Bernie Madoff died in prison after carrying out the largest Ponzi scheme in history – here's how it worked

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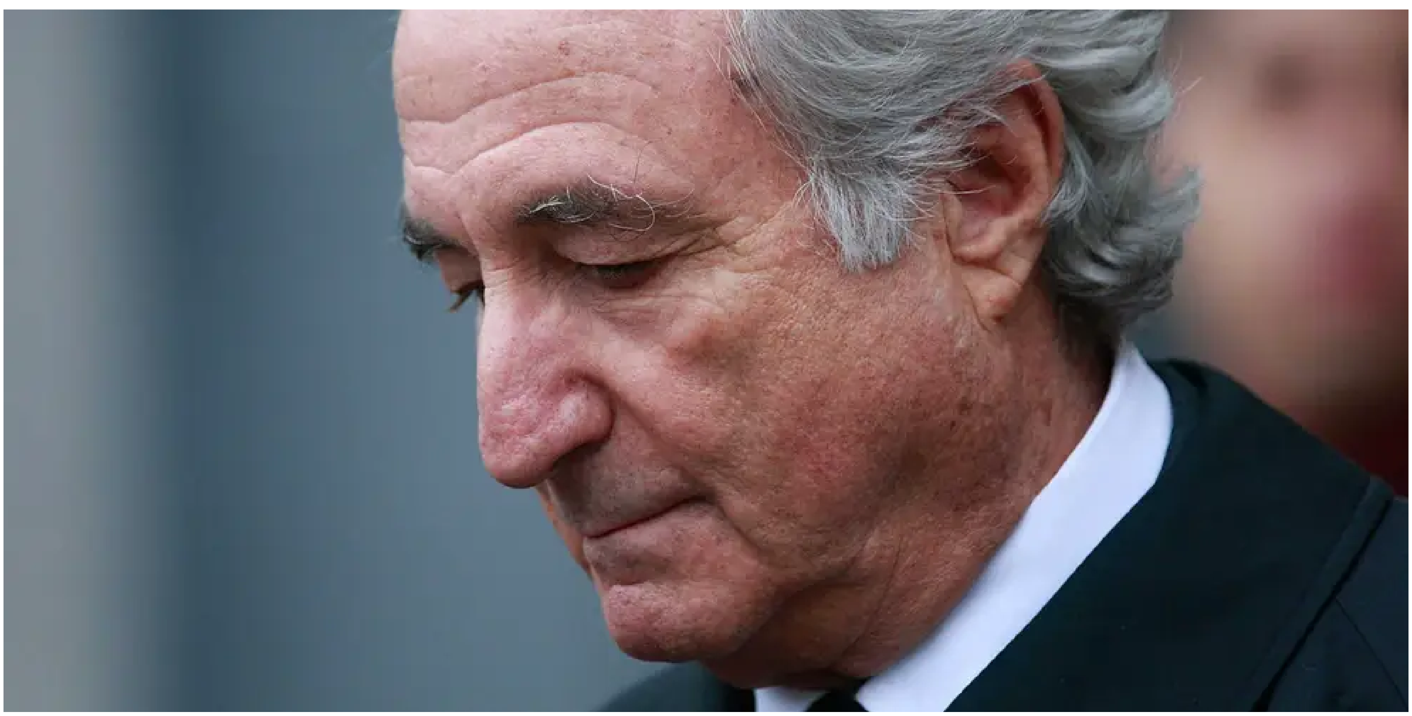

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In 2009, he was sentenced to 150 years in prison for running the largest Ponzi scheme in history.

Here's how Madoff conned his investors out of $65 billion and went undetected for decades.

On Wednesday, Bernie Madoff died in federal prison, according to a report from the Associated Press. The 82-year-old, who is believed to have died from natural causes, carried out one of the biggest fraudulent schemes in US history before he landed in prison.

their losses. As of 2020, the US Department of Justice had returned about $3.2 billion to individuals that had been conned by Madoff.

As a well-respected financier, Madoff convinced thousands of investors to hand over their savings, falsely promising consistent profits in return. He was caught in

December 2008 and charged with 11 counts of fraud, money laundering, perjury, and theft.

Here's how Madoff conned his investors out of $65 billion and went undetected for decades.

Madoff used a Ponzi scheme to lure investors in

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Ponzi schemes draw investors in by guaranteeing unusually high returns. The name originated with Charles Ponzi, a con artist who promised 50% returns on investments in only 90 days and ended up serving a 14-year prison sentence in 1920 due to his scheme.

Ponzi schemes are run by a central operator, who uses the money from new, incoming investors to pay off the promised returns to older ones. This makes the operation seem profitable and legitimate, even though no actual profit is being made. Meanwhile, the person behind the scheme pockets the extra money or uses it to expand the operation.

To avoid having too many investors reclaim their "profits," Ponzi schemes encourage them to stay in the game and earn even more money. The "investing strategies" used are vague and/or secretive, which schemers claim is to protect their business. Then all they need to do is tell investors how much they are making periodically, without actually providing any real returns.

harder to find — meaning the flow of cash dies out — and too many current investors begin to pull out and request their returns.

In Madoff's case, things began to deteriorate after clients requested a total of $7 billion in returns

Unfortunately for Madoff, he only had $200 million to $300 million left to give.

Another reason Madoff managed to fly under the radar for so long (despite multiple reports to the SEC about suspicions of a Ponzi scheme) is because Madoff was a well-versed and active member of the financial industry. He started his own market-maker firm in 1960 and helped launch the Nasdaq stock market. He sat on the board of National Association of Securities Dealers and advised the Securities and Exchange Commission on trading securities. It was easy to believe the industry veteran knew exactly what he was doing.

Madoff really only made off with $20 billion, even though on paper he cheated clients out of $65 billion, according to CNNMoney. Though, that's hardly any consolation for his thousands of investors, the full list of whom can be found with WSJ here.

convictions related to Madoff's scheme.

At the time, Madoff's lawyers asked the judge to shorten the sentence to 7, and then 12, years due to then-70-year-old Madoff's limited life expectancy, but the judge ruled against it. The judge said Madoff's crimes were "extraordinarily evil."

Last year, Madoff requested a compassionate release from prison, telling a judge he had less than two years left to live due to kidney disease. The request was denied.

Madoff was not the only one to face legal action. In 2014, five of Madoff's employees were found guilty for their part in the Ponzi scheme. In 2009, Madoff's accountant and lawyer David G. Friehling faced a maximum sentence of 114 years in prison, but was later fined and sentenced to one year of house arrest and an additional year of a supervised release instead.

There have been several other notable Ponzi schemes in history, including Allen Stanford's, which stole $8 billion, and Tom Petters', which cheated investors out of $3.7 billion. But as far as scale goes, Madoff wins by a landslide.

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