Our motto: "one and all will help any and all"

9:00: AM Pacific Thursday 800 504-8071 Code is 5556463

Questions ?
Anthony Owen at Tony@annuity.com

Important Stuff to Know!

In Olden Times...Bread was divided according to status. Workers got the burnt bottom of the loaf, the family got the middle, and guests got the top, or the **upper crust.**

The floor was on most homes was dirt. Only the wealthy had something other than dirt. Hence the saying, **"Dirt poor."**

The wealthy had slate floors that would get slippery in the winter when wet, so they spread thresh (straw) on floor to help keep their footing. As the winter wore on, they added more thresh until, when you opened the door, it would all start slipping outside. A piece of wood was placed in the entrance-way. Hence: **a thresh hold**.

Editorial

To One and All

2009 was a rough year for our industry and for us, our crew and for all agents committed to this industry, companies suspending product, low interest rates, compensation being reduced almost monthly, 151A and our prospects "frozen in the headlights" about making decisions.

2010 was just the opposite, companies began to release new products, compensation for the most part stabilized and sales came back. 151 A got the boot.

How about 2011?

I think 2011 will be the beginning of our **"Golden Age"** for our industry. Our products offer exactly what most people want, safety, security and guarantees. Plus the Baby Boomers are coming in large and dependable numbers.

Here are some tips I wish you would all consider that I think will help increase your production in 2011.

1. Invest in a marketing plan, generate more leads than you can use.....it will set you free. Use our marketing systems and brand with annuity.com, it will generate more income for you.
2. Use our drip system, www.retirevillage.com there is nothing like it in the industry and it works.
3. Instead of calling us for every little detail about product and forms, look them us yourself. Doing so will make you more dependent and self-sufficient. Call the insurance company, use Google, it isn't brain surgery.

4. Be in control; get more education, step up to the next level of professionalism. Become involved and remember a work week is a work week and a play week is a play week. Learn the difference.

In my biggest sales years, I sold over $10 million per year and in my career I am over $140 million in personal sales. I did so by making sure I had enough people to talk to, **you can do the same.**

This past year 2010 I had over $3 million in sales just from my existing database, folks have changing needs and our products were there to provide for those needs. There is more renewal income in the annuity industry than in the life insurance industry and I am living proof of that. Nothing beats the annuity industry....nothing!

I wish you all a productive and profitable 2011 and welcome to the best annuity selling time of our careers....the Golden Age.

Bill

PS. Later in these notes you will see the very best marketing system for agents in the industry, guaranteed.

Hot News

- **LA Times article about VA:** http://www.latimes.com/business/la-fi-0102-montalk-20110102,0,6561420.column
- **Standard of Indiana Re-insurance Article:** http://www.insurancejournal.com/news/midwest/2010/12/31/116069.htm
- **Sun Life Lawsuit Tennessee:** http://www.nashvillepost.com/news/2010/12/20/nashville_at_law_imploding_annuities_lead_to_lawsuit
- **New York Life, Madoff Lawsuit:** http://www.tradingmarkets.com/news/stock-alert/cum_new-york-life-massmutual-sued-over-madoff-linked-investment-losses-1390787.html
- **Micro Lending article:** http://www.bloomberg.com/news/2010-12-28/suicides-among-borrowers-in-india-show-how-men-made-a-mess-of-microcredit.html?
- **Health Insurance CEO Pay Raise:** http://www.moneytalksnews.com/2010/04/17/insurance-outrage-hike-prices-pay-ceo-100000000
- **Crap Article in Forbes:** http://www.forbes.com/forbes/2010/1206/investment-guide-index-annuities-insurance-aviva-protection-racket.html

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State Maximum Liability…State Guarantee Fund….a few updates…

	Present Value of Annuity	Phone Number
Alabama	$300,000*	(205) 879-2202
Alaska	$100,000	(907) 243-2311
Arizona	$100,000	(602) 364-3863
Arkansas	$300,000	(501) 375-9151
California	$250,000	(323) 782-0182
Colorado	$250,000	(303) 292-5022
Connecticut	$500,000	(860) 647-1054
Delaware	$250,000	(302) 456-3656

District of Columbia	$300,000	(202) 434-8771
Florida	$300,000*	(904) 398-3644
Georgia	$300,000*	(770) 621-9835
Hawaii	$100,000	(808) 528-5400
Idaho	$250,000	(208) 378-9510
Illinois	$100,000	(773) 714-8050
Indiana	$100,000	(317) 636-8204
Iowa	$250,000	(515) 248-5712
Kansas	$250,000	(785) 271-1199
Kentucky	$250,000	(502) 895-5915
Louisiana	$250,000	(225) 381-0656
Maine	$250,000	(207) 633-1090
Maryland	$300,000	(410) 998-3907
Massachusetts	$100,000	(413) 744-8483
Michigan	$250,000	(517) 339-1755
Minnesota	$250,000**	(651) 407-3149
Mississippi	$100,000	(601) 981-0755
Missouri	$100,000	(573) 634-8455
Montana	$100,000	(262) 965-5761
Nebraska	$100,000	(402) 474-6900
Nevada	$100,000	(775) 329-6171
New Hampshire	$100,000	(603) 226-9114
New Jersey	$500,000*	(973) 226-9114
New Mexico	$300,000*	(505) 820-7355
New York	$500,000	(212) 202-4243
North Carolina	$300,000	(919) 833-6838
North Dakota	$100,000	(701) 235-4108
Ohio	$250,000	(614) 442-6601
Oklahoma	$300,000	(405) 272-9221
Oregon	$250,000	(503) 588-1974
Pennsylvania	$300,000*	(610) 975-1572
Rhode Island	$250,000	(401) 273-2921
South Carolina	$300,000	(803) 276-0271
South Dakota	$100,000	(605) 336-0177
Tennessee	$250,000	(615) 242-8758
Texas	$100,000	(512) 476-5101
Utah	$250,000	(801) 320-9955
Vermont	$250,000	(802) 229-3553
Virginia	$250,000	(804) 282-2240
Washington	$500,000	(360) 426-6744
West Virginia	$250,000	(304) 733-6904
Wisconsin	$300,000	(608) 242-9473
Wyoming	$100,000	(303) 292-5022

Benefits for annuities in California are covered at 80% of the contractual obligation, subject to the guaranty association coverage limits.

*Provides the maximum coverage limit if the annuity is in the payout phase. If the annuity is not in the payout phase, the
limit is $100,000.

**The $250,000 coverage limit is for net cash surrender and net cash withdrawal values. If the annuity has been annuitized,

Also…..

Hello Partners,

Hope everyone had a very Merry Christmas.

I have very good news but it may still require some effort on your part.

First Annuity, our partner for American Equity and North American, will provide free signature guarantees for all of our contracted agents. Here is the catch. The signature on the transfer form must be notarized. With that in mind you should consider getting your notary if you don't have one already. I believe it can be obtained with some online courses.

Once the signature on the transfer form is notarized do the following:

1. **Mail the original application and all forms to First Annuity, c/o Tom Bradley, 7105 W. 44th Ave., Wheat Ridge, CO 80033**
2. **Include a copy of the applicant's driver's license. This can be done by taking a digital picture of the ID with your phone, laptop, or camera and printing it out.**
3. **Include a cover page that states, "Please Signature Guarantee and forward to carrier".**

Once the app, notarized transfer form, and picture ID is received it will be mailed to the carrier for processing.

Thank you for your business this year!

Anthony R. Owen
Vice President, Eagle Shadow Financial, LLC
Co-Founder, Life Agent's Alliance
Life Agency Director, Annuity.com

Office: 303-284-3582
Cell: 720-989-9564
Fax: 888-742-4368
Toll Free: 888-74AGENT

“10,000 a Day….10,000 Baby Boomers a day will turn 65 beginning January 1, 2011”

Last month we started talking about the coming Baby Boomers and the “Golden Age” of annuity selling….it is here and articles like the one next will be very commonplace….

