Dear Mr. Barrett and the editors of Forbes,

I am an independent market research analyst who specializes in the 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 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 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.

I recently had the occasion to read an article that was written by you, which was published by Forbes, “Indexed Annuities: Protection Racket.” While your efforts to inform your readers are appreciated, your article had some grossly inaccurate information in it. Such misinformation reflects poorly not only on you, but also on Forbes. So that you will have access to accurate information on these products in the future, and so you can make an appropriate correction to this article, I am reaching-out to you as the foremost authority in the indexed annuity market.

First of all, indexed annuity sales are at record highs, NOT because of “insurance salesmen invoking market gloom,” but because of two other reasons. One: the primary products that indexed annuities compete with are fixed annuities and CDs. Fixed annuity rates are currently averaging a mere 3.14%. CD rates are averaging 0.54%. Alternatively, indexed annuities are offering as much as 8.90% or more in a single year. This makes a compelling story to those looking to outpace traditional fixed savings instruments. Two: any time there is a decline in the market, sales of fixed and indexed annuities increase. When people are reminded that they can lose money in equities products, they have a tendency to seek-out products which protect their principal. Fixed and indexed annuities are the logical beneficiaries of this phenomena.

Second, I believe that you have the value proposition of indexed annuities wrong when you say, “if the stock market goes up, you win; if the market drops, you win even more because you don’t lose.” Indexed annuities are marketed as ‘insurance products that provide the purchaser with a guaranteed lifetime of income whilst allowing them to have LIMITED participation in the stock market’s upside, while also avoiding the downside risks associated with the stock market.’ No indexed annuity purchaser has lost a single dollar as a result of the market’s declines, NEVER.
You must note that indexed annuities are primarily purchased by those more concerned with a return OF their money as opposed to a return ON their money. These annuity purchasers are not willing to risk losing 50% on the offset that they may also make 50%; they want the safety and guarantees that indexed annuities provide.

Specifically in regards to Ms. Mary Lynch- I cannot purport to know what product would have been most suitable for her. Such a suitability review cannot be conducted without a plethora of personal and financial information. However, I would find it hard to believe that someone would suggest that an equities product, which has greater upside potential that indexed annuities (but also greater risk), would be suitable for any 85-year-old prospect. Yes, she certainly would capture the “upside potential” that indexed annuities “took away” with a product such as a variable annuity. (As the limiting of the interest on indexed annuities is what affords the insurance company the opportunity to offer a minimum guarantee on these products.) However, when the market dropped nearly 50% from March 2008 to March 2009, variable annuity owners were in a position to lose up to 50% of their retirement nest eggs. I hardly think that Ms. Lynch would have been more pleased with THIS scenario or product purchase.

However, I do need you to know that Ms. Lynch’s lawyer, Mr. Jonathan Auerbach is pathetically uninformed about indexed annuities. Neither Aviva, nor its subsidiaries, has ever marketed a “40-year annuity.” This comment appears to have been used intentionally and deceitfully to disparage Aviva USA. Aviva’s average surrender charge period for their indexed annuity portfolio is 9.2 years. This is below the industry average of ten years. Keep in mind that the average first-year surrender penalty on indexed annuities is just over ten percent (and even lower for older-aged annuity purchasers). I would hardly call this “hefty penalties.” In addition, every indexed annuity permits 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! Plus, 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 that these products pay the full account value to the beneficiary upon death, and it is clear that these are some of the most liquid retirement income products available today. This is not the picture that Mr. Auerbach would paint of them though, Mr. Barrett. I ask you to please take note of how liquid the products truly are and don’t let them be promoted in a manner contrary to this in your articles. Thank you so much.

Furthermore, you should note that Mr. Auerbach is a lawyer, not a licensed insurance agent. I hardly believe he could be qualified to determine whether, or not, the indexed annuity that Ms. Lynch purchased was “unsuitable for her.” Insurance agents are required to go through rigorous testing, continuing education, and training on suitability, products, regulation, etc. This would put Mr. Auerbach in the position of being HIGHLY underqualified to determine what is, or is not, suitable in terms of annuity sales. In fact, I would suggest that Mr. Auerbach would be in a position of conflict to determine this, as lawyers profit more from “unsuitable” annuity sales than those that are suitable. For more information on this, please see my article regarding our research on class action lawsuits in the insurance industry here: (http://www.sheryljmoore.com/2010/01/ambulance-chasers-and-a-lack-of-responsibility/)
Third, it is inappropriate to refer to indexed annuities as an “investment.” Variable annuities are the only type of annuity that can be called an “investment,” as these products place the purchaser’s principal and gains at risk due to 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 (collectively referred to as the National Association of Insurance Commissioners, or NAIC). 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. The NAIC does not permit the use of the word “investment” when referring to indexed annuities, as such.

