ARTICLE: Annuities: Rising Interest Rates: Another Reason To Avoid Equity-Indexed Annuities
PUBLISHED IN: *Annuities Blog*
BYLINE: Jeffrey Voudrie
DATE: January 12, 2010

ORIGINAL ARTICLE CAN BE FOUND AT:
http://www.i-annuities.com/blog/about-annuities/625/annuities-rising-interest-rates-another-reason-to-avoid-equity-indexed-annuities/

Jeffrey,

As you well know, I am an independent market research analyst who specializes exclusively in the indexed annuity (IA) and indexed life markets. I have tracked the companies, products, marketing, and sales of these products for over a decade. I used to provide similar services for fixed and variable products, but I believe so strongly in the value proposition of indexed products that I started my own company focusing on IAs exclusively. I do not endorse any company or financial product, and millions look to us for accurate, unbiased information on the insurance market. In fact, we are the firm that regulators look to, and work with, when needing assistance with these products.

For the third occasion in eight months' time, I am in the position of having to correct you on inaccurate and misleading statements that have been made in one of your articles about indexed annuities. Specifically, I recently had the occasion to read your article *Anuities: Rising Interest Rates: Another Reason to Avoid Equity-Indexed Annuities.* I wanted to bring to your attention the mistakes that were made in this piece, which was recently posted on an annuities blog at http://www.i-annuities.com/blog/, so that you do not continue to make the same mistakes in future pieces that you author.

First, as I have mentioned numerous times before, indexed annuities have not been referred to as "equity indexed annuities" since the late 1990's. The insurance industry has been careful to enforce a standard of referring to the products as merely "indexed annuities" or "fixed indexed annuities," so as not to confuse consumers. This industry wants to make a clear distinction between these fixed insurance products and equity investments. It is the safety and guarantees of these products which appeal to consumers, particularly during times of market downturns and volatility. Your help in avoiding any such confusion is so greatly appreciated.

Second, rising interest rates are not a legitimate objection against any fixed annuity product, especially indexed annuities. An indexed annuity is specifically designed to allow the consumer to take advantage of the increases in the market, as opposed to simply "locking in at the bottom" The annual reset feature on indexed annuities uses the market's low-point, as the next index measurement's starting point for the next crediting period. This provides for an awesome opportunity for indexed gains in the event that the market tanks. So when the market has dropped nearly 50% from 2008 to 2009, indexed annuity owners are protected by zero percent interest. In addition, they have a phenomenal opportunity to benefit from the recovery of the market, even if it takes several years to correct itself. If this is not enough to persuade the consumer of the benefits of indexed annuities in a low interest rate environment, perhaps the consumer should consider laddering their annuities. This is also a legitimate means of managing interest rate risk.

It is unbelievable that you would suggest your readers not let themselves be "talked into purchasing an Equity-Indexed Annuity." You are hardly in a position to suggest that someone would be in a position to "regret" this decision when even YOU do not understand these products, Jeffrey. Has it ever occurred to you that the reason you are the "lone voice in the wilderness" because you are not getting something that everyone else understands? These products provide protection of principal from market downturn, they are rich with minimum guarantees, and still provide the consumer an opportunity to outpace traditional fixed money instruments (such as CDs and fixed annuities) by 1% - 2%. You obviously do not understand that. In light of this, I do not think it is appropriate for you to be writing anything about these products. You sound like a grade-schooler trying to teach rocket science. Stick to what you KNOW.

You clearly misunderstand surrender charges as well, Mr. Voudrie. Indexed annuities do not "needlessly require you to lock up your money for a very long time." There are indexed annuities with surrender charges as short as three years and EVERY indexed annuity permits penalty-free withdrawals of 10% of the annuity's value annually. Some even allow as much as 20% of the annuity's value to be withdrawn in a single year. In addition, 9 out of 10 indexed annuities provide a waiver of the surrender charges, should the annuitant need access to their money in events such as nursing home confinement, terminal illness, disability, and even unemployment. Couple this with the fact these products pay the full account value to the beneficiary upon death, and I think that you'll see that consumers have tremendous access to their cash value when they purchase indexed annuities. These are some of the most liquid retirement income products available today!

You must also understand how surrender charges work, in order to appreciate **all** annuities Jeffrey. The surrender charge on a fixed, indexed, or variable annuity is *a promise by the consumer not to withdraw 100% of their monies prior to the end of the surrender charge period*. This allows the insurance company to make an informed decision on which conservative investments to use to make a return on the clients' premium (i.e. 7-year grade "A" bonds for a seven-year surrender charge annuity or 10-year grade "A" bonds for a ten-year surrender charge annuity). Investing the consumer's premium payment in appropriate investments allows the insurance company to be able to pay a competitive interest rate to the consumer on their annuity each year. In turn, it also protects the insurance company from a "run on the money" and allows them to maintain their ratings and financial strength. I personally appreciate the value of the surrender charge on an annuity and if more consumers understood them, they would too.

Why is the fact that indexed annuity returns are largely based on the stock market's performance a "hidden danger?" These products provide a downside guarantee and the potential for limited upside performance based on a stock index. That is a tremendous benefit to the annuity purchaser, particularly when the market is recovering like it is now. This statement of yours makes no sense whatsoever.