”we need to retire and we need money”

…that will be the Baby Boomers mantra!

BB

Baby boomers near 65 with retirements in jeopardy

Many find smaller pensions, higher health costs, lower housing values pinching on their bottom line

By DAVE CARPENTER
Associated Press
updated 12/27/2010 5:21:16 PM ET

CHICAGO — Through a combination of **procrastination and bad timing**, many baby boomers are facing a personal finance disaster just as they're hoping to retire.

Starting in January, more than 10,000 baby boomers a day will turn 65, a pattern that will continue for the next 19 years.

The boomers, who in their youth revolutionized everything from **music to race relations,** are set to redefine retirement. But a generation that made its mark in the **tumultuous 1960s** now faces a crisis as it hits its own **mid-60s.**

"**The situation is extremely serious because baby boomers have not saved very effectively for retirement and are still retiring too early,"** says Olivia Mitchell, director of the Boettner Center for Pensions and Retirement Research at the University of Pennsylvania.

There are several reasons to be concerned:

- The **traditional pension plan is disappearing**. In 1980, some 39 percent of private-sector workers had a pension that guaranteed a steady payout during retirement. Today that number stands closer to 15 percent, according to the Employee Benefit Research Institute.
- Reliance on stocks in retirement plans is greater than ever; 42 percent of those workers now have 401(k)s. But the **past decade has been a lost one for stocks, with the Standard & Poor's 500 index posting total returns of just 4 percent since the beginning of 2000.**
- Many retirees **banked on their homes as their retirement fund**. But the crash in housing prices has slashed almost a third of a typical home's value. Now 22 percent of homeowners, or nearly 11 million people, owe more on their mortgage than their home is worth. Many are boomers.

Too many boomers have ignored or underestimated the worsening outlook for their finances, says Jean Setzfand, director of financial security for AARP, the group that represents Americans over age 50. By far the greatest shortcoming has been a failure to save. The personal saving rate — the amount of disposable income unspent — averaged close to 10 percent in the 1970s and '80s. By late 2007, the rate had sunk to **negative 1 percent.**

The recession has helped improve the savings rate — it's now back above 5 percent. Yet typical boomers are still woefully short on retirement savings. Even those in their 50s and 60s with a 401(k) for at least six years had an average balance of less than $150,000 at the end of 2009, according to EBRI.

Signs of coming trouble are visible on several other fronts, too:

Mortgage debt

Nearly two in three people age 55 to 64 had a mortgage in 2007, with a median debt of $85,000.

Social Security

Nearly 3 out of 4 people file to claim Social Security benefits **as soon as they're eligible at age 62**. That locks them in at a much lower amount than they would get if they waited.

The monthly checks are about 25 percent less if you retire at 62 instead of full retirement age, which is 66 for those born from 1943 to 1954. If you wait until 70, your check can be 75 to 80 percent more than at 62. So, a boomer who claimed a $1,200 monthly benefit in 2008 at age 62 could have received about $2,000 by holding off until 70.

Medical costs

Health care expenses are soaring, and the availability of retiree benefits is declining.

A 55-year old woman with average drug expenses needs to have about $193,000 just to cover future medical costs. Because of greater longevity, a 65-year-old woman would need even more to cover her health insurance premiums and out-of-pocket health expenses: an estimated $233,000.

Employment

Boomers both **need and want to work longer** than previous generations. But unemployment is near 10 percent, and many have lost their jobs.

The average unemployment period for those 55 and older was 45 weeks in November. That's 12 weeks longer than for younger job-seekers. It's also more than double the 20-week period this group faced at the beginning of the recession in December 2007.

Hartford Financials Report: Baby Boomers' Social Security Shortfall and Life & Health Insurance

A recent survey by Hartford Financial shows that Social Security is becoming an increasingly important source of retirement income for Americans.

In the survey, **39% of the respondents cited Social Security as their most important source of retirement income**, up from 27% in 2006.

However, 75% of the Americans consider themselves rather than the government as being most responsible for their income upon retirement and 85% of the respondents think that Social Security alone won't be enough to maintain their standard of living upon retirement.

The lack of confidence among baby boomers about the adequacy of Social Security stems from the weak economic environment, high unemployment and an uncertain future.

NOTICE

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Your most important career decision is about Marketing

Your Trusted Sources

Still Guessing where your Prospects are Going to Come From in 2011???

Annuity.com

Brings you leads!

The most successful of agents do all the little things right; they pay attention to every tool available to bring in extra business.

We have the tools that provide you with the path to successful annuity sales.

1. Leads; Pre-Qualified and Pre-Screened

Pay as you go, absolutely no large upfront fees. These leads are expecting a call from you to discuss their Retirement Money….You will know all the details about

their retirement assets, such as how much is available for an annuity.

In 2010 the average sale was $214,000 for every 10 leads.

Ask us for references of Agents who use these leads…

Call for all the details…

(don't miss this opportunity, it is exclusive to us and areas will get gobbled up…..BB)

2. Seminar Selling: Our Way

How would you like a guaranteed 15 buying units for $1,500 Guaranteed to show or You Don't Pay!

No meals to serve. No invitations to send. No location to find. Just show up and speak.

Click here to listen to a 10 minute overview.
(www.focugroupusainc.com)

A new manual and training video is on it/s way and should be finished by January 15th....

3. ERMS: Electronic Response Marketing System

The “Ultimate” outsource marketing system. Maximize your marketing effort by using our system to corral up those sales that otherwise would be lost!

No management on your end, we drip on your clients and prospects for you and send you the leads daily.

We do it all for you!

Login is daviddemo password is pass333. (www.retirevillage.com)

4. Safe Money Radio

Your own 30 min customized radio show!

Be a celebrity!

This system is "Totally Turnkey!" Over 50 agents in cities across the US use this powerful and credible lead generation system.

Your prospects call you!

Click here and listen! (www.safemoneyradio.com)

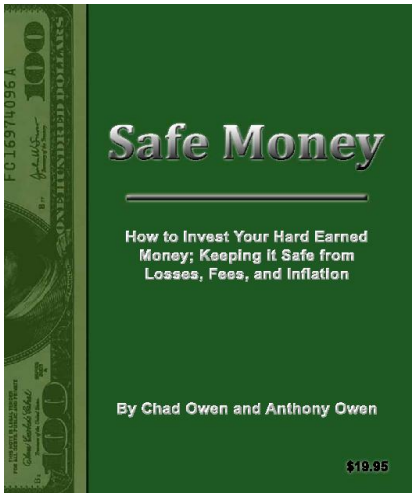
Open MIC

Our crown jewel!

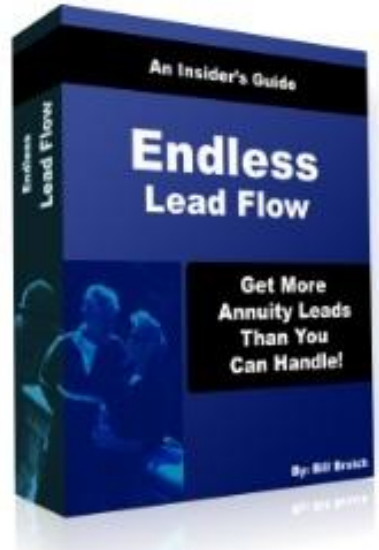
Every Thursday at 9:am Pacific we gather together as a crew to review the state of the industry and economics that affect your clients and sales.

See how we roll!
Dial 800-504-8071 Access Code5556463

Plus....The Best Premium Giveaway in the industry....Our **"Safe Money"** Book....Build relationships this smart intelligent approach.



Plus....Our Nationally Known Book based on our personal selling experiences....***"Endless Lead Flow"*....see how we do it!**



Plus...deep discounts for direct mail orders direct from **ARM Leads...** (www.armleads.com)

Annuity.com is an Internet Based Marketing Machine Designed to Brand You to The Product You Sell and Drive Client and Prospect Leads to You!

