Open MIC is open for anyone.

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

Questions?

Anthony Owen at Tony@annuity.com

Life, photos, and MARKETING are all about timing!
(shared by David Braun)

Points to Ponder.

- The Department of Energy was created in 1977 to lessen our dependence on foreign oil. It has ballooned to **16,000 employees** with a budget of $24 billion a year and we import more oil than ever before.

- 90% of all Americans live within fifteen miles of a Wal-Mart.

- Wal-Mart is bigger than Home Depot + Kroger + Target +Sears + Costco + K-Mart combined

The biggest three VA sellers are:

- Prudential Financial Inc
- MetLife Inc.
- Jackson National Life Insurance Co

Editorial

I know not everyone loves annuities as I do. Annuities are the only form of investment vehicle I own for retirement, I believe in them, I buy them.

I also know that many other avenues exist regarding investing retirement funds. Recently a friend of mine felt he had been abused by a financial planner (stock broker) and asked me to help solve the issue. I know longer have any of those licenses so I was unable to be of service.

The case is about selling of privately held unregistered securities (under 25 partners) and my friend thought since it was coming from a broker, the industry would protect him. I have no idea who is to blame if anyone.

The broker offered to settle the issue through **mediation**. I suggested that **arbitration** might be more in order and to push for it. The broker refused and the whole issue is awaiting the legal system to get involved. In the end all parties will lose and the attorneys will get a chunk....which is why we use their services.

But why not use mediation?

What is the difference between mediation and arbitration? And what does litigation really mean.

Mediation is less adversarial, less expensive, and faster than arbitration. Most mediations are successfully concluded in a single day. Mediation is **informal and non-binding**. It's a voluntary process that seeks to fashion a solution satisfactory to

all. However, if the parties cannot negotiate an acceptable settlement, they may still benefit from the process by narrowing the issues to be arbitrated or litigated.

Arbitration is **binding**, subject to review by a court only on a very limited basis.

Litigation is **civil action**. (lawyers)

Obviously the broker in my friend's situation wants to negotiate a settlement and mediation makes the most sense for the broker. Each case can have many different points of view and it really depends on yours.

Arbitration or Mediation...or Lies: When annuity promises were not kept.

The U.S. – Dakota War of 1862 had its roots in a number of different areas. By 1862, the **Dakota Indian Tribe** had relinquished all of their lands in Minnesota to the U.S. Government except for a reservation on the south side of the Minnesota River. In exchange for their lands, the Dakota were to receive **annual annuities** which they expected to live on. Unfortunately, the annuities did not materialize to meet their annual needs, and game and fur-bearing animals were rapidly disappearing, and these things were sources of frustration to the Dakota.

The end result was the Dakota Indians were destitute, lands stolen, annuities not paid and forever moved to poverty.

How could that happen? How could a promised annuity not deliver? Was **mediation or arbitration** and option? Sadly no.

One of the most important features of our products is the simple fact they are guaranteed and free of risk.

Attached to the notes today is a Q and A abut how the State Guarantee Fund works. I urge you to read it and understand how this underlying guarantee is the ultimate risk preventer.

See attached PDF

There is a nice explanation about “dispute resolution” at www.finra.org

Crew Share

Email me… (bbroich@msn.com) your sales success and experiences and share with the Crew….will always be anonymous.

A Few Comments From Emails This Week About Leads and Selling Experiences….Both Good and Bad

(From 9 emails)

- Dear Bill: First let me say I thoroughly enjoy the Open MIC. I have been listening for over six months. I very much appreciate your integrity and commitment to our business. One thing I would like to suggest is ideas for getting more leads.

- Last week I completed my first sale generated by the ERMS system - $250,000 moving from mutual funds.

- I had 3 appointments last Tuesday and was "porched" on all of them. I think it is bets to not make the apt. very far in advance. (porched means standing on the porch with an unanswered door)

- Hi Bill, I appreciate your sharing on the ETF, I used your source for finding fees to beat out a broker and get an annuity sales.

- I am having trouble getting the lead company to answer the phone (AW) what do you suggest?.....I have left VM.

Hot News and Other Helpful Info

- **Barron's EIA Article:** **http://online.barrons.com/article/SB50001424052970203594904576236762848781354.html?mod=BOL_twm_da**
- **Baby Boomer Article:** **http://www.sacbee.com/2011/04/06/3532779/first-baby-boomers-are-reaching.html**
- **Elder Scam Protection Article:** http://www.investmentnews.com/article/20110406/REG/110409969/-1/INRegulatoryAlert01
- **Disgusting Securities Article:** http://www.investmentnews.com/article/20110407/FREE/110409930
- **T-Bill Rate article**: http://www.businessweek.com/news/2011-04-04/treasury-6-month-bill-drops-to-record-low-as-debt-limit-looms.html
- **More mortgage mess article**: http://www.bloomberg.com/news/2011-04-04/taylor-bean-ties-to-freddie-mac-loom-in-1-9-billion-mortgage-fraud-trial.html

Might just as well go to Household Finance, I bet the money behind this is from a hedge fund, I think this is preying on those at their weakest...You?...BB

Financial Company Specializes in Bridge Loans to Help Pay for Senior Living

Last Updated: 3/28/2011 4:40:25 PM

Your mom needs to move to an assisted living facility but you're having difficulty selling her house in a down market. If your family doesn't have the ready cash to pay for her stay until the house sells, Elderlife Financial Services may be able to help. The Washington, D.C.-based company specializes in providing bridge loans to cash-strapped families that temporarily can't afford a move to an assisted living facility, nursing home or other senior living community.

Elderlife, which launched in 2000 and went national in 2007, has issued more than **$60 million in loans** over the past two years. Unlike banks, which typically loan to one individual, Elderlife prefers to work with families and will allow up to **six family members to co-sign a loan**. The loaned funds are wired directly to the senior living facility, which must be among the 2,700 communities that Elderlife currently works with in the 48 contiguous states.

