

ARTICLE: “Buyer beware: A primer on equity-indexed annuities and life settlements”

PUBLISHED IN: *The Palm Beach Daily News*

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DATE: July 24, 2010



ORIGINAL ARTICLE CAN BE FOUND AT:

<http://www.palmbeachdailynews.com/business/buyer-beware-a-primer-on-equity-indexed-annuities-821564.html>

Ms. Reingold and staff at the *Palm Beach Daily News*,

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.

I am contacting you about an article that recently ran at the *Palm Beach Daily News*, “Buyer beware: A primer on equity-indexed annuities and life settlements.” This article was written by Dian Vujovich who specializes in providing commentary on mutual funds. Interestingly, Ms. Vujovich remarks on her website at www.diansfundfreebies.com that she is “all too aware of the misinformation that exists on the Internet,” and that she intends to try and keep her readers accurately informed. Yet with her recently contribution to your fine paper, she has made a number of grossly inaccurate statements about indexed annuities, thereby perpetuating the misinformation in the media on these fixed insurance products. I am contacting you, to make you aware of the false and misleading statements Ms. Vujovich made in her article, so that you can make a correction or pull the contribution, and have access to accurate information on indexed insurance products in the future. Note that I have also sent a copy of this email to Dian through her website.

First and foremost, 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.

It is also important to understand that not all annuities are “investments;” *only variable annuities*, which place the purchaser’s principal and gains at risk of market volatility. Stocks, bonds, and mutual funds are also investments. The Securities and Exchange Commission (SEC) is responsible for the regulation of such investment products. Fixed and indexed annuities, by contrast, are insurance products- similar to term life, universal life and whole life. Insurance products are regulated by the 50 state insurance commissioners of the United States. Insurance products do not put the client’s money at risk, they are “safe money products” which preserve principal and gains. Investments, by contrast, can put a client’s money at risk and are therefore appropriately classified as “risk money products;” they do not preserve principal.

It appears that Ms. Vujovich is not very knowledgeable on the products that she writes about, as indexed annuities do not have “scrupulous...sales practices, disclosures or explanations.” Indexed annuities are regulated by the 50 state insurance commissioners of the United States, who collectively form the National Association of Insurance Commissioners (NAIC). The NAIC has rigorous standard non-forfeiture laws, advertising guidelines, suitability regulations, disclosure requirements and other rules. The states hold the authority to take sanctions against insurance agents including, but not limited to, license revocation, penalties and fines. In light of this information, I think you can see how inaccurate Ms. Vujovich’s statements are. In addition, data from the National Association of Insurance Commissioner’s Closed Complaint Database on annuities shows that complaints on indexed annuities are relatively low:

TOTAL INDEXED ANNUITY COMPLAINTS FOR 2006: 187

TOTAL INDEXED ANNUITY COMPLAINTS FOR 2007: 235

TOTAL INDEXED ANNUITY COMPLAINTS FOR 2008: 220

TOTAL INDEXED ANNUITY COMPLAINTS FOR 2009: 148

Based on our research, this results in average annual complaints as follows:

AVERAGE INDEXED ANNUITY COMPLAINTS PER COMPANY 2006: 4.35

AVERAGE INDEXED ANNUITY COMPLAINTS PER COMPANY 2007: 4.12

AVERAGE INDEXED ANNUITY COMPLAINTS PER COMPANY 2008: 3.86

AVERAGE INDEXED ANNUITY COMPLAINTS PER COMPANY 2009: 3.29

So, not only have complaints on these indexed annuities declined annually for the past three years, but the average has declined consistently for the past four years. Conversely, variable annuity complaints (which are overseen by the Securities and Exchange Commission) have always been greater than the number of indexed annuity complaints, and have risen in recent years. Certainly, we do strive for 100% customer satisfaction in the insurance market, but I would contend that an average of only 3.29 complaints annually, per company, is quite reasonable and not indicative of “scrupulous sales.”

The Financial Industry Regulatory Authority has been contacted and corrected numerous times on the inaccuracies in their Investor Alert on Indexed Annuities (see attached), which Dian references in her article. You should know that FINRA is not a credible source of information on indexed annuities. They are responsible for the oversight of broker dealers and member firms that sell *securities*. They have no regulatory authority on insurance products such as indexed annuities, and in fact have a vested interest in indexed annuities being regulated as securities so that they can increase their revenue and job security. In the future, if you are looking for a **reliable** regulatory resource on fixed insurance products (such as indexed annuities), I encourage you to seek out Susan Voss or Jim Mumford at the state of Iowa Insurance Division (Susan is the commissioner and Jim is the deputy commissioner). Not only are they credible, but 40.82% of indexed annuity sales flow through Iowa-domiciled insurance companies; for that reason they have become authorities on indexed insurance products. Let me know if you need their contact information, and I happy to oblige. In light of this information, I am certain you can see that FINRA did not issue an alert on indexed annuities as a result of a “large number of consumer complaints.” The aforementioned complaints simply do not exist. Furthermore, the “scams” Ms. Vujovich references are also nonexistent.