Plus....We will help you develop and build your own marketing system based on your goals and your budget....

Simply cut and paste the enclosed form, answer the questions and email to any of us...our email contacts are above...

2011 Annuity Marketing Plan

Name:
Contact Phone:
Email contact:

1. Do you currently sell annuities?

2. Do you currently sell life insurance?

3. What are your "go to" companies? (2 or 3 Favorite)

4. Do you have your own website? What is the URL?

5. How much annuity premium did you pay for in 2010?

6. How many individual sales did you make in 2010?

7. Do you work in the senior market exclusively?

8. How long have you been selling in the senior market? (years)

9. How are you currently marketing for leads? (Seminars, direct mail, radio, internet?)

10. In less than 50 words tell us what your career goals are?

11. How much are you currently spending on marketing each month?

12. How much did you earn (gross commissions) from annuity and life insurance sales in 2010?
13. Have you set any income goals for 2011?

14. Do you have a retirement plan set up for yourself? Is it funded annually?

15. Do you have an assistant? Do you have a telemarketer? If so, how much do you pay them?

16. How many weeks a year do you pan to work?

17. Do you have a business line of credit? Do you update your financial statement annually?

18. Are you security licensed? RIA?

19. If you are security licensed, does your Broker Dealer allow you to sell annuities outside of them? Do you sell variable annuities?

20. Do you have enough leads on a monthly basis? How would you rate the quality of your generated leads? (1-10)

21. Do you database your prospects, suspects and clients? Do you drip (email) on them?

22. If you keep a database, do you ever "glean" your database?

23. What magazines do you read? What trade journals do you read?

24. Are you a member of your local life underwriters association?

25. How many trade or industry meetings do you attend annually? (not company sponsored vacations or trips).

26. In 100 words or less, tell us about your personal life. (family, hobbies, passions)

27. Do you market through "social networking"? (Facebook etc) If so, how?

28. Do you have a business office or do you work out of your home?

29. If you had a choice, how much longer would you like to work?

30. Are you financially responsible for anyone other than your immediate family? (parents stc)

31. What is your opinion about "Annuity Marketing Organizations?" (FMO) Are they helpful or do they get in your way?

32. Does your current FMO help you with lead generation?

33. Do you sell on the first appointment? Do you use a "fact finder" to collect facts and feelings about your prospect?

34. Do you provide a list of references for your prospects?

35. Do you ask for referrals? Do you feed names for referrals to your clients?

36. Do you know what these initials stand for? OCS.

37. Have you ever heard of or ever used Feng Shui in your business or personal life?

38. Finally.....if a personalized plan is designed for you that makes sense, would you agree to use the plan and stick with it for one year?

PDF attached...to notes

From: David Braun [mailto:david@ddbraun.com]
Sent: Sunday, January 02, 2011 9:20 AM
To: bill@annuity.com; Joe Rych; David Townsend
Subject: MONEY on Index Annuities

Bill, Joe, and David,

I know you have seen this, Bill, and you, as well, probably, Joe, and David.

From the Jan/Feb Money Magazine issue (2011 Investor's Guide), an incredibly negative article, AS USUAL, on Index Annuities.

This reminds me of why I stopped subscribing more than 15 years ago (and only re-subscribed a few months ago, following Bill's suggestion).

Their consistently negative bias against annuities and insurance products is offensive to me.

Owned by TIME and funded (I believe) largely by ads from sponsoring investment and brokerage companies, Money (and Consumer Reports) are very difficult to take at times. But, it's important to know what's out there.

I can’t find a link on the web to the article The link they suggest on the Table of Contents page takes you to a very incomplete listing of articles from this issue.

David D. Braun

This is about the “Jim Kramer Type” TV Financial Experts…

The sad truth is that there are only three kinds of financial prognosticators:

1. Those who don't know,

2. Those who don't know they don't know,

3. And those who know they don't know and get paid big bucks to pretend they know."

Burton Malkiel, Princeton University Professor of Economics and author of A Random Walk Down Wall Street.

Below is a letter to the editor written by our longtime friend Ernie Linkous regarding the new suitability rules being considered.....BB

December 23, 2010

I must temper my words carefully as I am sure many will be reading my comments. I have been in the insurance industry since 1973 and there have always been regulatory issues that affect our industry.

As a result of 151A, the NAIC has determined to do the best they can to appease all sides, compliance officers, legal departments, FINRA, SEC and others. Are the regulators really concerned about consumers or just looking to cover their collective backsides from lawsuits in the name of suitability? In my opinion the new NAIC suitability forms have gone too far.

The SEC defines a creditable investor as:

1. "a natural person who has individual net worth, or joint net worth with the person's spouse, that exceeds $1 million at the time of the purchase;

2. a natural person with income exceeding $200,000 in each of the two most recent years or joint income with a spouse exceeding $300,000 for those years and a reasonable expectation of the same income level in the current year; or

3. a trust with assets in excess of $5 million, not formed to acquire the securities offered whose purchases a sophisticated person makes."

Why must the NAIC and insurance regulators invade the privacy of an individual to such extremes with such a long document, when the SEC asks three simple questions? Would it be because the story behind the story is to hide behind the skirts of the Patriot Act and gather financial data on consumers so the regulators and government can track and control assets? FOLLOW THE MONEY!

Could this be another back end run to have ALL insurance agents under FINRA and the SEC just so they can collect more revenue and fees from representatives that sell product? This is NOT about "protecting the

consumer from irresponsible insurance agents". It is really all about the money and not protection.

Do banks require your financial life history before you are allowed to open a bank FDIC insured Certificate of Deposit? How many other agents feel this way? Who is running the industry, overzealous attorneys, or do the carriers really care about purchasers of annuities.

The consumer is in good faith GIVING their funds in trust for a future date, not applying for a loan or line of credit. Where is the consumer allowed to state, "I am aware of the consequences of the purchase of this annuity and I take full responsibility for my actions" The carriers clearly state that if the consumer refuses to provide the information, then carriers will not issue the annuity. Is that acting in good faith to the consumer? When is this train going to stop the madness of compliance and suitability and get back on the right track to the business of underwriting on the basis of an application, and not a suitability or disclosure forms, which reads like IRS regulations? If I am overreacting, then so be it.

How many other agents may feel the same way? It will be interesting to see if my comments generate any other discussions. Regards,

Ernie Linkous

Bill…Had a prospect bring up this point. We are encouraging people to realize the bond bubble and warning them of the lose they will incur if they stay invested in bonds. At the same time our recommendation is to invest in annuities through the insurance industry which is invested primarily in bonds. You have probably explained this on Open Mic but your comments will be appreciated. If the bond market takes a big hit how is the insurance industry still protected and do you know of any written articles explaining this. Comments please….Mike

Answer…Insurance companies rely on bonds as an investment vehicle because of the **"yield"**, most insurance companies only

buy the higher rated bonds....so if the bond bubble is about to burst, why would they buy bonds?

When we see in the news that bonds are not smart, that is a snippet of that specific period of time...that day or that particular week or month.

Insurance companies look much longer; as a matter of fact they look **backward for 20 years and forward for 50 years**. This means they look at **"yield"** on bonds issued 20 years ago now coming to maturity and for new bond purchases today for 30 year holds....a 50 year time period.

The other point is this.....insurance companies buy and sell bonds constantly because they do not invest in bonds for the interest they earn but for the "yield" they earn on the bonds.

Our primary carrier (can't name) told me that their overall "yield" for their portfolio (50 years) is currently yielding 6.86%. Well above the current available interest rates because they are looking at the longer time period (50 years).

Insurance companys monitor that **"yield"** every second because it becomes the basis for client returns, company overhead, agent compensation.....and company profits. It is the single most important number in any insurance company's planning.

So instead of a small piece of time, insurance companies look long and large.

Plus many insurance companies "hedge" their bond investments with re-insurance.

