee** – since pyramid schemes make the money from these joining fees the fee will probably be high.
- › **products that few would want to buy** – look at what the scheme is selling and consider how many people would actually want to buy the product.
- › **offers of unrealistic earnings, for example “make \$5,000 a week, easy!”** – the person promoting the scheme may be breaking the law, if their claim is misleading.
- › **sellers that earn commission mostly from getting other people to join the scheme** – pyramid schemes are based on getting more people to join the scheme and selling the products is not so important.
- › **references for people that you can’t check** – be suspicious about whether the recommendations are real, or made up.
- › **claims that it is real, legal and not a get-rich-quick scheme** – if it is real and legal then they probably don’t need to point it out. Just because they say it is legal doesn’t mean that it is.

For more information

For more information about your consumer rights visit www.consumeraffairs.govt.nz or your local Citizens Advice Bureau.

Contact details of your local Citizen’s Advice Bureau are in the White Pages or online at www.cab.org.nz. You can call **0800 FOR CAB (0800 367 222)**.

You can get free legal advice from a community law centre. Contact details of your local community law centre are in the White Pages or online at www.communitylaw.org.nz.

Published by the

Ministry of Consumer Affairs
PO Box 1473
Wellington 6140

Ph (04) 474 2750 Fax (03) 962 2700
www.consumeraffairs.govt.nz

This factsheet should not be used as a substitute for specialist legal advice.

June 2009



MINISTRY OF CONSUMER AFFAIRS
MANATŪ KAIHOKOHOKO

PYRAMID SCHEMES

CONSUMER FACTS



MINISTRY OF CONSUMER AFFAIRS
MANATŪ KAIHOKOHOKO

New Zealand Government

You might know someone who is involved in a selling opportunity and they invite you to join. Or you see an ad for work that will earn you a lot of money if you join up.

Before you rush in to start earning your first million check whether this is actually a legitimate deal or you are getting into a pyramid scheme.

What is a pyramid scheme?

Pyramid schemes make their money from getting people to join up to the selling scheme instead of by selling goods or services.

These schemes will usually pretend to be selling opportunities. You pay money to join up and are encouraged to get more people to join up.

The product(s) that the scheme sells are either worthless or highly overvalued – something that few people will buy.

Usually the money that you pay to join up goes to the person who invited you to join, the person that asked them to join and the people who started the scheme.

If you can actually make money out of selling the goods then it might be multi-level marketing, which is legal.

Pyramid schemes are illegal

It is illegal to get involved in one of these schemes. Pyramid schemes are specifically prohibited under the Fair Trading Act. A person who promotes or operates a pyramid scheme can be fined up to \$60,000 and a company can be fined up to \$200,000. Both can be made to pay back any money they have received from the scheme.

Why are they illegal?

Pyramid schemes are illegal because they are not a sustainable business model. They are set up just to get money for the people who start them. It doesn't take long for the scheme to run out of new sellers to join up. And most of the people that join don't get any money, they just lose what they put in.

People promoting pyramid schemes usually also breach the Fair Trading Act by misleading people about how much money they can make.

Pyramid schemes won't work for you

You are unlikely to get as much money as you are told you will get. Usually only the people who start the scheme make money from it. Pretty soon the scheme runs out of people to join up and the people at the bottom of the pyramid get nothing.

Once the scheme is big it is more likely to come to the attention of authorities who may investigate it and close it down.

But I know I could get my family to join up

Even if you think you can get enough people to join for you to make some money out of the scheme, you should not get involved. By getting more people to join, you are scamming people out of their money. They are even less likely to get money than you are and you will have broken the law.

What is the difference between a multi-level marketing business and a pyramid scam?

Multi-level marketing is a business structure for selling real products, you may get bonuses for joining people up to sell the products but you should make most your money from selling the products.

What if I find something that looks like a pyramid scheme?

You can report it to the Commerce Commission. The Commerce Commission may apply for a court order to stop the offending and it may prosecute the people involved. The Commerce Commission may ask the court to order compensation for consumers who have suffered loss.

You can contact the Commerce Commission through their website www.comcom.govt.nz by emailing contact@comcom.govt.nz or by calling 0800 94 3600.