Unfair & Unbalanced

ANNUITY COVERAGE

Some indexed annuity professionals are steaming mad. Critics who lost their battle to quash indexed annuities are coming back again, and with the same old arguments. Now annuity leaders are fighting back...

BY LINDA KOCO

The object of their ire is none other than financial media companies that ran articles bashing indexed annuities from the end of last year to the beginning of this year.

The firms include, but are not limited to, Forbes (Dec. 6, 2010), Money Magazine (Jan. 17, 2011), Motley Fool (Jan. 19, 2011) and Bloomberg News (Jan. 20, 2011).

Key words in the headlines set the tone for much of the content—terms like "protection racket," "safety trap," "stay away" and "obscure."

Professionals who have long toiled in the indexed annuity field don't take kindly to such terms being applied to their work and products. They say they have complained to the reporters about unbalanced or inaccurate reporting, but to no avail. So now they are taking steps to present rebuttals through other means.

The Trigger

The fight-back trigger for Jack Marrion was "the biased, one-sided stories and opinions masquerading as facts" that he says he found in the recent articles.

"It seems that every story says indexed annuities can't be competitive because you don't generally participate in all the upside and because indexed annuity returns do not include reinvested dividends," says Marrion, president of Advantage Compendium, a St. Louis indexed annuity consulting and analysis firm.

Several articles also propose securities alternatives but typically fail to show what would happen if a consumer followed that advice, Marrion adds.

The articles irked him so much that he says he has decided to start calculating what could have happened with a particular indexed annuity that is mentioned in an article or with a reporter's suggestion. The results show a much different picture of indexed annuities than the articles portray, he says.

For instance, last fall a columnist suggested investing in a certificate of deposit/index fund combo instead of an indexed annuity, Marrion says. So he ran the numbers.

He says he found that even if the index fund were to double in value in the next

five years, the overall participation rate for the combo would be equivalent to 11 percent. That's nowhere near what a consumer could get in indexed annuity participation rates over the same period, Marrion says. "The consumer would have more money in the indexed annuity, and that's before factoring in any taxes owed on the CD interest or fund dividends," he adds.

Next, Marrion decided to post his findings on his website, www.indexannuity.org. He says he has also decided to review the previous advice of media financial pundits whenever they write new columns demonstrating anti-annuity bias. "If merited, I will issue a news release on what I discover."

Why bother? "I'm ticked off," Marrion says flatly. "It's important for the public to know both sides of the story."

The National Association for Fixed Annuities (NAFA) is taking action too. The Milwaukee trade group recently debuted a website—www.fixedannuityfacts.com—to present facts about the role of the product in a person's life. The site has sections for press, consumers and industry professionals, and includes calculators, a glossary, articles and more.

"It's not biased—it's factual," contends NAFA executive director Kim O'Brien.

NAFA has also hired a public relations firm. The firm is working with the association on a media-shifting strategy, plus an educational initiative directed at consumers and the media, says O'Brien.

One piece of the educational effort will be to hook up with consumer advocates, such as those who attend national regulatory meetings. "We want to get their input and start an interactive dialogue," O'Brien says.

In addition, NAFA is working to get interviews with the managing editors of some of the publications that featured the articles. "I think there is a securities mentality at these publications," O'Brien says. The goal of these meetings would be to have conversations about injecting balance into articles on indexed annuities, she says.

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Jack Marrion, President of Advantage Compendium

This activity is in addition to NAFA's ongoing strategy of posting rebuttals to negative articles about indexed annuities on its website at www.nafa.com. In January and February alone, O'Brien posted rebuttals to five such articles. Interior pages of the website show several more rebuttals from late 2010.

Indexed annuity booster Sheryl Moore regularly posts rebuttals too. The president of Advantage Group Associates Inc., a data tracking firm in Pleasant Hill, Iowa, Moore blogs extensive commentaries on negative articles at www.SherylJMoore.com.

"The negative press may seem more prevalent today because the articles are coming from major news media as opposed to local or state outlets."