Note to file: And in 2013, the situation gets more complicated… The estate tax will revert to its pre-Bush levels of 55%. And the exemption level drops from $5 million to only $1 million (that $1 million includes your bank accounts, stock portfolios, house, art, etc.)….BB

www.elderlawanswers.com is a very informative website, I urge you to sign up and get their free monthly newsletter…BB

Obama Signs Tax-Cut Bill Setting Estate Tax Exemption at $5 Million for Two Years

Last Updated: 12/18/2010 11:26:41 AM

Congress has passed and President Obama has signed into law the deal extending the Bush tax cuts that he struck with Congressional Republicans. The legislation restores the estate tax for two years at a **35** percent tax rate, with estates up to **$5 million exempt from paying any tax ($10 million for couples).** If Congress does not change the law in the interim, in 2013 the estate tax will revert to what it was scheduled to be in 2011 -- a 55 percent rate and a $1 million exemption. The $801 billion tax-cut bill makes several other significant changes to wealth transfer taxes:

- The new $5 million estate tax exemption and 35 percent rate are retroactive to January 1, 2010. The heirs of those dying in 2010 will have a choice between applying the new rules or electing to be covered under the rules that have applied in 2010 -- no estate tax but only a limited step-up in the cost basis of inherited assets. This will benefit the heirs of tens of thousands who died in 2010 with relatively modest estates and who would have been subject to capital gains tax on inherited assets above a certain threshold.
- The law makes the estate tax exemption "portable" between spouses. This means that if the first spouse to die does not use all of his or her

$5 million exemption, the estate of the surviving spouse could use it.

- The law unifies the estate, gift and generation skipping transfer tax **exemptions at $5 million**. (For 2010 there is no generation-skipping tax, while the gift tax exemption has been $1 million for a number of years.) A 35 percent tax rate will apply to gifts or transfers over the $5 million threshold. (There is no change in the $13,000 annual exclusion amount for gifts.) These high exemption levels mean that "the rich will have a two-year window in 2011 and 2012 to protect huge amounts of their estates from taxation for generations," wrote estates attorney Kevin Staker.

  But that window is open even wider than was previously assumed because of an additional loophole for the wealthy in the new law. Although taxpayers have until December 31, 2010, to transfer funds outright to grandchildren and avoid the generation-skipping tax, there's the risk that the grandkids will squander the sudden influx of cash. That means, he explains, that money can be taken from an existing multigenerational trust, declared subject to the 2010 GST tax, and deposited in a new trust for grandkids' benefit, with the GST tax now pre-paid at a 0% rate." Novak says Blattmachr has been telling his estate planning attorney peers, "Cancel your ski trip or trip to Hawaii. This is a once-in-a-lifetime opportunity."

The generous estate tax provisions were the main sticking point for progressive Democrats. A vote in the House on an amendment to increase the estate tax, including lowering the exemption to $3.5 million, was defeated by a vote of 233 to 194. After some minor changes to the bill were made, it passed the House by a 277 to 148 margin, after having been approved overwhelmingly by the Senate 81 to 19.

The Other Side of the Table

…..it's all based on your view…….

Sometimes it is how you look at things that can make the difference. The other side of the table is all about that….how you look at things.

A recent article in a National Magazine, I won't mention their name because the same magazine just got through picking on annuities….but we all know who it is….when you read about these products in comparison to our wonderful annuities you realize they have no clue about our wonderful products. BB

The Worst Financial Product of 2010.

Worst Financial Product:

Another tough one. Hedge funds, variable annuities, equity-index annuities and private equity funds all qualify.

However, the award goes to **Principal Protected Notes.** Their name got them the nod. The principal is not protected against issuer default.

They have **excessive fees** and the upside is grossly overstated. Their complexity makes it very difficult for investors to

understand how they are being ripped off and why much simpler alternatives would be superior investments.

This combination of qualities typifies the conduct of many brokers and other "investment professionals", and earned this product the award.

‘100% Protected’ Isn’t as Safe as It Sounds

By GRETCHEN MORGENSON

Published: May 22, 2010

BROKERS selling complex securities that they once contended were safe and sound have saddled individual investors with billions in losses since the credit bubble burst. Remember auction-rate securities? Those were peddled to investors as just as good as cash — until they no longer were after that market seized up in 2008.

Questions about how Wall Street marketed yet another complex product, sold as solid and secure, are now emerging in investor arbitration cases. The instrument is named, inaptly as it turns out, “100 percent principal protected absolute return barrier notes.”

These securities are essentially zero-coupon notes sweetened by tying the return, in part, to the performance of an equity index, like the Standard & Poor’s 500 or the Russell 2000. The securities promise to return an investor’s principal, typically at the end of 18 months, with the added gain from the index’s performance if that index trades within a certain range. Brokerage firms often issued these securities.

For an investor in one of these notes to earn the return of the index as well as get the principal back, the index cannot **fall 25.5 percent** or more from

its level at the date of issuance. Neither can it rise more than **27.5 percent** above that level. If the index exceeds those levels during the holding period, the investors receive only their principal back.

Convoluted enough for you?

Yet, these securities appear to have been sold to conservative individuals whose financial market forays were usually limited to certificates of deposit. Many of these investors, to their great misfortune, **bought principal-protected notes issued by Lehman Brothers. They are now worth pennies on the dollar.**

CORINNE and Gregory Minasian were two of these investors who, at the suggestion of their broker at UBS, sunk almost $100,000 — more than half of their savings — into Lehman notes in early 2008. They lost everything and have filed an arbitration case against the firm to recover their losses.

The Minasians are a retired couple who live on Long Island. They contend that their UBS broker pushed the investment when one of their C.D.'s matured. The broker failed to explain the risks in the security, the Minasians said, and did not provide them with a prospectus. They did not even know their investment had been issued by Lehman Brothers until the firm collapsed.

"I am not a sophisticated investor," said Mr. Minasian, a former engineer who is 68. "Many years ago I dabbled in the stock market, but I learned my lessons. Over the past 10 to 15 years my wife and I invested in C.D.'s."

But that approach changed in January 2008, when, according to the Minasians, their UBS broker began calling with an investment idea — principal-protected notes. "We questioned him over and over," Mr. Minasian said. "We initially told him we weren't sure and that we wanted to think it over. Maybe the next day he called us and told us he was putting his father into the same notes and his father is very conservative."

The Minasians said they decided to buy the instrument because they were assured by UBS, a financial adviser they had dealt with for years, **that it was safe.** The thing was called a "principal protected" note, after all.

Eight months later, Lehman went bankrupt. The note was virtually worthless.

Mrs. Minasian, 67, said she and her husband did not receive notice of problems with the investment until mid-October, when they received a form letter from UBS saying the value of their investment was "unavailable."

"I opened the letter and said, 'Why are we getting this?' " Mrs. Minasian said. "As I read it and we were wondering if it in fact did pertain to us, my heart sank. I almost fell on the floor."

UBS sold **$1 billion** of these notes to investors. **Commissions were 1.75 percent**, far higher than those generated on sales of C.D.'s. When Mr. Minasian asked about the commission, he says, his broker said there was none.

A spokeswoman for UBS, Karina Byrne, said, "UBS properly sold Lehman structured products to UBS clients, following all regulatory requirements, well-established sales practices and client disclosure guidelines." Client losses, she added, were the result of the "unprecedented failure" of Lehman Brothers.

Here are some definitions from Wikipedia…"links" attached

Although traditional fixed-income investments such as guaranteed investment certificates (GICs) and bonds provide investment security with little or no risk of capital loss, they provide modest returns. While stocks have the potential to deliver substantial returns, they do so at much greater risk.

Throughout the unpredictable and volatile market conditions that characterized the late 1990s and early 2000s, investors increasingly sought out new approaches to investing that offered both security and potential growth. **Principal protected notes (PPNs)** were introduced to the North American financial marketplace at that time.