"This keeps the entire family feeling like this is a structured program for a specific purpose," Elderlife's founder and CEO Elias Papasavvas, told ElderLawAnswers. "

A bank is going to give loan documents to one of the adult children and it's up to that child to be honest and send the funds like he's supposed to every month. **(can this be true?...BB)**

" If the senior living facility a family has chosen is not part of its network, Elderlife will try to persuade it to join.

The fact that Elderlife only offers loans for senior living means that the company can more accurately counsel families about how large a loan they will need and for how long. "We frequently know more about what they're

about to go through than they do," Papasavvas said.

Lines of credit, underwritten either by Elderlife or a variety of banks around the country, can be up to $50,000 and rates range **from 8.25 to 12 percent**.

GRAT: Grantor Retained Annuity Trust

Disclaimer: Wikipedia has a nice explanation of how this works.....remember this is advanced stuff and only licensed professionals should dive tax advice. You might run into a prospect where this could make sense....good info to have tucked away, for agent use only and only as background information....be careful....

BB

The Process

A donor sets up a GRAT by making a donation into a trust. The trust is set up as an annuity whereby the donor receives an annual payment from the annuity for a fixed period of time.

At the end of the term, any remaining value in the trust is passed on to a beneficiary of the trust as a gift. The beneficiary must be a family member of the donor. If the donor dies before the end of the term, then the value of the trust at that time is passed on to the beneficiary.

The United States IRS has a number of regulations governing how the remaining value of the trust at the end of the term (or at the death of the

donor) is taxed. When the GRAT is first set up, a "gift value" of the GRAT is calculated.

The gift value is set equal to the initial contribution to the GRAT plus a theoretical **(currently 3% and it can change....BB)** interest earned on the principal minus the annuity payments that would be made through the end of the term. The theoretical rate of interest is determined by IRS regulations.

Taxes

To realize a **tax benefit**, the sum of the scheduled annuity payments of a GRAT is set to be about equal to the principal plus theoretical interest. **(3%)**

Thus, for tax purposes, the initially calculated gift value is zero, since what will be paid back to the donor in annuity payments is anticipated to be about equal to what the donor invested, plus interest.

If a GRAT is funded with highly volatile assets, however, it is possible that the actual interest earned on the assets will be substantially higher than the IRS theoretical interest. Thus at the end of the term, the value remaining in the GRAT may still be large, even though the initial IRS calculation suggests that it should have been zero. **This remaining value is then passed on to the beneficiary without incurring a gift tax.**

Here is an example of how it is being used....from FT.com

Estate Tax Eliminator

A wealthy parent with millions invested in the stock market wants to leave future earnings to his kids and avoid the estate tax on those earnings.

1. The parent sets up a Grantor Retained Annuity Trust, or GRAT, listing the kids as beneficiaries.

2. The parent contributes, say, $100 million to the GRAT. Under the terms of the GRAT, the amount contributed to the trust, plus interest, must be fully returned to the parent over a predetermined period.

3. Whatever return the money earns in excess of the interest rate—the **IRS currently requires 3 percent**—remains in the trust and gets passed on to the heirs **free of estate and gift taxes forever**.

Executives Who Do It
• GE CEO Jeffrey Immelt
• Nike CEO Philip Knight
• Morgan Stanley CEO James Gorman

Regarding a Variable Immediate Annuity as a payout.....A recent question as to how the monthly payment is calculated. The VA industry and the securities guys are coming up with all sorts of spins....make sure you fully understand how our competition thinks.....BB

The issue was over a fixed payout, ours was set for life, the VA was initially higher but had to be reset annually so a down market could have an effect on how much was paid as retirement

income(in fairness, the account could go up and the payment become higher)

What is the purpose of the money and what does it need to accomplish? The answer will tell your client which one to choose.

Determination of Subsequent Variable Annuity Payments

From the Prospectus of the VA

On each Income Change Date, we will **recalculate the variable annuity payments** to reflect the performance of the investment options you chose since the last Income Change Date.

We determine the dollar amount of the variable annuity payment as follows. The portion of the first annuity payment funded by a particular subaccount is divided by the Annuity Unit value for that subaccount as of the Contract Date. This establishes the number of Annuity Units provided by each subaccount for each subsequent variable annuity payment.

FYI…fixed immediate annuities guarantee the payout for the life of the contract….duh

---

SEC hits radio personality with fraud charges

Houston's 'Money Man' Daniel Frishberg accepts $65,000 penalty, is barred from advice business

By Darla Mercado
April 10, 2011 6:01 am ET

The SEC last month slapped a financial adviser and radio personality known as “The Money Man” with fraud charges after his firm encouraged clients to invest in promissory notes linked to a company with which he was associated.

Daniel Frishberg, chief executive and principal of Daniel Frishberg Financial Services Inc., allegedly gave one of the firm's representatives, Albert Kaleta, authorization to recommend that clients purchase promissory notes from Business Radio Networks LP, an affiliate of Mr. Frishberg's firm, according to the Securities and Exchange Commission's complaint.

Both Mr. Kaleta and Mr. Frishberg were officers of Business Radio Networks, also known as **BizRadio**, and collected salaries from the company, a fact that wasn't sufficiently disclosed to the promissory note investors, the SEC claimed.

Mr. Frishberg hosted his own radio show, The Money Man Report, through Houston-based **BizRadio.**

Between April 2008 and September 2009, the offering drummed up some $5.5 million in proceeds, but he failed to ensure that clients knew of BizRadio's poor financial condition, as well as the conflicts of interest, the SEC claimed.

From 2007 through 2009, Mr. Kaleta sold at least $10 million in **promissory notes** issued by a company he owned called Kaleta Capital Management to clients of Mr. Frishberg's firm, according to the SEC.

Remember a couple weeks ago on Open MIC when we talked about Promissory Notes?....BB .

E-mail Darla Mercado at dmercado@investmentnews.com.

Here is a good site for new and archival information....BB

www.IRIonline.org

I found this article published a year ago....I thought it interesting how things have changed over the course of 15 months....BB

Why is President Obama Promoting Annuities?