In the future, it would be more appropriate to refer to indexed annuities as ‘retirement vehicles’ or ‘insurance contracts.’

I will assume that your statement that “there are much cheaper and simpler ways to [preserve capital]” is based on false information. I would love to illuminate you on the truth about indexed annuities, as it is harder to find in the popular press than one would believe.

In fact, Mr. Andrew Hudick’s statement that indexed annuities “add a layer of costs” is disingenuous. Indexed annuities have no explicit “fees,” like variable annuities do. The “cost” that the client pays on an indexed annuity is merely time; via a surrender charge. 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.

Is it possible that indexed annuities may be different than you perceive, Mr. Barrett? Consider: as of 3Q2010, the average commission paid to agent on indexed annuities was a mere 6.50% (and even lower for annuities sold to older-aged purchasers). Keep in mind that this commission is paid one time, at point of sale only, and the agent services the contract for life. By comparison, many securities products such as mutual funds pay generous, consistent commissions annually. Although the average surrender charge for indexed annuities as of 3Q2010 is ten years and the average first-year charge is less than 11%, indexed annuities are available with surrender charges as little as three years and as low as 5% in the first year (declining annually thereafter). I encourage you to consider that maybe the information you have on these products is old, inaccurate, or not-quite-right. I’d love to provide you with current, accurate information on these products, which would satisfy your needs and preserve your journalistic integrity.
Fourth, I am curious to know why didn’t you publish any commentary from insurance agents that sell indexed annuities? You appear to have only requested comments from a financial planner; one who belongs to a group that generally competes against insurance agents that sell indexed annuities. Financial planners generally sell investments, Mr. Barrett. You need to speak with someone who actually sells indexed annuities to receive credible feedback on their value.

In the future, if you need contact information for insurance agents that sell indexed annuities, please do not hesitate to reach-out to me. I would be more than happy to provide you with a referral to an agent in your area of interest.

Fifth, although the bonus on Allianz’s infamous two-tiered annuity may have had a 10% bonus that was not available on cash surrender, it was credited to the contract and available to the purchaser. This is not clear in your article.

Sixth, I believe that you are confused about the minimum guarantee on indexed annuities based on your inaccurate statement that the “minimum rate of return each year [is] often 1% or less.” The minimum rate cannot and has not ever been less than 1% on any indexed annuity. In fact, the minimum rate on indexed annuities is mandated by the NAIC to never fall below 1% and the only time it is ever permitted to be as low as 1% is when the Five-Year Constant Maturity Treasury Rate level warrants a reduction in the rate. This rate is only credited on a portion of the premiums paid, however (never less than 87.5% of premiums paid). Let me explain. Every indexed annuity ever sold has offered a guaranteed minimum floor of no less than zero percent. This means regardless of market performance, indexed annuity purchasers will never receive a negative adjustment to their annuity’s value. In addition, indexed annuities offer a secondary guarantee known as a ‘Minimum Guaranteed Surrender Value.’ The MGSV on indexed annuities is not appropriately compared to the guaranteed annual return of a fixed annuity or CD. An indexed annuity MGSV provides a guaranteed minimum value, in the event the client cash surrender the contract or if the index does not perform favorably over the duration of the annuity contract. A fixed annuity guarantee, by contrast, credits a minimum amount of interest every single year. A guarantee this rich is costly for an insurance company to purchase. Insurance companies offering indexed annuities must be able to afford the index linked interest on the contract, in addition to the guarantee. For that reason, the minimum guarantees on indexed annuities are slightly lower than those provided on fixed annuities. By contrast, indexed annuities provide slightly higher interest crediting potential than fixed annuities. In fact, the average indexed annuity would receive a return of premiums paid, plus nearly 18% interest at the end of the contract. That being said, the presence of ANY minimum guarantee and the ability to outpace traditional fixed savings instruments is usually a highly valuable feature on indexed annuities.