At the heart of a PPN is a guarantee.

Typically, PPNs guarantee 100% of invested capital, as long as the note is held to maturity. That means, regardless of market conditions, investors receive back all money they invested. In other words, at maturity, payout on the Note is the original principal plus any appreciation from the underlying assets (typically a mutual fund or group of funds, an index or basket of equities, and sometimes hedge funds or even commodities).

Principal protected notes offer an array of benefits such as:

- 100% principal protection
- high growth potential
- enhanced income potential
- weekly liquidity
- the opportunity to invest in a broad range of investments
- potential for leveraged returns
- capital protection regardless of what happens in the markets

Principal protected notes offer **disadvantages**

- Opaque fee structure
- Investments that the average investor has no hope of understanding
- difficulty in evaluating returns Vs. more conventional investments
- lack of data showing how this type of investment has performed historically

- **Credit risk of the issuer:** The principal is protected only if the PPN matures as planned, but not if the issuer **defaults** before the PPN reaches maturity. Investors should therefore consider the credit ratings and financial condition of the issuer by reading the Prospectus in order to make an informed investment decision.

- **Market Risk:** The return on the note at maturity is linked to the performance of the index, and will depend on whether, and the extent to which, the index return is positive at maturity. If the return is negative, you will only receive your principal at maturity or the portion of your principal covered by the Principal Protection Percentage.
- **Lack of liquidity:** PPNs are designed to be held to maturity. If investors try to sell before the maturity date, it may be impossible to do so without a substantial discount to the value of the component zero coupon bond and index options.
- **Taxes:** These notes are taxed as contingent payment debt instruments. This means you'll usually have to pay income taxes each year on imputed annual income even though you don't receive a cash payment until maturity. Please consult your tax advisor for more details.

Certain Principal Protected Notes are subject to additional risks such as:

- **Currency and exchange rate risk:** The underlying index return will not be adjusted for changes in exchanges rates relative to the U.S. dollar. Some of the futures contracts which comprise the underlying index are traded in currencies other than U.S. dollars, however, the value of your Notes at maturity will not be adjusted for exchange rate fluctuations between the U.S. dollar and each of the currencies in which such futures contracts comprising the underlying index are quoted.
- **Commodity price risk:** Trading in futures contracts associated with the underlying index is speculative and can be extremely volatile.
The hypothetical scenarios below show two possible outcomes that a holder of a PPN could experience:

The degree of principal protection of the notes is relative to the creditworthiness of the issuer. In the event of a default by the issuer, secondary market prices for the notes will decline substantially and holders of the notes will be unsecured creditors of the issuer.

Now compare these ridiculous products and the risk/reward they offer to GUARANTEED annuities!

How in the world could anyone buy them if they had a clue of how they worked....can people be this miss-informed?

Safety, security and promises kept.....how does that stack up to the promises made by the super creeps at Lehman Brothers?

Thanks your lucky starts you chose this industry than the one where anything you sell could have a disastrous effect on those clients you are trying to help.

By the way I have an investment for all of you....take your hard earned commission money and invest in this: You will get rich!

Galaxy National Guaranteed Principle Protected Notes

These notes pay 10% guaranteed interest and have no risk or market exposure. The interest is added to your account daily and at any time you may have all your funds included the guaranteed interest.

These notes are risk free and fully guaranteed.*

*If you want your money, call me in Bermuda, I will get right back to you.

This is a spoof....or is it?

Actually I copied the body (in red) from an actual advertisement of a now failed Ponzi scheme. The perpetrator is now serving 6 ½ years in federal prison.....of by the way, he was my best friend in high school.....

Sell safety and security....sell annuities

The Safety Trap

INDEX ANNUITIES PROMISE YOU'LL SHARE IN THE UPSIDE OF STOCKS WITH NO DOWNSIDE. THEY SOUND LIKE A RETIREE'S DREAM. THE REALITY CAN BE A LOT MORE PAINFUL.

By LISA GIBBS

THE CARD THAT landed in mailboxes throughout central Illinois in early 2008 promoted "the most informative retirement workshop you've ever attended." Pinnacle Investment Advisers, which had four offices in the area, was offering discussions of Medicaid planning, IRAs, and tax-efficient income over lunch or dinner. Bios of Pinnacle owners Susan and Tom Cooper mention their grandchildren, his Vietnam service, and her Bible study group.

A group of seniors soon assembled at the riverfront Embassy Suites in East Peoria to enjoy their free meal. There and in follow-up meetings, Susan and Tom, now 67 and 69, delivered a message that went something like this: Scared of stocks? They could help. Worried about outliving your money? They had a plan for that too. In fact, there was a product that offered the best of both worlds: returns that rise when stocks do yet are guaranteed to never be negative. And they were selling it.

Retired librarian Ruth Cline attended one of the Coopers' seminars and liked what she heard. In 2008, when she was 71, she bought what they were recommending: an indexed deferred annuity. Often referred to simply as an index annuity, it pays interest that's linked to the performance of a given investment index.

In fact, this was the second time Cline had bought one. The Coopers had sold her another six years before—and then advised her to move out of it and into the new version. The switch slammed Cline with an early-withdrawal penalty of 16% of her $98,000 account balance, according to court papers filed by the State of Illinois.

Illinois's securities division is now pursuing a case against Pinnacle, alleging that it moved Cline and 14 other people into new index annuities they didn't need, costing the clients $208,000 in surrender fees and earning the firm $126,000

Photograph by MAURICIO ALEJO

in commissions. At hearings this fall, the Coopers said that more than $95,000 in bonuses offered by the new annuities helped make up for the surrender fees. They added that the new annuities offered features the previous ones lacked, such as riders ensuring that account balances go to heirs. The state's lawyer, David Finnigan, says those features didn't begin to justify the charges.

While the Coopers' case has yet to be decided, the state's allegations illustrate pervasive problems with index annuities, which were invented in the mid-'90s and have soared in popularity since the 2000 tech bubble collapsed (see the box on the opposite page). They include:

- Overly aggressive marketing practices, including "informative" lunches that are really veiled sales pitches.
- Commissions so high—9% in some cases—that they can tempt the selling agents to act against buyers' best interests.
- Surrender fees—as high as 20%—imposed on buyers who want to cash out before 10 or more years have passed.
- Offers of "bonuses" that aren't worth as much as they seem and that some people never actually collect.
- Products so complex that buyers—retirees who are at their most financially vulnerable—can't tell whether they're getting a good deal or are just getting taken.

As if that weren't enough, index annuities don't even deliver attractive returns. According to William Reichenstein, an investment management professor at Baylor University, over the long term a very conservative portfolio easily beats an index annuity. "These are very seductive products, marketed very effectively," he says, "but they almost always underperform."

What especially galls consumer advocates is that the problems with index annuities have been known for years, but insurance regulators haven't done nearly enough to stop them. According to data that 16 states provided to MONEY, index annuities accounted for 30% of annuity-related complaints to regulators in 2009, even though they represent just 13% of annuity sales. In senior-heavy Florida, it was 55% of complaints.

"When you have a market incentive to sell, sell, sell, why would anyone be surprised that there are all sorts of abuses?" says Birny Birnbaum, a former consumer representative to the National Association of Insurance Commissioners (NAIC) who worked with New York's insurance department to craft a new requirement that agents disclose compensation.

Average agent commission for a traditional fixed annuity

3.5%

6.8%

Average commission for an index annuity

A MONEY investigation reveals why the problems with this controversial product persist—and what you need to know to protect yourself or your parents. Such knowledge is essential because buyers who have gotten a bad deal often don't realize it.

When Illinois lawyer Finnigan summoned Cline and the other alleged Pinnacle victims to the stand in October, most didn't seem to understand why the Coopers were being accused of wrongdoing. Wasn't Cline concerned about paying some $16,000 in penalties, Finnigan asked? "No," she said. "Money I haven't seen doesn't affect me. Gasoline this morning was $2.87 a gallon. *That* I can comprehend."