You say that indexed annuity commissions are "so high." What is high, Mr. Voudrie? The average street level commission for indexed annuities in the fourth quarter was a mere 6.47%. This is a commission that is paid a single time at the time the annuity contract is issued. Consider, however, that the agent is expected to service the annuity for life. Now, compare this to the generous, consistent commissions that are paid on products such as mutual funds, and I think you will agree that the commissions on annuities are quite reasonable.

You suggest that a relationship with a salesperson who is paid a commission on the sale of a product you purchase is a "tremendous conflict of interest." Is this compensation arrangement any different than a car salesperson? A real estate agent? A shoe salesperson? Do people know that these professionals are going to be paid a commission in exchange for the services rendered? YES. Does that mean that the salesperson is going to only look out for their best interests? NO. Sales jobs are built on relationships; the cornerstone of these relationships is repeat business and referrals. So, if the shoe salesperson sells me a crummy pair of shoes (where they received a high commission), what is my likelihood to suggest that salesperson to my friends and neighbors? What is the likelihood that I'll buy my next pair of shoes from that same person? Not good in either scenario. I think you get the picture. Insurance agents and financial advisors NEED the client loyalty and referrals. Anyone who makes an inappropriate sale is obviously going to lose out on business, not to mention face potential fines, license revocation, and imprisonment.

You insist that indexed annuities eliminate the consumer's "control over [THEIR] money." However, I've just illustrated that indexed annuities are some of the most liquid retirement products available today. You need to back-up your statements when putting this filth in front of the general public.

You state that indexed annuities "don't offer enough reward in exchange for" the commitment of surrender charges. Really? I know that I do not need access to my money, but I want the ability to outpace inflation. An indexed annuity is the perfect retirement product for ME. I think the potential of earning 1% - 2% more than a fixed annuity is a tremendous value proposition! I'm certain that your clients who lost money in 2008 undoubtedly feel the same way.

As a whole, you seem to be missing one important fact when it comes to indexed annuities, Jeffrey. The purchaser of this type of annuity is not directly invested in the stock market, they are only receiving indexed interest based on the performance of the market indices. For that reason, the client's money is never put in a "risk money place," and is always protected by a minimum guarantee. The risk profile of someone purchasing an indexed annuity is far different than that of someone willing to invest in the stock market. Indexed annuity purchasers want protection from market risk where those who invest in the market are willing to risk losing 20% for the potential to earn 20%. This is not the risk profile of an indexed annuity purchaser. For this reason, it is very inappropriate for you to suggest that someone who is interested in purchasing an indexed annuity invest in the stock market instead. I think your clients would do well to take note of the fact that you do not seem to know the difference. I fear for the person who responds to your shameless plug of "contact me for more information."

Jeffrey- certificates of deposit (CDs) are still only crediting 1.5%. Any CD crediting 2.5% today undoubtedly is being offered by a questionable lender. Go to www.bankrate.com to see just how skewed your information is. How can a rate of 1.5% on a CD be a valuable proposition as opposed to a tax-deferred annuity that can credit as high as 11% or more today? Also consider the many other benefits that an annuity provides:

1. No indexed annuity purchaser has lost a single dollar as a result of the market's declines. Can you say the same for variable annuities? Stocks? Bonds? Mutual funds? NO.

2. All indexed annuities return the premiums paid plus interest at the end of the annuity.

3. Ability to defer taxes: you are not taxed on annuity, until you start withdrawing income.

4. Reduce tax burden: accumulate your retirement funds now at a [35%] tax bracket, and take income at retirement within a [15%] tax bracket.

5. Accumulate retirement income: annuities allow you to accumulate additional interest, above the premium you pay in. Plus, you accumulate interest on your interest, and interest on the money you would have paid in taxes. (Frequently referred to as "triple compounding.")

6. Provide a death benefit to heirs: all fixed and indexed annuities pay the full account value to your beneficiaries upon death.

7. Access money when you need it: fixed annuities allow annual penalty-free withdrawals of the account value, typically at 10% of the annuity's value (although some indexed annuities permit as much as 20% of the value to be taken without penalty). In addition, 9 out of 10 fixed and indexed annuities permit access to the annuity's value without penalty, in the event of triggers such as nursing home confinement, terminal illness, disability, and even unemployment.

8. Get a boost on your retirement: many fixed and indexed annuities provide an up-front premium bonus, which can provide an instant boost on your annuity's value. This can increase the annuity's value in addition to helping with the accumulation on the contract.

It sounds like you need a lot more education on retirement products, Jeffrey. If you should have a need for ACCURATE information on indexed annuities in the future, please do not hesitate to contact my firm. Thank you.

P.S. Ask us about our new TOTALLY FREE website, www.IndexedAnnuityNerd.com!

Sheryl J. Moore
President and CEO
AnnuitySpecs.com

LifeSpecs.com
IndexedAnnuityNerd.com
Advantage Group Associates, Inc.
(515) 262-2623 office
(515) 313-5799 cell
(515) 266-4689 fax