

To: [TG Donlan](#), Barron's Editorial Page Editor

Re: Other Voices April 11, 2009, by Frederic Marks

Mr. Donlan, NAFA, the National Association for Fixed Annuities, appreciates the opportunity to respond to the above-mentioned article to ensure that your readers are truly **not deceived**.

We found the misspelling in the title a significant sign. At first we questioned whether the spelling error in the [April 11, 2009 article](#) was worth commenting upon since the errors and deception throughout the article were much more harmful and glaring. But perhaps the spelling error set the stage for the analysis and information to come.

Deceit is a deliberate act and the art of deception is an extremely difficult one to master. A good magician uses sleight of hand and distractions to accomplish deception. While reading the article, we felt like we were watching a magician's shell game –replete with skillful diversions and illusions so the object under the shell goes unnoticed into the magician's pocket. The object in this shell game is the simple and irrefutable fact that:

***when the market tumbles downward,
people can and do lose money in security products;
but they can't and don't lose money in indexed annuities
BECAUSE OF THE INSURANCE GUARANTEES!***

The article states *correctly* that “AN EIA IS NOT AN INVESTMENT,” but an insurance contract. Yet, terms like returns, perform, and dividends are used throughout when referencing the indexed annuity. Is this another attempt at illusion or not enough attention to detail?

The article also misunderstands the minimum guarantee in indexed annuities. The minimum guarantee is not “*generally that the customer will receive back 90% of the premiums paid, plus 3% annual interest*.” The minimum guarantees in indexed annuity products available todayⁱ provide a minimum guarantee that is a minimum interest calculation (based on the state's non-forfeiture law) such as the 3% on 90% of premiums used in the article or the contract's current account value, whichever is greater. If an indexed annuity earns your annual interest “of only 4.1%” then the customer will receive \$412,356 after 7 years, not \$355,155. After 14 years their return would be \$546,295.ⁱⁱ The guaranteed compound returns that you criticize as “only” are in fact the guaranteed floor that protects customers against drops in stock market returns. It goes without saying that there are millions of Americans who would have appreciated this protection over the last year.

Also, would customers today agree that the 4.1% after tax is “only” when they can rely on the real minimum guarantee, the promise that you won't lose money due to stock market declines and the potential for additional interest above the minimum guarantee? Today's indexed annuity owners do not have to cross their fingers and hope for returns of 9-10% for the next seven years to just **get back** their original investment. They lost nothing and will participate in any market increases that will be sure to come.

The article also discussed dividends and used a table to show “*the effect of omitting dividends and using the monthly average-return method for measuring the change in the S&P over the 30 years from 1975 through 2004.*”

However, is it just another masterful illusion to conveniently stop the analysis in 2004? A study conducted for NAFA by Miguel A. Hecce, Ph.D.ⁱⁱⁱ shows the reality of extending the study to include current data and considering periods such as 1995 – 2008 and 1998 – 2008. The results are (as seen in Table 1) far different. If, in addition, you understood that indexed annuities often enjoy a premium bonus, say 5% to 10%, and Marks’ clients must still pay advisory fees on top of any additional investing fees, the indexed annuity’s crediting rate is actually much higher than what the article illustrated.

Table 1. Monthly Averaging Method – Annualized Return for Selected Periods

| Period | S&P 500 with no Dividends | S&P 500 with Dividends | Monthly Averaging index (no floor) | Monthly Averaging Index (0% floor) |
|---------------------|---------------------------------|------------------------------|--|--|
| 01/01/75 – 12/31/04 | 10.0% | 13.7% | 5.8% | 7.8% |
| 01/01/75 – 10/31/08 | 8.1% | 11.6% | 5.1% | 7.2% |
| 01/01/95 – 10/31/08 | 5.5% | 7.4% | 3.2% | 6.2% |
| 01/01/98 – 10/31/08 | -0.02% | 1.6% | -0.03% | 3.8% |
| 12/31/99 – 10/31/08 | -4.6% | -3.0% | -2.2% | 2.4% |
| 10/31/07 – 10/31/08 | -37.5% | -36.1% | -15.4% | 0.0% |

There are many more omissions and contradictions in this article. For example, despite the statement that indexed annuities are NOT INVESTMENTS, the article concludes with the advice that if you are seeking “stock market gains with no risk of principal you could do far better” with 60% in U.S. Treasury securities and 40% in a low-cost S&P 500 index fund. Since they are not an investment they are purchased for their guarantees and safety. Not surprisingly, the article conveniently omitted the fact that with this allocation, the customer would have lost about 18% last year and it would take 3 years at 10% stock market returns to merely *recover the loss*.

The real design to deceive is the omission of facts and accurate information throughout the article. The role of all insurance agents and advisors is to first understand the client’s needs and priorities, second to develop a plan and show them the products they offer that can help meet the needs and address the priorities, and third, to frequently review objectives and goals to ensure the plan is being met. It only harms consumers to cause confusion through titillating titles and misinformation or, to simply deride a product with which one competes.

It is NAFA’s hope that by pointing out the article’s deceptions readers will seek a better understanding of surrender choices, liquidity options, and death benefit guarantees. Here is a quick “Consumer Check List” when considering *any* investment or insurance product.

1. Rely only on company-approved or issued sales material including illustrations and prospectuses
2. Ask for disclosures that fully explain all guaranteed and non-guaranteed elements of the product
3. Ask about all of the costs you must pay either directly or indirectly while you own the product.
4. Ask about the cost of any riders that provide additional features, such as guaranteed lifetime income or death benefits
5. Full disclosure on any product will take more than one or two pages and consumers should be wary of a one or two page report
6. Consumers should question any sales presentation that does not print the name of the agent, his/her contact information, the name of the product being illustrated, and the name of the company.
7. Consumers should confirm the licensing status of the sales person at their state insurance department website for and/or at www.FINRA.org

NAFA, its members and the individuals who sell fixed annuities believe in spending time and words promoting the awareness and understanding of fixed annuities not deriding other products or the people who sell them. NAFA believes stocks, bonds, mutual funds are valid investment options for individuals and that fixed annuities, including indexed, are valid insurance options for individuals seeking safety of principal and guaranteed income. All products can and should be considered when developing a financial plan and suitable product selection will be based on the client's dreams, goals, age, risk tolerance, time to retirement and much more.

We encourage you and your writers to seek a better understanding of fixed annuities and the value they can bring consumers so your magazine will bring a sound and balanced perspective to benefit your readers.

ⁱ NAFA is not aware of any of the almost 300 products for which this isn't true

ⁱⁱ Assumes 4.1% compounded each year at the beginning of the year and \$50,000 premium is paid each year for seven years.

ⁱⁱⁱ Comments on Dr. McCann's Analysis Submitted as Part of NASAA's Comment Letter to the SEC, Dated September 10, 2008, Miguel A. Herce, Ph.D, CRA International, Inc., November 17, 2008

NAFA member Michael Prestwich, President, Imagisoft, Inc., contributed to this article.

PS - NAFA is trying to contact Mr. Marks. His minimum guarantee reference of 1.67% has been checked by two independent actuaries and they both concur that the calculation is in error and should be 2.03%.