Sheryl J. Moore, CEO of AnnuitySpecs.com

In mid-February, the Moore blog showed three rebuttals published in 2011, plus a long list of other rebuttals stretching back to 2009. (Moore says she rebutted 52 articles in 2010 and 28 in 2009.)

Not a New Problem, But ...

Indexed annuity professionals are not new to negative press cycles. After the products' formative years in the late 1990s, for instance, articles periodically came out claiming indexed annuities were too complex and confusing. Several carriers responded with more simplified designs, more producer/consumer education and increased standardization in certain areas.

The mid-2000s spawned new waves of negative articles. Many zeroed in on market-conduct issues, surrender charges and commissions.

Some of those articles seemed to imply that the securities industry's push to have the products regulated as securities would be a desirable solution to market-conduct problems. But that push ultimately failed last summer. That's when Congress enacted the Dodd-Frank Wall Street Reform and its sharply chiseled Harkin Amendment stating that indexed annuities are not securities if the products meet certain conditions.

Indexed annuity leaders seem to have taken those earlier media attacks in stride. They reasoned that this was part of their new-kid-on-the-annuity-block initiation and, later, as part of the give-and-take of business competition.

But after Dodd-Frank passed, many annuity professionals expected the negative articles would abate and ultimately stop altogether. That's because Dodd-Frank settled the score about the status of indexed annuities. Besides, the real or perceived problems with the products have long since been addressed, the experts reasoned.

But as the new crop of negative articles clarifies, that did not happen. The new string of articles in nationally known financial publications hit the industry like a sucker punch from the unknown.

MANAGING NEGATIVE PR
See how an advanced producer takes negative publicity to turn his client into an indexed annuity believer » PG.32

Articles That Spark Outrage

The following four articles have set blood to boiling at indexed annuity firms, because each slams indexed annuities in one way or another. The articles appeared in nationally known financial publications from late 2010 to early 2011.

Indexed Annuities: Protection Racket

By William P. Barrett • Forbes Magazine • Dec. 06, 2010

http://www.forbes.com/forbes/2010/1206/investment-guide-index-annuities-insurance-aviva-protection-racket.html

An 85-year-old woman living in a nursing home heard "an alluringly simple pitch" from an insurance agent and ended up buying a 40-year indexed annuity with "hefty penalties" on withdrawals during the first 10 years, says writer William P. Barrett. The woman later joined a class action suit against the insurer, and the company later settled, Barrett adds. Then he gets to the point: "We've said it before, and we're saying it again: Whatever your station in life, indexed annuities are in all likelihood a lousy investment. If preserving capital is your main objective, there are much cheaper and simpler ways to do it."

Index Annuities Are a Safety Trap

By Lisa Gibbs • Money Magazine • Jan. 17, 2011

http://money.cnn.com/2011/01/17/pf/index_annuities_safety_trap.moneymag

The Illinois Securities Division is pursuing a case involving sale of new indexed annuities to 15 people who had attended free-meal retirement seminars, according to the author, Lisa Gibbs. The allegations are that the customers did not need the policies and that the sales cost clients $208,000 in surrender fees while the firm gained $126,000 in commissions, she writes. The bulk of the article highlights various sources commenting on a variety of indexed annuity problems, including aggressive marketing, high commissions, high surrender fees, complexity and unattractive returns. There are better alternatives for people who want a safe return with some upside potential and the ability to generate income, Gibbs concludes.

Stay Away From These Investments

By Dan Caplinger • Motley Fool • Jan. 19, 2011

http://www.fool.com/retirement/general/2011/01/19/stay-away-from-these-investments.aspx

The indexed annuity's upside potential/downside protection feature is especially appealing, admits Dan Caplinger, the author. Getting to "participate in the excellent returns of bull markets while missing out on bad years like 2008 sounds like the perfect solution," he continues. But he maintains that is not what happens in reality. Caplinger points to "unappetizing features" in the products, and warns against the "high fees and complicated provisions that most index annuities have." Those seeking a low-risk portfolio would be better off with FDIC-insured CDs and modest investments in the stock market, he writes.