I do not appreciate the tone that Ms. Vujovich takes in regards to indexed annuities in this article, alluding that they are bad products. Indexed annuities are valuable insurance products that have many benefits including (but not limited to):

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 the designated 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.

9. **Guaranteed lifetime income:** an annuity is the ONLY product that can guarantee income that one cannot outlive.

What's more, indexed annuities are not complex in the manner Ms. Vujovich characterizes them. They are just fixed annuities with a different way of crediting interest. If someone can understand that they have the ability to deposit their money with an insurance company, defer taxes on the monies until they begin taking income, receive 10% withdrawals of the account value annually without being subject to penalties, and have the ability to pass on the full account value to their beneficiaries upon death- then they can understand nearly every indexed annuity sold today. Mr. Lavallam's comments regarding the complexity of indexed annuities are just another example of misinformation being perpetuated in the media. See attached my corrections to the article he references, which was actually about indexed life, not indexed annuities.

In actuality, indexed annuities' returns are not driven by "three things basically." They are driven by one. Let me explain a little more about basic pricing on these products, so that you can better understand them. Indexed annuities have a minimum guarantee, and in order to provide that minimum guarantee the insurance company must limit the interest credited to the indexed annuity. So, despite the fact that there is index-linked interest potential, it is limited. (Were the interest not limited, there would be no minimum guarantee, and that is a variable annuity.) The options seller that provides the opportunity for index-linked interest will not pass-on unlimited gains on a product that does not have unlimited risk.

The ways in which an insurance company *may* limit the interest credited to these products are by using a cap, participation rate, or spread (also referred to as a margin or asset fee). All three of these pricing levers are merely a way to limit the indexed interest on an indexed insurance product; they all do the same thing. Regardless of whether the interest is limited by a cap, participation rate, or spread- all indexed annuities are priced to return about 1% - 2% greater interest than fixed annuities and certificates of deposit (CDs) are crediting. Ultimately, the index used, the crediting method utilized, and the choice of a cap or participation rate are irrelevant. All indexed annuities are priced to return 1% - 2% greater interest than traditional annuities are earning today, over the life of the policy (regardless of index, crediting method, and pricing lever). So, if fixed annuities are crediting 5% today, an indexed annuity sold today should earn 6% - 7% over the life of the contract. In some years, the indexed annuity will earn zero (in the event of market declines); in other years it may receive double-digit gains. What is most likely to occur on a regular basis is something in between. Indexed interest on indexed annuities sold today could be as much as 8.7% or even more. All of these different features (index, crediting method, pricing lever) merely give the marketing organizations that distribute these products an opportunity to promote why their product is "different" or "better" than their competitors'

products, to the agent. They do not actually make any one product better than another. Yes, some designs will perform better than others in some years. However, over the life of the contract, they will be about even keel.

I again draw your attention to my corrections to FINRA in response to the absolutely false statements they make on the ways to “determine the return of a market index used.” FINRA is the least-educated regulatory agency in terms of indexed annuity product information, based on the information they disseminate on these products.

Indexed annuities do not have fees, despite Ms. Vujovich ‘s comments. There is no such thing as a “management” or “training expense” on a fixed or indexed annuity. This is because they are **fixed insurance products** where the purchaser is never invested directly in the market. For that reason, such charges simply do not, and cannot, exist on these products. They also do not have “costs buried within the contract.” I appreciate thorough fact-checking from journalists, but I am sad to say it is lacking from Ms. Vujovich’s article here.

Additionally, I believe that if you take Mr. Lavallam’s example into consideration, millions of Americans would be happy to receive 6% interest without being subject to any losses as a result of market downturn. After the stock market declining nearly 50% in 2008, the focus on most savers’ minds was a return **OF** their money, not a return **ON** their money (as quoted by Will Rogers). Nonetheless, it appears that Mr. Lavallam would also benefit from a continuing education class on indexed annuities.

Despite the fact that annuities are intended to be long-term retirement savings vehicles, indexed annuities are quite liquid. There are indexed annuities with surrender charges as short as three years and all indexed 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 indexed annuities. These are some of the most liquid retirement income products available today!

I am so disappointed to see a paper as credible as the *Palm Beach Daily News* printing articles that are blatantly false. Did you know that twenty percent of our nation’s seniors live in Florida? These readers need **credible** and **accurate** information on financial services products, now more than ever. Ms. Dian Vujovich does your readers a great disservice in this regard. I hope that you are thoughtful enough to see that your readers’ best-interests are not best-served by Ms. Vujovich’s slanderous, inaccurate comments. Please make a correction to this, for your readers’ sakes, and should you ever have a need for a fact-checking source in the future, I humbly extend my services.

Thank you.

Sheryl J. Moore

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