You Can Do Much Better

You may be familiar with a traditional deferred fixed annuity, in which an insurance company invests your money in bonds during an "accumulation period" of seven years or so, then lets you convert your account into a stream of income payments that are guaranteed by the company. An index annuity is essentially a fixed annuity that's been juiced up by tying its interest rate to the performance of a stock market index such as the S&P 500. (See "Annuities 101" on page 143.)

If the index rises, the insurer exercises stock options it has bought against that index, and your account earns some percentage of the gain. If the index falls, you lose nothing: The insurer lets the options expire and still makes money from bond investments (where it has put the bulk of your money). The promise of zero losses led shell-shocked investors to pour nearly $30 billion into index annuities in 2009, even as they pulled $9 billion out of U.S. stock funds.

You won't make as much as you might think, though, because the insurer caps your return and can change the cap each year. Let's say your annuity is tied to the S&P 500, and the S&P soars 20% next year. A common cap right now is 4.5%—so that's the max you'd earn. (Over the past decade the cap has been as high as 13%.) No matter how your account performs, the insurer will do just fine: Moving around the cap lets the insurer preserve its spread, typically 2% to 3% of assets a year, to cover its costs and make a profit.

PREVIOUS SPREAD: PROP STYLING BY JARED LAWTON

Those expenses—plus the fact that you don't benefit from dividends in an index annuity as you would in stocks or a stock fund—put a major drag on returns. For the five years ended in September, the average index annuity paid an annualized 3.89%, barely better than the 3.81% you would have earned in a five-year CD and appreciably worse than the 5.1% paid by taxable bond funds, according to the research firm Advantage Compendium.

A typical index annuity would have lagged an investment portfolio with equivalent risk—85% one-month Treasury bills, 15% U.S. large-cap stocks—by nearly two percentage points annually, on average, over the past 44 years. That's according to recent analysis by Baylor's Reichenstein, who has been an expert plaintiff's witness in a lawsuit involving these products. In only two of the past 44 rolling 10-year periods would the most widely sold index annuity have beaten that 85% T-bill/15% stock portfolio, says Reichenstein. For performance comparisons during various market conditions, see the chart on page 142.

Sellers often tout the fact that money in index annuities grows tax deferred. But 58% of buyers hold these products in tax-deferred accounts such as IRAs anyway, according to industry researcher LIMRA. Even if you had held Reichenstein's conservative portfolio *outside* a tax-favored account and were in the highest 35% income tax bracket, after the IRS took its cut you would have beaten the index annuity in 39 of 44 rolling 10-year periods, assuming you used low-cost Vanguard funds with current expenses.

Insurers respond that index annuities provide benefits that most investment products don't. One is the option to annuitize payments, thereby getting guaranteed income for life—increasingly a more valuable feature to buyers than potential returns, according to Gary Bhojwani, CEO of market leader Allianz Life. Another benefit is ironclad safety. Annuity buyers are willing to trade off a higher return, he says, for the guarantee of never experiencing a negative one. "None of our customers have lost a penny of principal," Bhojwani adds.

However, there are other ways of getting guaranteed lifetime income (more on that later). And FDIC-insured CDs—or Treasuries held to maturity—provide equivalent or better safety. "The costs and onerous terms of an index annuity aren't enough to compensate for the minimal extra return you get over a CD," says financial planner Charles Fitzgerald, a director of the Financial Planning Association of Florida.

These are very seductive products, but they almost always underperform."
—William Reichenstein, *investment management professor*

Moreover, you *can* lose principal in an index annuity—lots of it—if you cash out too soon.

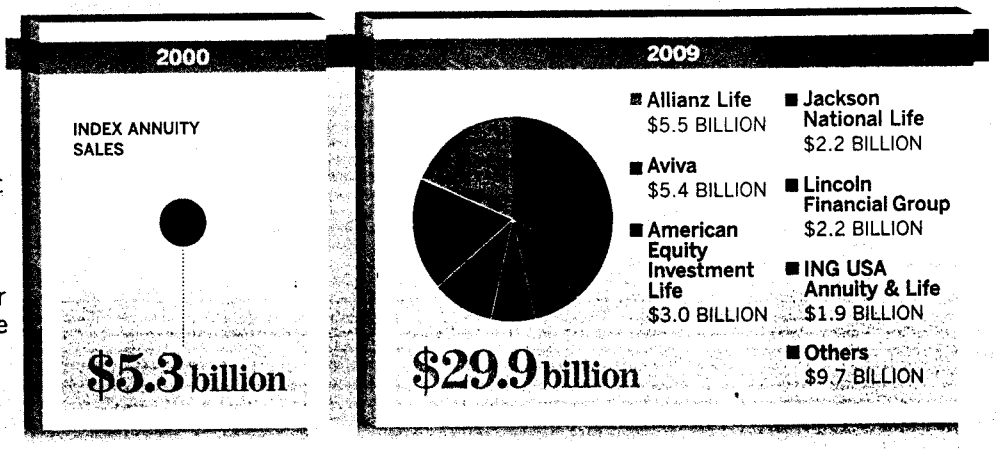
Surrender Fees Are Huge

Virtually all annuities impose penalties if you exit early, to recoup commissions and other costs that the insurer pays upfront. But index annuities carry the steepest and longest-lasting ones: an average of 12.5% to start, compared with 7.5% for the typical plain-vanilla fixed annuity, declining gradually for up to 16 years.

Josephine Passanisi, a retired small-business owner

The Index Annuity Explosion

Sales more than quintupled over the past decade, helping many insurance companies offering these products to grow into billion-dollar businesses. Here are the biggest players.



SOURCES: The Advantage Group, Beacon Research, LIMRA

from the suburbs of Palm Beach, Fla., says she learned about such penalties too late. In 2005, when she was 70, she gave agent Larry Krakow $275,000—most of her life savings—to invest in an Allianz index annuity. (Like the vast majority of agents who sell these products, Krakow was independent—that is, he earned a commission from the insurer but was not an employee.)

Passanisi says Krakow never explained that she was locking up her money for 15 years, until she was 85; she never wanted to do that. To get it back, she'd pay a 12.5% penalty. "He told me I would be able to sleep at night," Passanisi says. "But I couldn't sleep nights anymore."

After she complained to the State of Florida, regulators suspended Krakow's license; in 2008, Allianz refunded her money in full. Krakow told MONEY that Passanisi understood the terms and was fine with her purchase until a competing agent started criticizing it.

Insurers say that index annuities are meant to be held over the long term. However, in the wake of complaints like Passanisi's, they have added provisions to most new index annuities that allow you to take out up to 100% of your money penalty-free if you are diagnosed with a terminal illness or enter a nursing home. (Some states also cap surrender charges, usually at around 10%.) That's a positive step but doesn't go far enough, says Brenda Cude, a consumer economics professor at the University of Georgia.

How many index annuity owners wind up paying early-withdrawal penalties? No industry statistics exist. But Karrol Kitt, a personal finance professor at the University of Texas and a consumer representative for the NAIC, says that a look at insurers' books implies the numbers are significant. For example, in 2009 American Equity Investment Life, which does 92% of its business in index annuities, collected $63 million in surrender penalties—equal to more than half its $101 million operating income.

Bonuses Can Cost You

Part of what sold Passanisi on her annuity, she says, was that Krakow told her she would get a $27,500 upfront bonus. Roughly half of index annuities offer such bonuses, usually totaling 5% to 10% of the amount you put in, as a way to encourage people to buy.