Indexed Annuities Obscure Fees as Sellers Earn Trip to Disney

By Zeke Faux and Margaret Collins • Bloomberg • Jan. 20, 2011

(NOTE: this article was posted again, on January 24, 2011, at Investment News)

http://www.bloomberg.com/news/2011-01-20/indexed-annuities-obscure-fees-as-sellers-earn-trip-to-disney.html

An 82-year-old widow put about $1 million into four indexed annuities on the advice of an insurance agent, but she ended up paying as much as 15 percent of her account balances five years later to get out of the contracts, write authors Zeke Faux and Margaret Collins. The writers cite various critiques of indexed annuity problems such as: caps on interest crediting, long surrender periods, complex terms, embedded fees, state regulation that is not strict enough, lack of an FDIC guarantee, low returns, etc. Faux and Collins do quote a satisfied annuity buyer and an agent who says most clients are happy with their index annuities. But the writers close by pointing out that the two largest U.S. insurers don't sell the products.

Agents, marketers, company executives and many others have been more than a little taken aback. Even state insurance regulators, such as Iowa's Jim Mumford, are surprised.

Mumford is first deputy commissioner and securities administrator at the Iowa Insurance Division, Des Moines. The state has five indexed annuity companies in domicile, more than any other state, and often spearheads new regulatory initiatives involving indexed products.

The regulator says he did speak with reporters from two of the publications that recently published negative articles. He says he discussed current indexed annuity trends with each, pointing out that the products of the past four years are "not the same products that were sold previously."

But Mumford says the articles that came out reflect little of what he said. Instead, the articles brought up old facts and figures, possibly carried over from years past, he says. They are "about five years too late."

Mumford is concerned about that because he says he considers today's indexed annuities to be "established products that are good for certain people."

The products are also subject to strong suitability and disclosure rules, he says, pointing to the newly revised Suitability in Annuity Transactions Model Regulation, which the National Association of Insurance Commissioners (NAIC) adopted last year.

Six states have already adopted the 2010 model and six more have proposed adoption, he continues. Mumford expects more states will follow suit because NAIC has made this a priority for 2011. (Note: The National Conference of Insurance Legislators (NCOIL), Troy, N.Y., is also making annuity suitability reform a priority for 2011.)

The new NAIC 2010 Suitability Model 275 has teeth. It is patterned after the rigorous variable annuity suitability model adopted by the Financial Industry Regulatory Authority (FINRA), Mumford points out. FINRA is the self-regulatory organization for securities broker/dealers.

"The 2010 model also has specific product training requirements for indexed annuities," Mumford says.

Even if some states don't adopt the 2010 model, the regulator adds, indexed annuity companies will still have to follow its provisions. This is because of the Harkin Amendment. It requires companies selling the products to have the 2010—or similar—suitability standards in place by June 2013. "If they don't, their indexed annuities will be considered securities," Mumford says.

What's Behind It?

Some industry professionals are trying to figure out what is behind the new round of negative articles. No one suggests that a conspiracy is afoot. Still, the buzz and speculation are going in a number of directions.

Old thinking. Some of the old thinking about indexed annuities, before the products matured, may be carrying over to today, suggests Michael J. Prestwich, president of ImageSOFT Inc., an Albuquerque, N.M., illustration software firm, and a former agent.

Some writers and publications may also be working from prejudice or preconceived ideas, he continues, or "perhaps their past backgrounds or previous financial training is influencing what they write."

The indexed annuity industry did bring some of the early criticism upon itself, Prestwich allows. For instance, in the late 1990s and early 2000s, marketers often promoted the products as investments and gave short shrift to the insurance guarantees. That spurred critics to cry "misrepresentation" and caused others to pillory the products as investments with mediocre yields, he says.

"The critics missed the point, or did not realize, that the product is a fixed insurance contract and is not designed to give a 'yield,'" in the investment sense of the word, Prestwich says. This is the kind of complaint that writers sometimes carry over, he adds.