Seventh, I am interested to know where you obtained your information that “indexed annuity [purchasers] enjoy a paltry portion of the [market’s] gains.” Remember, that the majority of the insurance company’s budget is spent on the minimum guarantee on an indexed annuity. In addition, you need to understand the basic premise of indexed annuities, which are a “safe money place.” Safe money places should be compared against other safe money places. Investment products such as stocks, bonds, mutual funds, and variable annuities subject the purchaser to both the highs and the lows of the market. It is therefore inappropriate to compare...
any safe money place, such as an indexed annuity, to risk money places and it is most certainly not appropriate to compare safe money places to the market index itself. Indexed annuities are not intended to perform comparably to stocks, bonds, or the S&P 500 because they provide a minimum guarantee where investments do not. Indexed annuities are priced to return about 1% - 2% greater interest than traditional fixed annuities are crediting. In exchange for this greater potential, the indexed annuity has a slightly lesser minimum guarantee. So, if fixed annuities are earning 4% today, indexed annuities sold today should earn 5% - 6% over the life of the contract. Some years, the indexed annuity may return a double-digit gain and other years it may return zero interest. However, what is most likely to happen is something in between. Were the indexed interest NOT limited, the insurer could not afford to offer a minimum guarantee on the product, and THAT is a variable annuity- not an indexed annuity. On the other hand, I have actual policyholder annual statements on my desk, showing one-year gains as high as 47.65%. Are indexed annuities intended to return this much on a consistent basis? No. However, sometimes purchasers do “hit a home run” with these products. For a more realistic review of general gains on these products, I believe that you should consider a study that was recently done by Jack Marrion. Sure, the study has its flaws (i.e. small sample size), but this “Real World Returns” study is compelling. The study looked at actual returns of inforce indexed annuities and shows that from 1997 to 2007, the five-year annualized returns for actual indexed annuities averaged 5.79%. Interestingly, this is precisely the expected return for products over this period. I find it hard to believe that anyone would shun an average return of 5.79% following a period when the market declined nearly 50% in a single year. Keeping in mind that fixed annuities are currently averaging a mere 3.14% interest, I think that this return is respectable. Personally, one of my indexed annuities returned a gain of just over 7% this year, while my grandmother’s variable annuity had a loss. You must remember- indexed annuities are primarily purchased by those more concerned with principal protection, not unlimited potential for gains. Hopefully this explanation will assist you in gaining greater insight into the mechanics of indexed annuities.

Eighth, you comment that dividends are excluded from the indexed calculation on indexed annuities as if it were a detriment; it is not. the insurance company never receives the benefit of the dividends on the index on an indexed annuity, because the client is never directly invested in the index. The insurance company invests the indexed annuity purchaser’s premium payment in the general account, which protects them from declines in the index. The premiums are never invested in a pass-through account, which would provide the benefit of the dividends, but also expose the client to risk should the market decline. For this reason, the dividends cannot be passed on to the consumer. By not directly investing in the index (which would pass-on the dividends), the insurance company is protecting the purchaser from losses. So, you see- this is a benefit to the indexed annuity purchaser, not a disadvantage.

Ninth, market value adjustments (MVA) are not a “gotcha” on indexed annuities; they are a pricing feature that is used on all types of deferred annuities: fixed, indexed and variable alike. In fact, independent ratings firms such as A.M. Best and Standard and Poor’s encourage insurance companies to put MVAs on their annuities to protect against risk. While you are quick to point-out that an MVA can result in a reduction of the cash value, you fail to recognize that most recently hundreds of thousands of annuity purchasers were in a position to receive a POSITIVE adjustment to their cash value because of their MVA. It is of the utmost importance that you understand that an MVA only applies if more than the penalty-free amount is withdrawn on the
annuity or if the contract is surrendered during the surrender charge period. Otherwise, the MVA is irrelevant. In short, if interest rates are lower at the time of withdrawal than at the time the contract was issued, the accumulation value will be increased (market value adjusted). If interest rates are higher at the time of withdrawal than at the time of issue, the accumulation value will be reduced. So, while you are quick to take notice of the negative aspect of electing an annuity with this feature, I encourage you to consider the positive: so many have benefitted from positive market value adjustments on their annuities! Consider this along with the fact that the feature is fully disclosed to the purchaser prior to the issuance of their annuity and I hardly think you could call an MVA a “gotcha.”