01.26.2010

Because Guarantees of Lifetime Retirement Income Help Provide Retirees Dependable, Trusted Sources of Retirement Income

WASHINGTON, D.C. -- Yesterday, President Obama announced that he would be **promoting annuities in 2010**, and he will most likely mention them in tomorrow's State of the Union address to Congress.

Why is the president promoting annuities? See below for the Insured Retirement Institute's (IRI) Top Five Reasons the President is Promoting Annuities:

- 1. **Guaranteed payments**: throughout the recent crisis, not one annuity provider ever missed a payment - not even one;
- 2. **Unparalleled consumer protections**: provides insurance benefits and peace of mind no other product can;
- 3. **Resilience**: the overall value of annuities have already regained pre-crisis levels while payments never decreased;
- 4. **Save now, pay later**: allows tax-deferred savings until you withdrawal the money;
- 5. **Possibilities without pitfalls**: provides risk-adverse consumers the opportunity to re-enter the market but with guarantees.

"**This president knows that Social Security alone, especially in its ever-diminishing state, will not be enough for Baby Boomers when they retire**," said Cathy Weatherford, President and CEO of IRI.

"The security and value of guaranteed income through insured retirement strategies has never been more apparent following the recent economic crisis. These strategies help investors achieve a financially secure retirement. IRI and our members are ready to assist the administration and Congress to help spotlight the vital role annuities can play in ensuring all Americans have a comprehensive retirement plan to guarantee income for their golden years."

More Current and equally important….BB

WASHINGTON, D.C. - The Insured Retirement Institute (IRI) today hosted a consumer retirement readiness webinar to kick-off the week long education and outreach activities in support of National Retirement Planning Week® (NRPW). Conducted by Employee Benefits Research Institute (EBRI) President and CEO Dallas Salisbury, the webinar revealed that half of all workers (50%) cite low confidence in having enough money to live comfortably throughout their retirement years.

(Have a look at this number….BB)

In addition, while the majority of workers are saving money for retirement (68%), nearly half (46%) have less than $10,000 in savings and investments.

NRPW is held annually by IRI and sponsored by The National Retirement Planning Coalition - a group of prominent financial industry, education and advocacy organizations that have joined together to raise public awareness of the need for comprehensive retirement planning. National Retirement Planning Week® 2011 runs from April 11-15.

"America is facing a retirement crisis, one that Boomers are realizing today and looms for generations to come," said IRI President and CEO Cathy Weatherford. "While the good news is that workers are saving, unfortunately, they are doing so at levels that will not sustain a financially secure retirement. By bringing this coalition together - and offering financial education and information - we hope that we will be able to raise awareness around the critical need for Americans to plan holistically for retirement."

Then there is this….BB

Remember the Open MIC a few months back, when we said this is the beginning of the "Golden Age of Annuities"……BB

Poll reveals baby boomers' retirement fears

April 05, 2011|By ALAN FRAM, Associated Press

(04-05) 10:20 PDT WASHINGTON, (AP) --

Baby boomers facing retirement are worried about their finances, and many believe they'll need to work longer than planned or will never be able to retire, a new poll finds.

The 77 million-strong generation born between **1946 and 1964** has clung tenaciously to its youth. Now, boomers are getting nervous about retirement. Only **11 percent** say they are strongly convinced they will be able to live in comfort.

A total of **55 percent** said they were either somewhat or very certain they could retire with financial security. But another **44 percent** **express little or no faith they'll have enough money when their careers end**.

Further underscoring the financial squeeze, **1 in 4** boomers still working say they'll never retire. That's about the same number as those who say they have no retirement savings.

The Associated Press-LifeGoesStrong.com poll comes as politicians face growing pressure to curb record federal deficits, and budget hawks of both parties have expressed a willingness to scale back Social Security, the government's biggest program.

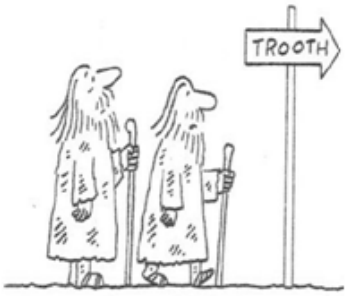
The survey suggests how politically risky that would be: **64 percent of boomers see Social Security as the keystone o**f their retirement earnings, far outpacing pensions, investments and other income.

The survey also highlights the particular retirement challenge facing boomers, who are contemplating exiting the work force just as the worst economy in seven decades left them coping with high jobless rates, tattered home values and painfully low interest rates that stunt the growth of savings.

Joe's has sent this newsletter for years, it is available in Snail Mail or through your Retire Village account.....it is free and a great way to give "value" It is 4 pages long and contains a wide range of information from recipes to money matter....it is personalized and it build relationship.....BB

Joe and Linda Rych
Issue 21
April 2011

Inside This Issue...



"Close enough. Let's go."

Rych Insurance Services, Inc.

Specializing in Asset Protection for Those Aged 60 and Better.

The history of April Fool's Day or All Fool's Day is uncertain, but the current thinking is that it began around 1582 in France with the reform of the calendar under Charles IX. The Gregorian Calendar was introduced, and New Year's Day was moved from March 25 - April 1 (new year's week) to January 1.

Communication traveled slowly in those days and some people were only informed of the change several years later. Still others, who were more rebellious refused to acknowledge the change and continued to celebrate on the last day of the former celebration, April 1st.

These people were labeled "fools" by the general populace, were subject to ridicule and sent on "fool errands," sent invitations to nonexistent parties and had other practical jokes played upon them. The butts of these pranks became known as a "poisson d'avril" or "April fish" because a young naive fish is easily caught. In addition, one common practice was to hook a paper fish on the back of someone as a joke.

This harassment evolved over time and a custom of prank-playing continue on the first day of April. This tradition eventually spread elsewhere like to Britain and Scotland in the 18th century and was introduced to the American colonies by the English and the French. Because of this spread to other countries, April Fool's Day has taken on an international flavor with each country celebrating the holiday in its own way.

In Scotland, for instance, April Fool's Day is devoted to spoofs involving the buttocks and as such is called Taily Day. The butts of these jokes are known as April 'Gowk', another name for cuckoo bird. The origins of the "Kick Me" sign can be traced back to the Scottish observance.

