ARTICLE: "Downside Protection Has Its Downsides"
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ANNUITYSPECS THE INDEXED EXPERTS

SETTING IT STRAIGHT CAMPAIGN

ORIGINAL ARTICLE CAN BE FOUND AT:
http://online.wsj.com/article/SB10001424052748703431604575468212487332270.html#articleTabs%3Darticle

Dear Mr. Zweig,

I believe that you are acclimated with who I am because of my October 4, 2010 correction to Allan Roth's article, "Build Your Own Annuity" (attached). In the event you do not recall, 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 your article (below), entitled "Downside Protection Has Its Downsides," which was published in *The Wall Street Journal*. As you may have guessed from my previous emails to Mr. Roth, I believe that the media needs to be held to the utmost standards of journalistic integrity. It is under this pretense that I am contacting you, because of the inaccuracies about indexed annuities that were found in your column below. I am reaching-out to you, in hopes that you will be encouraged to use myself and my firm for fact-checking purposes in the future, when it comes to indexed insurance products. Not only do I want to ensure that **you** have the facts about these products, but also that your devoted readers do. Now, more than ever, Americans need reliable sources for credible information on financial services products. I want to help ensure that you can be in a position to provide your readers with such information, when it comes to indexed annuities and indexed life insurance.

First, I will ask you the same thing that I have asked Allan Roth on innumerable occasions- could you please refrain from referring to indexed annuities as "equity-indexed annuities?" These products have not been called "equity-indexed annuities" since the late 1990's, when the insurance industry made a decision to rename the products due to client confusion. Since that time, 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 purchasers about the non-equity status of the products. It seems that in reality the only reason that the term "equity indexed annuity" continues to be perpetuated is because of reporters like Allan, yourself, and others who work for "credible" news sources, where readers perceive that your words and financial advice to be the gospel. Please, Jason, won't you help us to ensure that Americans are not confused; that it is very clear that there is a distinction between these fixed insurance products and equity investments? Your help in avoiding any such confusion would be so very greatly appreciated.

For your information- every indexed annuity available today is a deferred annuity. Although there have been two indexed immediate annuities in the past, none exist today.

In addition, it is not accurate to say that an "insurer also promises to pay a minimum annual income of 1% to 3%" on an indexed annuity. (Never mind that income is not equivalent to interest…) This statement is not true. The insurance company guarantees that 1% to 3% interest will be credited on a portion of the premiums paid on an indexed annuity, typically 87.5% (but never less). This secondary guarantee **is in addition to** the benefit where indexed annuities guarantee that the purchaser will receive no less than 0% interest credited annually. These products are never subject to loss of interest as a result of market declines. However, no insurance company could afford to pay out a minimum guaranteed interest rate of even 1% annually on an indexed annuity. Were this the case, the insurer would not be able to afford to offer the index-linked interest on the contract, which offers the upside interest potential.

Unfortunately, the average cap information that you were given by NAFA is inaccurate; a little too aggressive. AnnuitySpecs.com houses product and rate information for every indexed annuity in the country. Using that data, I am able to tell you that the average annual point-to-point cap on indexed annuities as of today is 4.34%. We are facing historical low interest rates in this market; fixed annuities and certificates of deposit (CDs) are no different. However, one should also note that these caps currently range as high as 8.30% annually at the present.

You should also know that caps are not always applied over a 12 month period, as you state in your article. Some caps are applied over a three, four, or six-year period, despite the fact that caps are most often applied annually. In addition, not all products utilize a cap. Some products use a participation rate or spread (a.k.a. asset fee or margin) to limit the potential indexed interest on the contract. Caps, participation rates, and spreads are just three different ways of doing the same thing: limiting the potential indexed interest on an indexed insurance product. What you need to understand, Mr. Zweig, is that the limiting of the interest on indexed annuities is not a detriment to the purchaser. This limitation of interest is necessary, in order to ensure the guarantees that are provided by the contract.

Perhaps it would help if I first started with a brief overview of how indexed insurance products work. Because indexed annuities are a "safe money place," they 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 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 5% today, indexed annuities sold today should earn 6% - 7% 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, the client is guaranteed to never receive less than zero interest (a proposition that millions of Americans are wishing they had during that period of 03/08 to 03/09) and will receive a return of no less than 117% worst-case scenario on the average indexed annuity. **In addition, no indexed annuity owner has ever lost a penny as a result of market downturn.** This is a strong value proposition that cannot be offered by any securities product. When the market collapsed in 2008, the stock market declined nearly 50%. Savers who owned products such as variable annuities, stocks, and 401(k)s correspondingly lost nearly 50% of their retirement savings. Savers who owned indexed annuities, on the other hand, lost none of their retirement savings when the market collapsed. **So consider- is it worth having the ability to gain the full 26% at the risk of losing 50% or more?** Indexed annuity purchasers think not, and I happen to agree with them.

The commission information you are citing for indexed annuities in not quite correct. The average commission for indexed annuities as of 3Q2010 is 6.34%, and even less for older-aged purchasers. Keep in mind that this commission is paid a single time, at point-of-sale. As an FYI, it is for this reason that it is inappropriate to compare the commissions paid on annuities with the consistent, generous commissions that are paid on products such as mutual funds.

I think you underestimate the insurance agent's reliance on repeat business and referrals, Mr. Zweig. Repeat business and referrals are the lifeblood of any salesperson's business. I think that you'll find that despite the exhaustive disclosures that are required in the indexed annuity sale that the agents are also very thorough in their explanation of annuity's contract terms.