Tenth, insurance companies do not “reserve the right to change their initial promises.” The guarantees of the contract are clearly spelled out on fixed, indexed, and variable annuities and can never change once the annuity is issued. However, non-guaranteed elements, which are clearly disclosed to the purchaser, are sometimes subject to change in years two plus of the contract in the event of a volatile market (the current interest rate on a fixed annuity, the current cap on an indexed annuity, or the current fees on a variable annuity). I personally feel much more confident that the companies offering these products today will be able to make good on their claims-paying ability, considering such flexibility in the event of unforeseen circumstances. If the press actually understood this feature, I think that they would appreciate it as well.

Eleventh, you misrepresent the commissions on indexed annuities. As of 3Q2010, the average commission paid to agent on indexed annuities was a mere 6.50% (and even lower for annuities sold to older-aged purchasers). There are precisely six indexed annuities (out of a total 247 products) that pay a double-digit commission of 10% or more. Although there are indexed annuities paying commissions as great as 12%, there are also indexed annuities that pay commissions as low as 1.5%. Also keep in mind that this commission is paid one time, at point of sale only, and the agent services the contract for life. By comparison, many securities products such as mutual funds pay generous, consistent commissions annually. So, in context, I think that you’ll find that the commissions paid on indexed annuities are actually quite reasonable and certainly not what you would portray them to be.

Twelfth, lawyer Rob Gianelli is clueless. Indexed annuities do not have “sales fees.” As I mentioned early, indexed annuities do not have fees like variable annuities do. It is hard to tell what this gentleman could be referring to, but this inaccurate information certainly sounds damaging, albeit wrong.

Thirteenth, no indexed annuities has surrender penalties “as high as 25%.” The maximum surrender penalties on these products don’t even exceed 20%! Where on earth did you do your fact-checking, Mr. Barrett?

I am baffled that you make numerous comparisons between indexed annuities and mutual funds, ETFs, etc. Remember- indexed annuities are a safe money place. Mutual funds and ETFs are risk money places. You are making apples-to-oranges comparisons here. Take note that you should be comparing indexed annuities to fixed annuities and certificates of deposit in the future please.
I can appreciate your argument on “solvency risk,” however you fail to realize the strict scrutiny placed on the solvency of insurance companies by the insurance commissioners that regulate them. I am glad that you mentioned the Guaranty Fund Association, which protects insured persons in the event of insolvency. Interestingly, however, very few insurance companies have gone insolvent since the market collapsed. **In contrast however, 323 banks have failed since the market collapsed in 2008.** I believe that if more Americans understood the Guaranty Fund Association, they would have more confidence in the solvency of insurance companies than they do in the solvency of banks. Please realize the context of your statements before making them, Mr. Barrett. Your negative persuasion toward the claims-paying abilities of annuity issuers portrays these products differently than reality. Your public, disparaging statements have the ability to inappropriately sway your readers.

Fourteenth, Craig McCann does not even have a basic understanding of indexed annuities. Some of your faulty understanding of indexed annuities appears to be based on a person who has no expert credentials in this market. If you understood indexed annuities, and read Mr. McCann’s overview, it would be very simple for you to see **that he is not even a novice when it comes to understanding these products.**

Fifteenth, like immediate annuities, indexed annuities “provide a fixed income for life in exchange for an upfront payment.” All deferred annuities (indexed included) provide the option for annuitization, which like an immediate annuity, provides guaranteed income the purchaser cannot outlive. Indexed annuities have so 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:** every indexed annuity allows annual penalty-free withdrawals of the account value at 10% of the annuity’s value; some even permit as much as 50% to be withdrawn in a single year. 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 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.

I encourage you, Mr. Barrett, please seek out credible sources of information if you intend to write about these products in the future. I would personally be thrilled to serve as a fact-checking resource for you. However, inaccurate articles such as this reflect so poorly on Forbes and yourself. I am so disappointed to see a journal as credible as Forbes, continuing to print articles that are blatantly false. Your readers need credible and accurate information on financial services products, now more than ever. However inadvertently, you have done 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 such inaccurate information. 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.

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