In England, jokes are played only in the morning. Fools are called 'gobs' or 'gobby' and the victim of a joke is called a 'noodle.' It was considered back luck to play a practical joke on someone after noon.

So, no matter where you happen to be in the world on April 1, don't be surprised if April fools fall playfully upon you.

Here is the picture to show how to "opt out" of the newsletter ~ will take all of 3 seconds

Demo Financial Services | Annuity.com

Logged in as daviddemo | Logout

Search this site: Search

HOME | PLANNING | CALCULATORS | NEWSLETTERS | ANNUITY BLOG | ABOUT US | CONTACT

daviddemo

- My account
  - My Contacts
  - Add New Contact
  - Email Group Management
- Site Owner Information
- Email Administration
  - Your Personal Drip Reports
  - Annuity.com Drip Reports
- Log out

Edit Your Website Content

Click to view and edit the section of your website you wish to change.

You are editing demo.retirevillage.com

Section	Description	Actions
Picture Text	The text appearing below your picture.	View | Edit
Front Page Text	The text appearing on the front page.	View | Edit
About US Text	The text appearing on the About Us Page.	View | Edit
Contact Us Text	The text appearing on the Contact Us Page.	View | Edit

Safe Money Monthly Newsletter Selection

Retire Village will send a monthly newsletter to your database if you opt in to the service. You may also opt out if you prefer. Please make your selection below.

☑ Opt In To Monthly Newsletter Service

☐ Opt Out Of Monthly Newsletter Service

Set Newsletter Option

And you want to be securities licensed? Thank your lucky stars 151A didn't make it….BB

It's the Wolfgang Puck Express

Losing Clients

Bank of America Corp.'s Merrill Lynch and Morgan Stanley Smith Barney, the top two full-service brokerages by client assets, had **combined outflows of about $150 billion during 2009,** the most recent year for which data is available, and about 10,600 financial advisers left the firms that year, according to Aite Group, a Boston-based research firm. Merrill Lynch hasn't seen a trend of investors leaving the broker, said Selena Morris, a spokeswoman for the bank.

"The number one source of accounts is what we would refer to as full-commission brokers," said Peter Sidebottom, executive vice president of product, marketing and client experience for Omaha, Nebraska-based TD Ameritrade Holding Corp., which caters to do-it-yourself investors.

Change in Focus

Traditional brokerages are focusing more on their wealthiest clients in an effort to improve profitability, so the customers leaving these firms tend to be the ones with the smallest accounts, said Katharine Wolf, senior analyst for Cerulli Associates, a Boston-based research firm.

"They're not looking to target a client that has, say, under $250,000 to invest," she said. (what arrogant greed people they are, give me all the $250,000 clients you have, they deserve annuities and not tis greedy fee grabbing group....BB)

(why do you think it is this way....we are all sick of fees all the way from banks to brokers...sick....BB)

Those investors are potential customers for services such as Flat Fee Portfolios, which began opening accounts in February. Clients with assets of less than $250,000 are offered several predesigned portfolios with an annual review for a fee of $129 a month.

It's the **"Wolfgang Puck Express"** of portfolio management, said Mark Cortazzo, founder of Flat Fee Portfolios, referring to the celebrity chef who sells gourmet dishes for low prices at his fast-food restaurants.

Personally, whenever I walk through an airport, I always stop at WP's place....BB

Last week we had a great tip from Chad and Tony about 401 (k) rollovers....here is more....BB

Hello Partners,

It's time for Friday calls to book up next week.

Are you being aggressive enough? **Are you selling an idea or a product?**

I just listened to Chad call one of his Safe Money Radio leads and here is how it went. This was second time Chad called this guy. He had an appointment with him before but the appointment was cancelled. Chad was calling back to see if he was still interested in meeting.

The client did not want to meet because all of his money is in his 401K with IBM and he does not plan on retiring until July of this year.

Chad said, "Would you like to take advantage of in-service-withdrawal."

Client, "What's that?"

Chad, "**Do you want to protect your 401K now**?

Client, "Yes, but I can't take my money out of my 401K until I retire."

Chad, "Who administers your 401K plan?"

Client, "Fidelity". (Chad Googles "Fidelity 401K customer service number")

Chad, "Let's call Fidelity and double check. Hold on while I get them on the phone." (**Client was not asked if he wanted to call Fidelity**. Key point here. **Be assumptive**!)

While the phone is ringing he tells the client to identify himself when they answer and then give permission for him to ask some questions.

Fidelity answers and client does as Chad instructed. Chad verifies that the client has $236K in 401k and that the client is eligible for a 100% in-service withdrawal.

After disconnecting from Fidelity **Chad** asks, "So, **looks like we can go ahead and protect your retirement**. I am going to be in your area on Tuesday, does afternoon or evening work best for you?"

The appointment was booked.

Now pay attention to this!!! No product has been discussed or explained. Has the client bought anything yet?

Technically no. We still have to do a fact finder and show the client how his retirement would benefits from our product but **the client has bought into the idea of protecting his retirement**.

Sell the idea, not the product!!!!!!!!!

Thanks for the biz,

Anthony R. Owen

Here is a follow up from Marilyn Clark in Olympia....more Fidelity nonsense...

Had a great meeting with a 63 year old in Oly today on his 401k rollover. He shared some information about his 401 (k).

His 401k funds are with Fidelity. Fidelity recommends they see what some of the options are and they recommend fixed annuities. They try to steer them to Metropolitan...

All these guys want to do is grab it all...what crap....BB

We discussed this a few weeks back about target marketed funds and their weaknesses; we must be really smart and can see the future!!!....BB

LABOR DEPARTMENT: Target date fund reform proposal

April 6, 2011 6:01 am ET

Regulators are still considering whether to adopt proposed rules that would require **more disclosure of target date investments**, which reset their asset allocations over time. The **Labor Department** rules would require new disclosures about target date funds, which swelled to more than **$270 billion by the end of 2010 after the agency designated them a**

qualified default investment. Using a QDI, employers are protected from liability when investing a worker's contributions in a target date fund if that employee hasn't designated another investment choice. The rules would require added explanations of the investment's asset allocation, how the allocations would change over time and the significance of the target date itself.