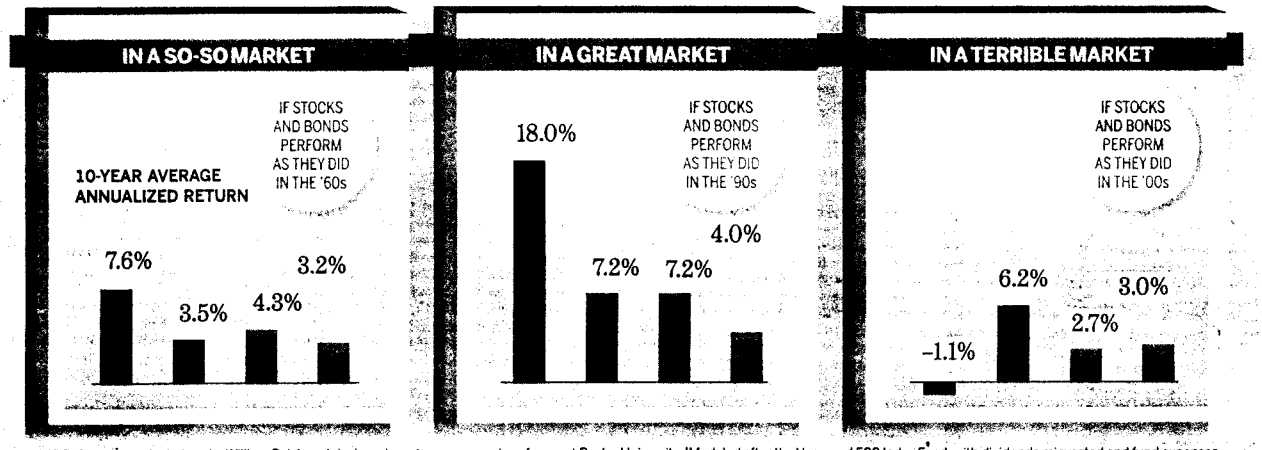
But "bonuses are never free," says Jack Marrion of Advantage Compendium. They always come with tradeoffs such as higher surrender fees or lower caps on returns, he says. And you typically have to satisfy certain requirements—such as refraining from cashing out early—or you forfeit all or a portion of the bonus. You might get dinged even more than the bonus amount (see the chart on page 144).

There Are Too Many Moving Parts

Index annuities come in mind-boggling permutations. Not only can you split your money among as many as

How Well Do Index Annuities Perform?

In almost any market, you can beat the returns of an index annuity by using two low-cost funds to create a very conservative portfolio of 85% short-term Treasuries, 15% S&P 500 stocks. Only in truly awful markets do index annuities perform better.



NOTES: Based on calculations by William Reichenstein, investment management professor at Baylor University. [1]Modeled after the Vanguard 500 Index Fund, with dividends reinvested and fund expenses factored in. [2]Portfolio is 85% in the Vanguard Prime Money Market Fund and 15% in the Vanguard 500 Index Fund, again with dividends reinvested and expenses factored in. [3]Modeled after the nation's best-selling index annuity tied to the S&P 500, which has an 8% bonus and a 4% annual cap on the index return.

13% of all annuities sold are index annuities, yet

30% of all annuity complaints are about index annuities.

six different indexes, but you can choose among several interest-calculation formulas. For example, you can base your rate on the year-to-date change in each index (subject to a cap). Or you can have your rate calculated monthly (with different caps) and added together. Or, with certain products, you can let one part of the money earn a fixed rate the first year and another rate through the eighth year.

Why so complicated? Says John Currier, an executive at Aviva, the second-largest index annuity seller: "Customers like choices." But Kitt believes that index annuities are confusing by design. "Consumers don't have the sophistication to understand them," she says.

Even some large insurers aren't fans. MetLife and New York Life say index annuities' complexity is one reason they decided not to sell them. "With all of the moving parts that affect how these products ultimately perform," says John Meyer, who runs the individual annuities division for New York Life, "we felt there was a high likelihood that clients could misunderstand what they were getting and possibly end up being disappointed."

Executives at the major index annuity sellers, including Allianz's Bhojwani, say that in recent years their companies have improved the way index annuities get explained to buyers. Bhojwani adds, "Specialists call customers older than 75 to make sure they understand everything they've bought." (Buyers can cancel the deal within a certain number of days that varies by state.)

Celina and Alberto Grubicy, a retired couple from Vero Beach, Fla., were too young to have gotten such a call. In 2007, when Celina was 66 and Alberto 65, they bought two Allianz index annuities totaling $1.1 million from agent Mitchell Storfer. The terms of each annuity were spelled out in the contract, but "the contract [might as well have been written in] Chinese," says Celina. "So we relied on what the agent told us."

One of the things Storfer did, according to Florida regulators, was misrepresent the interest-rate calculation, leading the Grubicys to believe that they could earn much more than they actually could—up to 36% a year, the couple says. After investigating the Grubicy case and two more like it, Florida revoked Storfer's license to sell insurance products. Storfer, who is appealing (the state is allowing him to sell to people under age 55 pending appeal), says that he did explain the terms correctly and that the Grubicys signed forms saying they understood them. Allianz refunded the Grubicys' money.

Stories like these aren't unusual, says Kitt, because even the agents themselves often don't understand how index annuities work. In Arizona, 39% of index annuity complaints in 2008 and 2009 claimed agents "misrepresented" the product—whether owing to honest mistakes or fraud. Most insurers offer training in index annuities but don't require the agents to complete it. (Some states do mandate training, as do a few insurers. For example, Allianz began requiring it in 2008 after a spate of lawsuits.)

And though most states have continuing-education requirements for agents, "much of it is about how to sell, not how the products work," says Tony Bahu, a former agent who evaluates annuities contracts for consumers for a fee.

Annuities 101

One of the four main varieties—an immediate annuity—can sometimes make sense. The rest? Not so much.

TRADITIONAL DEFERRED FIXED ANNUITY
How it works: An insurance company invests your money in bonds, crediting your account with a set portion of the interest. After a holding period, you have the option of receiving a guaranteed monthly sum for life.
Bottom line: MONEY usually doesn't recommend these products, in part because they tend to carry high surrender charges.

VARIABLE ANNUITY
How it works: You control how your money is invested—in stock funds or bond funds, for example—and your payments rise and fall along with the value of your account. Variables are riskier than fixed annuities but can pay more too.
Bottom line: Generally an inferior choice, thanks mostly to high fees.

INDEX ANNUITY
How it works: This deferred fixed annuity pays interest tied to the performance of at least one stock market index. A cap (currently about 4.5%) limits how much you can earn each year. When you cash out, your account value is compared with a guaranteed minimum (usually 87.5% of your premium plus interest of 1% to 3%); you get whichever is higher.
Bottom line: The negatives—including complexity, high expenses, and low returns—outweigh the positives.

IMMEDIATE ANNUITY
How it works: A fixed annuity with no deferral period, it starts paying guaranteed lifelong income right away.
Bottom line: Putting part of your portfolio into an immediate annuity can be a good idea if you're a retiree worried about outliving your money.

Commissions Are Sky-High

An agent can make nearly twice the commission from an index annuity than from a plain-vanilla one—an average of 6.8% vs. 3.5%, reports Advantage Compendium and Beacon Research. And there are often extra incentives on top of *that*. For example, Allianz offers a percentage point over its standard 7% if agents meet certain sales targets, plus it

gives "credits" that agents can exchange for trips, TVs, and other prizes.

Allianz senior vice president Tom Burns says that the company must pay such commissions to induce agents to sell its products rather than those of competitors. Matthew Gaul, deputy superintendent for life insurance at New York's insurance department, sees another motive: "There's no question the incentives insurance companies pay are designed to influence the advice agents give."

In the worst cases, says Birnbaum, those tempting commissions encourage agents to move customers from one index annuity to another, even if doing so racks up big surrender fees.

In 2008 one of every three fixed annuities (which includes index annuities) sold replaced an existing annuity, according to a MONEY analysis of regulatory data from 25 states. In some, including Washington and Utah, it was as high as 40%. States don't track how many of those surrenders involved penalties. But Kim Shaul, Wisconsin's deputy insurance regulator, says, "In most cases, annuity replacements aren't right for the customer."