And while it is true that insurance companies *reserve the right* to change the caps, participation rates, and asset fees on indexed annuities in years two plus, it does not mean that insurance companies do. I can name numerous companies that have never reduced their renewal rates on their indexed annuities. However, this provision is no different than that of a fixed annuity, where the insurance company has the discretion to change the credited rates in years two plus. Not to mention the fact that variable annuities have the ability to increase fees if necessary in years two plus. All fixed and indexed annuities are subject to minimum rates, as approved by the state insurance divisions that approve the products for sale in their respective states. Insurance companies are smart to protect themselves by filing products that have the ability to change rates annually, in the event of a volatile market. 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.

You also fail to realize that the caps that are offered on **new** indexed annuities today are different than the caps that were offered on **new** indexed annuities two years ago. Yes, caps of 8% or more *were* common (before the market collapsed). My former partner Jack Marrion is *technically* correct in this statement. However, the interest rate environment has changed what rates are being offered today; it nothing to do with insurance companies changing these rates once the contract is inforce/active. It also goes without saying that you cannot suggest that because these ‘new business’ rates have changed for new contracts that indexed annuity purchasers from years past are receiving less interest today, via their ‘renewal’ rates because the insurance company has adjusted their caps downward. Please pay close attention: you are comparing apples to oranges here.

Fortunately, indexed annuity purchasers are in a unique position to gain, should “interest rates fall further.” 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 consumers 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, which appears to be of concern to you.

And although all annuities are intended to be a part of a long-term retirement plan, it is inappropriate to say that indexed annuities “aren’t for anyone who might need the money any time soon.” Every indexed annuity permits the purchaser to access 10% of their annuity’s value, without being subject to a surrender penalty, on an annual basis. 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 it is clear that indexed annuities are some of the most liquid retirement income products available today. You inferences that they are quite the opposite are not appreciated.

I am sorry to say that if you are using Allan Roth as a resource for information on indexed annuities, you are in a world of hurt. I have already had to correct Allan on approximately 30 mistakes/inaccurate statements he has published pertaining to indexed insurance products in the three articles he has published on these products in the past year. I urge you to reach-out to a more knowledgeable resource in the future, should you need information on indexed insurance products.

Jason, similar to the CD strategy you write about, an indexed annuity will guarantee that the purchaser will not “lose any money overall.” In addition, a study my former partner (Jack Marrion) performed on the ***actual returns*** of indexed annuities shows that they have returned more than your CD strategy. In the attached study, Jack illuminates that from 1997 to 2007, the five-year annualized returns for actual indexed annuities averaged 5.79%. And while this alone is a compelling story of why an indexed annuity is a fantastic alternative to a CD, you must also consider that indexed annuities have the potential to return much more. Despite the fact that these products are only intended to outpace fixed money instruments by 1% - 2% on a consistent basis, sometimes purchasers “hit a home run.” I have actual policyholder annual statements on my desk, showing one-year gains as high as 47.65%! What is more- these products provide tax deferral, which a CD does not; all while protecting their purchaser's payments from declines due to market fluctuations. This combination of tax deferral, protection, and upside potential is something that cannot be offered with any other retirement savings product.

I urge you to not forget what I said to Allan Roth, regarding his comparison of fixed/indexed annuities and CDs:

"It appears you are also failing to realize that the consumer pays no taxes on their principal or gains on a qualified annuity, as long as they defer income. Plus, annuities allow you to not only accumulate interest above the premium you pay, but also provide interest on your interest, and interest on the money you would have paid in taxes. (Frequently referred to as "triple compounding," see below bullets) I'd say that is these features of an annuity are actually quite "tax-efficient," Allan.

You also suggest that CDs should be the foundation for your annuity-alternative. **Do you realize that fixed and indexed annuities have many valuable features, which a consumer cannot obtain with a CD?** For example:

1. Annuities provide tax-deferral, where a CD cannot. (This is an important advantage for Americans who would like to sock money away while they are at a 35% tax bracket, and not be forced to pay taxes on the money until they are at a 15% tax bracket.)

2. Your average CD rate today is a whopping 0.75% annually (according to BankRate.com), whereas fixed annuities are currently crediting an average of 3.42% per year and indexed annuities are presently offering the opportunity to earn as much as 8.30% or more in a single year. (**I'd say this benefit alone is compelling enough to choose the annuity over the CD.)**

3. Annuities are backed by the claims-paying ability of the insurance company that issues it. (Have you noticed how many insurance companies have become insolvent lately? Perhaps because it is so very few. On the other hand, depositing your money with a bank has become a risky proposition as of late; consider that 298 banks have failed since the market collapsed in March of 2008.)

I guess overall, it would be hard to argue that an purchasing an annuity is much more compelling that a buying a CD today."

Mr. Zweig, do you realize that indexed annuities offer many benefits to their purchasers in addition to the indexed interest? These benefits would include (but are 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.

Thus far, I have not seen that your mistakes on indexed annuities are malicious or that you have knowingly published inaccurate information. I encourage you to stand apart from those whose greatest desire is to appease their mutual fund advertisers, at the expense of journalistic integrity. I am happy to serve as a resource to you, or anyone else, that desires factual information on indexed insurance products. Should you have such a need, please do not hesitate to contact me.

Thank you, Jason.

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