So let me get this straight…the government ordains them, people buy them, the government begins to doubt them, they require more disclosure, people are stuck with them….my question is this…why would they recommend them in the first place….who is feeding whom?…BB

(smells like FINRA deal to me)

Does it ever end?

To me this is troubling....the government is almost insane for more tax revenue....what could be next....tax deferral for annuities...BB

Senate zeroes in on muni tax exemption

Bi-partisan proposal would swap the exemption for a credit; would drive up rates

April 8, 2011 12:19 pm ET

The tax-exemption provided to investors in U.S. state and local government bonds faces a fresh challenge in Congress, where two senators are pushing a bill that would roll back the subsidy.

Senators Ron Wyden, a Democrat from Oregon, and Dan Coats, an Indiana Republican, would swap the exemption for a credit as part of a broad package of tax-law changes introduced this week.

Wyden proposed similar treatment of municipal bonds last year in a measure that failed to muster support. More recently, leaders of President Barack Obama's deficit-reduction commission also sought to **end the exemption on interest earned** from the securities, although the panel's recommendations also failed to win sufficient backing to move forward.

Stripping municipal bonds of tax-exempt status would push up the cost of borrowing for local governments because investors accept lower returns in exchange for the favored tax treatment.

--*Bloomberg News*--

Question this week about bonds....

Q...I didn't understand about the coupon rate as it pertains to the 10 year U S Treasury Bond Value. That is because I have never had an occasion to use it nor have I ever read about these bonds. I understand it now, but when I called marketing to ask them to explain it, the man I spoke to did not know what a coupon rate was either so he looked it up on Google and read me the answer. I did not understand what he read, and knew he didn't understand it either

A...When a Treasury is issued at face value...which means that "at maturity" the Treasury will pay the face value.

The Treasury is sold at a discount by the Treasury, as an example, a $10,000 Treasury might sell for $9,500 which means the difference is the amount earned.

Pay $9,500 and at maturity get $10,000, the difference is yield. Once the original Treasury is issued it could be sold hundreds of times on the secondary market, sometimes for less and sometimes for more all based on the relationship to other interest bearing instruments.

These terms are called "Premium and Discount."

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!

Our friend Sheryl Moore answered this question….please read it and understand the power of these products….BB

Malcolm Berko: Equity index annuities can torture retirees' nest eggs

Mar 17, 2011 2:17AM

•

Dear Mr. Berko: We are in our mid-70s and have IRAs valued at $493,000, still less than the $715,000 value of several years ago. We also have $120,000 in two CDs that pay 1.1 percent, Social Security and pensions. We are frightened about the economy and concerned for our IRA because we need the income. Our broker of five years, who is with a very big firm,

wants us to put our entire IRA into an equity index annuity that he says will guarantee 4 percent per year, that it will never lose money, that its annual growth is tied to the increase in the Standard & Poor's 500, that it's triple-A rated, that our beneficiaries will get every penny we invested plus gains, and we can take money out any time we wish. He told us that we do not have to pay a commission because the insurance company pays him for us. This sounds too good to be true. We don't want to make another mistake like we did when our old broker at Prudential sold us a private placement limited partnership in the late 1980s and it went bankrupt a couple years later. At our ages, we cannot afford another mistake. We have been reading your column in our paper for over 30 years. We trust your advice. Please advise us as soon as you can.

— P.B., Fort Walton Beach, Fla.

Dear P.B.: **My goodness, my gosh** — equity index annuities have more moving parts than a Swiss watch, but unfortunately all those moving parts seem to be made in China. **EIAs represent 70 percent of complaints received by state securities regulators. (he is wrong....BB)**

The financial landscape is littered with a **carnage of slick schemes** and broken dreams that literally vandalized the income of retired or soon-to-retire investors. So before you read any further, call that brokester, tell him to shove a carrot in his ear and suggest that he take an advanced course in "torture resistance training."

EIA salesmen have to be **sociopathic liars or dumber than a fistful of worms to sell this evil product**. **(we should sue, he can't call us that....BB)** EIAs have more confusing charges and fees than your cell phone, cable and utility bills combined, and more caveats and limitations than a used-car warranty. The calculations of an annuity's index values and related features that determine performance are pre-calculated to maximize the insurer's profits while mitigating the policyholder's gains.

And reports from the Securities and Exchange Commission, the Financial Industry Regulatory Authority, the North American Securities Administrators Association and the National Associated of Securities Dealers (all available on the Internet) suggest that my criticism should be much stronger. As of today, more than $220 billion has been invested in

EIAs, and I would guess if all were converted to cash that the public would get back **much less than the $220 billion they invested.**

The insurance companies that design this infested product are as culpable as the **banksters and brokester** who sell it. The victimized investors are never told that the commissions are 10 percent or more, or that the surrender fees can be 15 percent or higher.

Oh, it's in the prospectus, but my daughter — who is a lawyer — and her husband — who is a judge — would need hours to locate that information. **(we don't provide a prospectus because our products are not securities, try the variable boys for that….BB)**

Meanwhile, I suggest that you visit the Financial Industry Regulatory Authority's Web site and search "equity index annuities." You will be gabberflasted.

I share your concerns about the market, and I think those concerns would be easier to live with if you got rid of this broker and hired a professional money manager who can give you conflict-free counsel and doesn't need to sell you things that pacify his boss or pay his country club dues.

Address your financial questions to Malcolm Berko, P.O. Box 8303, Largo, FL 33775 or e-mail him at mjberko@yahoo.com.

Response: Equity Index Annuities Can Torture Retirees' Nest Egg

Dear Mr. Berko,

I am an independent market research analyst who specializes in the indexed annuity and life markets. I have tracked the companies, products, marketing, and sales of these products for over a decade. I used to provide similar services for fixed and variable products, but I believe so strongly in the value proposition of indexed products that I started my own company focusing on IAs and IUL exclusively. I do not endorse any company or financial product, and millions look to us for accurate, unbiased information on the insurance market. In fact, we are the firm that

regulators look to, and work with, when needing assistance with these products.

