

ARTICLE: “Fixed Deferred Annuities: CDs With Gotchas”
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BYLINE: Mel Lindauer
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ORIGINAL ARTICLE CAN BE FOUND AT:
<http://www.forbes.com/2010/07/16/fixed-deferred-annuities-surrender-fees-teaser-rates-personal-finance-bogleheads-view-lindauer.html>

Dear Forbes Editor,

I recently had the occasion to read an article on your website, which is very misleading and inaccurate. “Fixed Deferred Annuities: CDs with Gotchas,” by Mel Lindauer reflects poorly on *Forbes* because of the misinformation in the article. I am contacting you, as an expert in the insurance field, to ensure that you can make appropriate corrections to this article and have a reliable source for fact-checking in the future. I would have copied Mr. Lindauer on this correction, had I access to his email address.

I am an independent market research analyst who specializes in the fixed and indexed annuity and 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 variable products, but I believe so strongly in the value proposition of indexed products that I started my own company focusing on IAs and IUL 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.

It is so important to note that it is absolutely disingenuous to compare certificates of deposit (CDs) to deferred annuities in the manner that Mr. Lindauer did. **An annuity provides for tax deferral where a CD cannot. Further, annuities are the only retirement income product that can provide a guaranteed income that the purchaser cannot outlive; this is a value proposition that CDs simply cannot offer.**

In addition, fixed deferred annuities do not have “lots of fine print ‘gotchas’.” The National Association of Insurance Commissioners (NAIC) has strict regulations on product design, disclosure, marketing, and even the font size of communications that made to purchasers! In light of this, I think you’ll see that it is quite impossible to have fine print or “gotchas” in this market.

Not all fixed deferred annuities offer interest bonuses or premium bonuses either. Usually bonuses are optional on these products. When a product with a bonus is purchased, the terms and guarantee periods are prominently displayed to the annuity purchaser. Therefore, someone may purchase a product with a higher rate in the first year, but it is clear that the rate will decline in

years two plus. This is common knowledge, clearly communicated, and prominently disclosed for Mr. Lindauer to turn this around and present it as a negative feature on annuities is preposterous.

Annuity purchasers are never “locked into” their purchases. There are deferred annuities with surrender charges as short as one year. In addition, these annuities permit penalty-free withdrawals of 10% of the annuity’s value annually. Some even allow as much as 50% of the annuity’s value to be withdrawn in a single year. Moreover, 9 out of 10 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 deferred annuities. These are some of the most liquid retirement income products available today! **If purchasers are concerned about having full liquidity for purposes of interest rate risk, laddering annuities works just as well as it does with CDs.**

Mr. Lindauer claims that deferred annuities are “low-yielding” in comparison to CDs. I find this laughable considering that the current average fixed annuity rate is 3.70% and the CD rates are averaging 1.14% (according to bankrate.com). In addition, indexed annuities currently offer purchasers the ability to earn gains as high as 8.70% annually today. Certainly, annuities were offering more appealing rates at the turn of the century, when you could purchase them with double-digit yields. However, this is a different interest rate environment than where the market was a decade ago. That being said, I think that deferred annuities can provide a comparably attractive rate as compared to CDs.

While it is true that fixed and indexed annuities are not “guaranteed by the Federal Deposit Insurance Corp,” they are backed by the claims-paying ability of the issuing insurance company AND guaranteed by the National Organization of Life & Health Insurance Guaranty Associations (for more information, see www.nolhga.com). What is more, some states’ coverage limits under NOLHGA are higher than that provided by the FDIC. That being said, it is deceitful to present this information in a manner that suggests that annuities are not guaranteed.

Perhaps the funniest statement made in this piece was that fixed annuities have “no prospectus.” (And it was made in a negative tone!) **Considering that the average prospectus is more than 200 pages long and the average fixed/indexed annuity contract is 26.7 pages long, I’d suggest that not having a prospectus is a PLUS for fixed and indexed annuities.** Couple this with the fact that the marketing materials and plain-language disclosures that are provided to the prospective purchaser, along with the annuity contract, provide a clear overview of the product that they are purchasing (in laymen’s terms), and I think that you’ll agree that fixed and indexed annuities are far less difficult to understand than variable annuities (which are sold with a prospectus).

Most importantly, indexed annuities have not been referred to as “equity indexed annuities” or “EIAs” 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, as would be Mr. Lindauer's.

FYI- the Securities and Exchange Commission (SEC) failed in their attempt to regulate indexed annuities as securities. The D.C. U.S. Court of Appeals vacated the SEC's Rule 151A, thus reiterating that indexed annuities are fixed insurance. Furthermore, the recent Dodd-Frank financial regulatory reform act ensured that indexed insurance products will continue to be regulated by state insurance divisions indefinitely, as opposed to the SEC.

Considering that most fixed annuities credit a minimum of 1% -2% annually, and have the potential for much greater gains (especially with indexed annuities), I'd say that it is a very attractive option compared to CDs which are taxable and currently yielding just over 1%. Compare that to the tax-deferral on products averaging nearly 4% and it seems like a no-brainer to me.

Should you have a need for factual information on annuities in the future, please do not hesitate to contact my firm. It appears that it would behoove Mr. Lindauer to follow suit.

Thanks.

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