Marketing Firms Can Cross the Line

Remember those "informative" free-meal seminars mentioned earlier? Typically the purpose of such meetings is not to educate but to sell, according to Andres Castillo at AARP, which monitors them. And many are organized not by the agents but by unregulated firms that have become key players in the marketing machine for index annuities—and for insurance products in general.

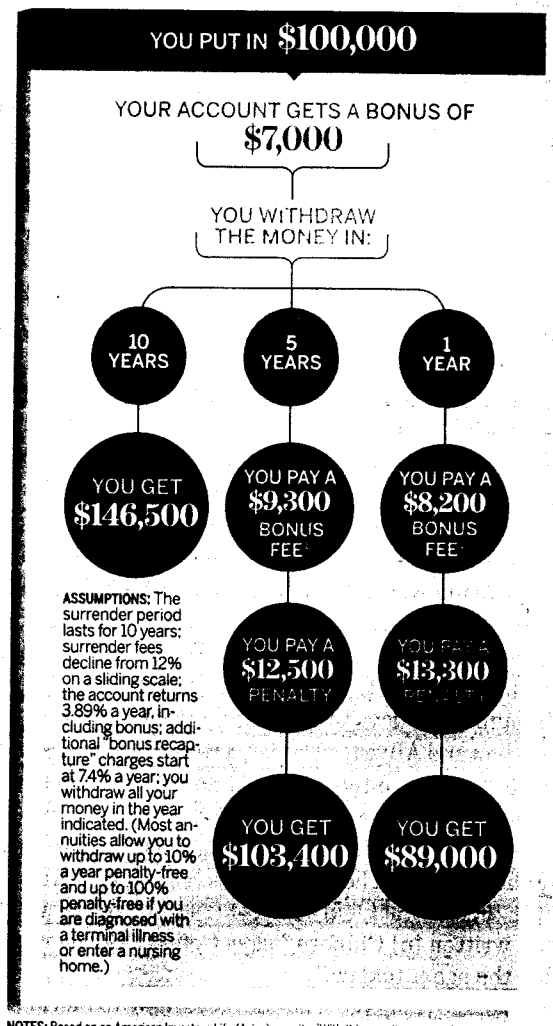
More than 600 of these firms have sprung up to help independent agents promote themselves, find prospects, and land the sale. They're the ones printing the fliers, booking the conference rooms, and buying the seniors' steak dinners. What troubles Barry Lanier, head of investigations for Florida's insurance agent division, is that "some [of these firms] have been influential in teaching agents less honorable ways of selling."

For example, Annuity Service Center was disciplined by Illinois regulators in 2008 for mailing postcards inviting recipients to get in touch about a possible annuity that had reached the end of its surrender period. According to the state's complaint, the firm had no idea whether recipients actually owned an annuity; it was fishing for customers and would go on to schedule sales calls for agents. The company was ordered to pay a $15,000 fine and is no longer in business.

Marketing firms are paid sometimes by agents, but more often by insurers—around 1% of each sale they help the agent land. After all, it's in the insurers' interest to keep sales humming. In fact, some of the marketing firms are owned by insurers outright. Allianz, which owns nine of the 30 marketing firms it works with, says that it recently installed "suitability officers" at each of those nine firms to ensure agents' sales methods are proper.

Early Withdrawals Can Really Cost You

If you take all your money out before a decade or so, you may lose your bonus, plus pay fees that can eat into your principal. Here's how the math works for one typical index annuity tied to the S&P 500.



NOTES: Based on an American Investors Life (Aviva) annuity. [1]With this annuity, you can lose more than the entire bonus. SOURCE: MONEY estimates

Bad Agents Slip Through the Cracks

Index annuities are regulated by 51 different state insurance departments, many of which don't try as hard as they could to screen out crooks. While everyone who applies for a securities license must undergo an FBI back-

ground check with fingerprinting, only 17 states ran such checks for would-be agents as of March 2009, according to a recent Government Accountability Office report. (The main reason, says the GAO: lobbying. The insurance industry is the nation's sixth-largest political giver.) After Texas began doing the checks in 2007, the number of applicants it discovered with criminal histories rose 36%.

36%
of Massachusetts brokers who have had their securities licenses yanked over the past five years are still able to sell annuities.

Nor are the regulators very good at communicating with one another. Over the past five years FINRA (the securities industry's self-regulatory body) has yanked the securities licenses of more than 1,800 brokers for serious misdeeds, such as falsifying documents and stealing clients' money. But 16% of those people currently have active insurance licenses, according to a MONEY analysis—meaning they're free to sell index annuities, which are legally classified not as investments but as insurance products. In Florida and Massachusetts the percentage tops 35%. "That's alarming," says Missouri Securities Commissioner Matt Kitzi, who heads the national securities association's enforcement committee.

By the way, the only reason Illinois securities lawyers were able to bring the case against Pinnacle is that the firm is a registered investment adviser and therefore subject to their oversight.

Regulatory Fixes? Don't Hold Your Breath

The chorus of complaints about index annuities has led the SEC to try to reclassify them as investments. While such a change probably wouldn't result in major reform, it would offer buyers stronger protections from fraud and conflicts of interest.

But when details of last year's massive financial reform bill were being hammered out, Democratic Sen. Tom Harkin slipped in an amendment affirming that index annuities are not securities—and therefore are out of the SEC's reach. Harkin is from Iowa, home of five big index annuity sellers. "The assumption that the SEC is inherently better suited to [regulate index annuities] is incorrect," says Harkin.

To bolster his case, he points to the latest annuity suitability legislation drafted by the NAIC last year. It would strengthen requirements on insurers to sell fairly and to train agents—requiring, for example, product-specific training and adding a one-time four-hour annuity course.

Consumer advocates, who had wanted twice as much annuity education, say that the legislation doesn't go far enough. And Birnbaum contends that it doesn't address the core problem: commissions. "If we ignore the financial incentives and instead layer on a bunch of vague responsibilities," he says, "we're not getting at the fundamental issue."

What's more, the states still need to pass the proposal before its provisions take effect. Making that happen is "my No. 1 goal," says Iowa insurance commissioner Susan Voss, the incoming NAIC president. If history is any guide, though, it will be a long wait. According to the NAIC, as of April, 17 states had still not passed 2003 and 2006 versions of the law.

A Better Alternative

If you or your parents are about to retire and find the benefits of an index annuity appealing—namely, a safe return with some upside if the market does well, plus the ability to generate income—you can easily put together a portfolio that gives you those benefits without all the negatives, financial planners say.

For equivalent safety, Baylor's Reichenstein suggests putting 85% of your money into FDIC-insured bank CDs (see page 178 for those paying the best interest rates) and 15% into a low-cost S&P 500 index fund such as the Vanguard 500 Index (VFINX). "There's never been even a three-year period since 1957 where this portfolio has lost money," he says.

And when you're ready to receive income, you might turn to an immediate annuity. You hand over a lump sum and right away this product starts paying a fixed, guaranteed amount each month for as long as you live.

Because you give up control of that money for good, limit the amount you put in. MONEY retirement columnist Walter Updegrave suggests that you put in just enough so that the income the annuity throws off—plus income from your pension and Social Security—is sufficient to cover all or most of your basic living expenses. Keep the rest of your money invested in a diversified portfolio. This strategy can give you more for your money than you could get from an index annuity.

To shop for an immediate annuity that pays you the most income, go to immediateannuities.com. For example, at Mutual of Omaha, $100,000 could buy a 65-year-old man $641 a month.

Unfortunately, that advice comes a little late for Ruth Cline. Even if Illinois wins its case against Pinnacle—a ruling isn't expected before spring—it's unclear whether she would get her surrender fees refunded. Her best shot at coming out ahead: Choose to collect her money as monthly payments for life—and live a very long time. ■

—WITH ADDITIONAL REPORTING BY HOLLY GILBERT AND JASMIN SUN