I recently had the occasion to read an advice column that you authored for *Lake County News-Sun / The Chicago Sun-Times*, **"Equity index annuities can torture retirees' nest eggs"** I am deeply concerned about a couple of things in your reader's letter and many of the items in your response to him. Because of the misleading and inaccurate statements which were made in this piece, I wanted to reach-out to you and offer my services. It scares me to think that your readers may have difficulty obtaining the information they need, when searching for answers on annuities. If the reader who sent you the letter needs additional assistance understanding what he purchased, or if you need help in the future with fact-checking, I humbly offer the services of my market research firm to you.

First, your reader P.B. from Fort Walton Beach was told about the following indexed annuities features that are absolutely true:

1. The indexed annuity will never lose money as a result of market downturn,

2. The indexed annuity offers the potential for gains based on the growth of the S&P 500,

3. The indexed annuity will pay his beneficiaries a death benefit of the premiums paid plus all gains,

4. The indexed annuity would allow monies to be withdrawn without penalty every year,

5. The indexed annuity salesman's commission is paid directly by the insurance company, not the annuity purchaser.

I am not able to address the "guarantee of 4% per year" without knowing which indexed annuity was proposed to your reader and I do not know what their comment that "it's triple-A rated" is in reference to.

That being said, I have some serious concerns about your irresponsible reply to P.B.

First, I would like you to know that it is inappropriate to refer to these products as “equity indexed annuities” or “EIAs.” Indexed annuities have not been called “equity-indexed annuities” by those in the insurance industry since the late 1990’s. The insurance industry has been careful to enforce a standard of referring to the products as merely “indexed annuities” or “fixed indexed annuities,” so as not to confuse consumers. **This industry wants to make a clear distinction between these fixed insurance products and equity investments**.

The interest potential of these products is limited, unlike equities investments. In addition, it is the safety and guarantees of these products which appeal to consumers, particularly during times of market downturns and volatility. Your help in avoiding any such confusion is so greatly appreciated. Thank you.

In addition, it is disingenuous for your to state that indexed annuities “have more moving parts than a Swiss watch.” Indexed annuities are simpler than you perceive; they are just fixed annuities with a different way of crediting interest. Understanding a few key features can de-mystify the crediting of interest on these indexed insurance products:

1. Which index is being used to determine the potential gain credited to the policy? The indexed annuity purchaser can choose to have their interest linked to the performance of one or more of 17 different indices (S&P 500, NASDAQ-00, etc.). Although most companies offer only the choice of the S&P 500, there are a few companies that offer more than one index selection.

2. Which crediting method is being used to calculate the indexed interest on the policy? The annuity purchaser then has their choice of one of 11 crediting methods (calculations) for their gains. Again, most companies merely offer only a simple annual point-to-point crediting method, but several companies offer more choices.

3. Which pricing lever is being used to limit the potential indexed interest on the policy? There are three ways in which an insurance company may limit the interest credited to these products: use of a cap, participation rate, or spread (also referred to as a margin or asset fee). All

three of these pricing levers are merely a way to limit the indexed interest on an indexed insurance product; they all do the same thing. Regardless of whether the interest is limited by a cap, participation rate, or spread- all indexed annuities are priced to return the same amount.

Ultimately, the index used, the crediting method utilized, and the choice of a cap or participation rate are irrelevant. All indexed annuities are priced to return 1% – 2% greater interest than traditional annuities are earning today, over the life of the policy (regardless of index, crediting method, and pricing lever). All of these different features (index, crediting method, pricing lever) merely give the marketing organizations that distribute these products an opportunity to promote why their product is "different" or "better" than their competitors' products, to the agent. They do not actually make any one product better than another. Yes, some designs will perform better than others in some years. However, over the life of the contract, they will be about even keel.

I'd be interested to know where you obtained your statistic that "70 percent of complaints received by state securities regulators" are on indexed annuities. I searched all over the internet, through industry data sources, and on regulators websites, and was unable to find any statistic that was relatively similar. In fact, this inaccurate statistic has been more thrown around on the internet that viral Charlie Sheen videos. Why? Several years ago when the North American Securities Administrators Association (NASAA) decided to pursue securities regulation of indexed annuities, they began disseminating data with misleading statistics. Consider the attached presentation by Alabama Securities Commissioner, Joseph Borg. On slide three of this presentation, Mr. Borg states that "34% of all cases of senior exploitation involve variable or equity-index annuities." Note that it says **"variable OR equity index annuities."** This is a nifty little way to negatively position this data; isn't it comparable to saying that serial killers and newborn babies account for the most heinous criminal acts in the United States? For all that we know, there was ONE case involving an indexed annuity and 99 involving variable annuities. You must also take into perspective that 70 percent may sound shockingly high, but 3.5 complaints out of a total of 5 complaints is also equal to 70%. In market research, we call this "massaging the data," Mr. Berko. It isn't as difficult to make your audience see the data differently using such methods.

If you are truly looking for credible data on market conduct issues with indexed annuity sales, you should evaluate the National Association of

Insurance Commissioner's (NAICs) closed complaint database instead of looking to securities regulators that not only don't understand indexed annuities, but also have no jurisdiction over the regulation of such insurance products. Specifically, investments (products where consumers risk the loss of principal AND gains) such as stocks, bonds, and mutual funds are regulated by the SEC, the Financial Industry Regulatory Authority (FINRA), and NASAA. Indexed annuities are fixed insurance products; similar to fixed annuities and whole life insurance. These fixed insurance products never put the purchaser's principal or gains at risk due to market volatility. Indexed annuities, like other fixed insurance products, are regulated by the 50 state insurance commissioners of the United States. Together, they form the NAIC. This is why the NAIC is the only credible source of information on indexed annuity complaints. For your information, I have provided data below from the National Association of Insurance Commissioner's Closed Complaint Database:

TOTAL INDEXED ANNUITY COMPLAINTS FOR 2006: **187**

TOTAL INDEXED ANNUITY COMPLAINTS FOR 2007: **235**

TOTAL INDEXED ANNUITY COMPLAINTS FOR 2008: **220**

TOTAL INDEXED ANNUITY COMPLAINTS FOR 2009: **148**

Based on our research, this results in average annual complaints as follows:

AVERAGE INDEXED ANNUITY COMPLAINTS PER COMPANY 2006: 4.35

AVERAGE INDEXED ANNUITY COMPLAINTS PER COMPANY 2007: 4.12

AVERAGE INDEXED ANNUITY COMPLAINTS PER COMPANY 2008: 3.86

AVERAGE INDEXED ANNUITY COMPLAINTS PER COMPANY 2009: 3.29

(let's see the variable guys compare their numbers….BB)

So, not only have complaints on indexed annuities declined annually for several years, but the average has declined consistently for many years. Conversely, variable annuity complaints (which are overseen by the SEC, FINRA, and NASAA) have always been greater than the number of indexed annuity complaints, and have risen in recent years. Certainly, we do strive for 100% customer satisfaction in the insurance market, Mr. Berko, but I would contend that an average of only 3.29 complaints annually, per company, is quite reasonable and not indicative of "slick schemes and broker dreams."

That being said, I think it would be appropriate to give P.B.'s insurance agent the benefit of the doubt in this exchange. Based on the limited information available in his letter, it seems that an indexed annuity may have been a perfectly appropriate suggestion for this risk-averse retiree. Ultimately, neither you or I can speculate what may or may have not been an appropriate purchase for your reader without performing the rigorous suitability analysis and paperwork that was required by law to be performed by the reader's insurance agent.

I resent your insinuation that indexed annuity salespeople are "sociopathic liars" and "dumber than a fistful of worms." You are obviously basing your judgment on inflated, inaccurate articles reporting on indexed annuities being used as the instrument of bad agent behavior. I have news for you, Mr. Berko. Every financial product has, at one time or another, been the instrument of bad agent behavior. Indexed annuities are just a tool in the toolbox. Would you outlaw hammers because a serial murderer used them to plummet their victims? I would think it would be rather difficult to build a house without a hammer...in the same manner, it is not good to damn indexed annuities because you heard a story about someone behaving badly while suggesting an indexed annuity. It goes without saying that as the foremost authority in the indexed annuity market, I have to tell you that I am livid over your suggestion that indexed annuities are an "evil product." May I suggest that you should properly understand these products before you reserve judgment about them.

You are absolutely wrong in your assertion that indexed annuities **"have more confusing charges and fees than your cell phone**..."
Indexed annuities have no explicit charges or fees, Mr. Berko. It sounds like you are confused. Not all annuities have "fees" the way that deferred variable annuities do. Income annuities as well as fixed

and indexed deferred annuities specifically have no explicit fees. The "charge" that the client pays on a fixed or indexed annuity is merely time; via a surrender charge. The surrender charge on a fixed, indexed, or variable annuity is a promise by the consumer not to withdraw 100% of their monies prior to the end of the surrender charge period. This allows the insurance company to make an informed decision on which conservative investments to use to make a return on the clients' premium (i.e. 7-year grade "A" bonds for a seven-year surrender charge annuity or 10-year grade "A" bonds for a ten-year surrender charge annuity). Investing the consumer's premium payment in appropriate investments allows the insurance company to be able to pay a competitive interest rate to the consumer on their annuity each year. In turn, it also protects the insurance company from a "run on the money" and allows them to maintain their ratings and financial strength. Some of these annuities may have *optional* features that the purchaser can choose to add-on to the base contract, in exchange for an annual fee. However, indexed annuities do not have fees in and of themselves.

You mention that indexed annuities have limitations to their gains, as if it is a detriment to the purchaser; it is not. **The indexed interest on indexed annuities must be limited, or the insurer would not be able to provide a minimum guarantee on the contract.** So, while you may see the limitation of indexed gains as a disadvantage, it is actually what protects the annuity purchaser from the risk of losing money. In order to offer unlimited gains on an annuity, you must also pass-on unlimited risk. This is why variable annuity purchasers risk losing their principal and gains in the event of a market downturn. However, if a consumer were looking for unlimited gain potential, an indexed annuity would not necessarily be the appropriate product to fulfill their accumulation needs.

Alternatively, those interested in knowing more about indexed annuities should be well-informed on their value proposition. Unfortunately, I feel that this proposition is different than what you seem to communicate in your article. <u>Indexed annuities are not intended to provide all of the stock market's upside</u>. Indexed annuities are promoted as 'allowing the purchaser to have LIMITED participation in the market's upside, while avoiding the downside risks associated with the market.' You see, all gains on indexed insurance products must be limited through the use of a participation rate, cap, or spread. Because indexed annuities are a "safe money place," they should be compared against other safe money places. Investment products

such as stocks, bonds, mutual funds, and variable annuities subject the purchaser to both the highs and the lows of the market. It is inappropriate to compare any safe money place, such as an indexed annuity, to risk money places and it is most certainly not appropriate to compare safe money places to the market index itself. Indexed annuities are not intended to perform comparably to stocks, bonds, or the S&P 500 because they provide a minimum guarantee where investments do not. Indexed annuities are priced to return about 1% – 2% greater interest than traditional fixed annuities are crediting. In exchange for this greater potential, the indexed annuity has a slightly lesser minimum guarantee. So, if fixed annuities are earning 5% today, indexed annuities sold today should earn 6% – 7% over the life of the contract. Some years, the indexed annuity may return a double-digit gain and other years it may return zero interest. However, what is most likely to happen is something in between. Were the indexed interest NOT limited, the insurer could not afford to offer a minimum guarantee on the product, and THAT is a variable annuity- not an indexed annuity. On the other hand, the client is guaranteed to never receive less than zero interest (a proposition that millions of Americans are wishing they had during that period of 03/08 to 03/09) and will receive a return of no less than the premiums paid plus interest at the end of the contract term. In addition, **no indexed annuity owner has ever lost a penny as a result of market downturn.**

This is a strong value proposition that cannot be offered by any securities product with unlimited gains, Mr. Berko. I think that your readers would be better-served if you took note of this, as not every American is willing to tolerate market losses in exchange for the opportunity for unlimited gains.