Complexity. The complicated nature of indexed annuities is a contributing factor, according to Kevin M. Lynch, assistant professor of insurance at The

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American College, Bryn Mawr, Pa., and a specialist in fixed annuities.

Especially in the early days of indexed annuities, "people didn't understand the products and unscrupulous salespeople misrepresented them," he recalls. Articles about this found their way into investment-oriented media in the mid-2000s, especially after broker/dealers began complaining about the products being sold outside of their firms, Lynch says.

These concerns can be influencing the writers today. Even though Dodd-Frank is now law and annuity regulations and products have tightened up, he adds, "too many parties don't want to give up the fight."

Financial planning. The financial planning community could be influencing some of today's media activity, suggests Noel Abkemeier, a consulting actuary and principal at Milliman Inc., Williamsburg, Va.

Financial planners typically do not use indexed annuities, he says. "They believe planning can do essentially the same thing as indexed annuities, but with asset allocation of mutual funds." Even so, the planners want to "shoot the competition," Abkemeier says.

He finds this to be an unusual position for planners to take. Most planners do not typically work with clients who purchase indexed annuities, he explains.

"For instance, an older woman with $200,000 in liquid assets might benefit from putting some of her money into an indexed annuity. The annuity functions like a packaged solution for her, without the cost of financial planning. Meanwhile, most financial planners would not be interested doing asset allocation for that woman."

Abkemeier thinks the explanation for financial planner antipathy to indexed annuities might be the carryover effect, as noted above. That is unfortunate, he adds, because he says the articles do not reflect the fact that today's indexed annuities have shorter surrender charge periods and other consumer-friendly features. The carriers do a better job of reaching appropriate markets too, he says. And the interstate compact helps speed the newer designs to market in its 35 member states.

Insurance versus securities. NAFA's O'Brien thinks the articles spring from the ongoing battle between the indexed annuity side of the insurance industry and the securities side of the financial services business. As such, she believes the recent negative articles were published by media that are listening to the securities industry viewpoint.

"I also think that the outcome of Rule 151A rubbed them rawer than anyone could have, and now they are seeking payback," O'Brien says. (Rule 151A is the now-defunct proposal of the Securities and Exchange Commission (SEC) to take over regulation of indexed annuities; Dodd-Frank essentially killed it.)

Indexed annuity sales. O'Brien allows that some securities people sincerely believe that the indexed annuity is not right for their clients and that Treasury bonds would be better. But she believes that securities people are also eyeballing the indexed annuity sales increases of recent years in a competitive way and that this is influencing what they say to the media.

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>
> Kim O'Brien, President of NAFA

These sales have been hitting new records quarter after quarter in recent years, she explains. (Note: AnnuitySpecs.com's preliminary results for 2010 show indexed annuity sales reached a record $31+ billion, up more than 3 percent from 2009, which was also a record year.)

O'Brien suggests that securities professionals—and the publications that align with them—see these increases and worry that consumers may be transferring assets from the investment management side to the indexed annuity side.

Such concerns are unfounded, O'Brien maintains. "I believe that demographics are the main factor. As moderate-income people move closer to retirement, they become more safety minded and want a more conservative strategy (such as indexed annuities). This is not the same demographic that the securities industry attracts."

Taking the Long View

Whether any of these conjectures holds water is a moot point, since no one can be sure about what motivates any writer or publication. But annuity experts are considering all possibilities as they frame out potential strategies for making a response.

Moore of AnnuitySpecs.com takes a long view of the recent spate of negative articles.

The number "isn't that much more than we typically see," she says. In fact, compared to the 52 articles that she rebutted last year, "I actually think we're doing pretty well so far" this year.

But the negative press may seem more prevalent today, she says, because the articles are coming from major news media as opposed to local or state outlets.

Her suggestion to advisors regarding the articles is to explain to clients that there is a constant battle between the securities and insurance industries to gain control of client assets. "Validate the questions. Let clients know that you not only understand, but that the articles also concern you. Let them know that you did some research to find out if parts were factual. Then, direct the client to a third-party website where you were able to obtain the facts about indexed annuities." INN

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