It is absolutely clear that you misunderstand how these products work when you make statements such as "the calculations of an annuity's index values...are pre-calculated to maximize the insurer's profits while mitigating the policyholder's gains." Although the crediting calculations used for indexed interest on these annuities are pre-calculated and clearly disclosed in the contract and product brochures, NO ONE CAN PREDICT THE FUTURE PERFORMANCE OF THE MARKET. For this reason alone, it is preposterous for you to insinuate that the underwriting insurance company has control over the amount of indexed interest credited to indexed annuity contracts.

As for your statement that indexed annuities have commissions of "10 percent or more," you are again providing skewed information. The SIX indexed annuities that pay a commission of ten percent or more accounted for precisely 0.65% of all indexed annuity sales for 4Q2010, Malcolm. **0.65%!** The products that give the indexed annuity market the most amount of negative attention account for less than 1% of all sales! Furthermore, the average commission paid on indexed annuities during the same period was a mere 6.37% (and even lower for annuities sold to older-aged purchasers). Keep in mind that this commission is paid one time, at point-of-sale only, and the agent services the contract *for life*. By comparison, securities products such as mutual funds, stocks, and bonds pay generous, consistent commissions each year. In light of this, I think you'll agree that the commissions paid on indexed annuities are quite fair and hardly inflated, as you would suggest.

While you are quick to point-out that surrender charges can be 15 percent or higher, you fail to note that these higher-penalty products credit a premium bonus of as much as 10% of the premiums paid to the annuity's value on the day it is issued (i.e. an annuity purchaser deposits $100,000 with an insurance company and immediately gets a boost in cash value to $110,000). The insurance company selling such a product must offset the risk of offering such a lucrative bonus, and provide a disincentive for the purchaser to merely obtain the increase in value from the bonus and cash surrender thereafter. That being said, if someone wants to minimize the surrender charges on their annuity contract, they should purchase an annuity without a bonus. However, it may interest you to know that the average surrender charge for indexed annuities as of 4Q2010 is ten years and the average first-year charge is less than 11% (even less for older-aged purchasers). Again, the facts are far different than what you suggest in your advice column...

Notwithstanding, indexed annuities offer many options for liquidity, should the purchaser need access to their annuity's value. Specifically, every indexed annuity permits penalty-free withdrawals of 10% of the annuity's value annually. Some even allow as much as 50% of the annuity's value to be withdrawn in a single year. Plus, 9 out of 10 indexed annuities provide a waiver of the surrender charges, should the annuitant need access to their money in events such as nursing home confinement, terminal illness, disability, and even unemployment. Couple this with the fact that these products pay the full account value to the beneficiary upon death, and it is

clear that these are some of the most liquid retirement income products available today. This is not the picture that you would paint of them, Mr. Berko. Please take note of how liquid the products truly are.

I hate to be the first break it to you, but indexed annuities don't have prospectuses. Securities products which have the potential for loss of gains and principal are sold via a prospectus. Indexed annuities are insurance products that guarantee a return of principal plus interest, and are therefore sold via an insurance contract. And while you mislead your readers into believing that indexed annuity contracts are long and/or difficult to understand, the average indexed annuity contract is a mere 26.7 pages long and is required by the NAIC to be accompanied by plain-language disclosures. Contrast this to the average 200+ page prospectus used on variable annuity contracts, and I think you will agree that an indexed annuity contract is relatively simple to evaluate. Furthermore, I find it reckless that you would imply that your readers not bother reading their contracts. **Every client needs to bear responsibility in understanding the paperwork that they sign and ask questions if they do not understand.** Would you sign mortgage paperwork that you didn't understand? A divorce decree? A vehicle loan? Likewise, an annuity is a contract and should be read prior to signing/purchase.

And by the way, the surrender charges on indexed annuities are clearly disclosed in a minimum-NAIC-required font size on the third page of the contract. I am certain that your "daughter- who is a lawyer- and her husband- who is a judge- would" **NOT** "need hours to locate that information."

It would be of interest to you that indexed annuities are rarely sold by brokers. In fact nearly nine out of ten indexed annuity sales are made by independent insurance agents.

It is of the utmost importance that readers understand that it is inappropriate for you to direct them to the Financial Industry Regulatory Authority for information on indexed annuities. **FINRA has been contacted and corrected numerous times on the inaccuracies in their Investor Alert on Indexed Annuities (see attached), which you would direct your readers to locate. FINRA is not a credible source of information on indexed annuities.** They are responsible for the oversight of broker dealers and member firms that sell securities. They have no regulatory authority on insurance products such as indexed

annuities, and in fact have a vested interest in indexed annuities being regulated as securities so that they can increase their revenue and job security. In the future, if you are looking for a reliable regulatory resource on fixed insurance products (such as indexed annuities), I encourage you to seek out Susan Voss or Jim Mumford at the state of Iowa Insurance Division (Susan is the Iowa commissioner and president of the NAIC, and Jim is the deputy commissioner for Iowa). Not only are these regulators credible, but 41.32% of indexed annuity sales flow through Iowa-domiciled insurance companies; for that reason they have become authorities on indexed insurance products. Please let me know if you need contact information for either Susan or Jim, and I would be happy to provide it to you.

Malcolm, I couldn't help but laugh aloud at your suggestion that readers hire "a professional money manager who can give [them] conflict-free counsel." This statement made it blatantly obvious that your background is in the securities business, and that you need additional exposure to the insurance business. This is important for readers to know because securities-licensed registered representatives' solution for 'safety and accumulation' is offering stocks and bonds (which are both equities products with risk of loss). By contrast, the insurance agent's solution for the same problem is an indexed annuity (which is an insurance product with no risk of loss due to market volatility). Why isn't the registered representative selling indexed annuities? For starters, he is familiar with the processes and routines that are associated with the SEC's regulation (which is very different than those of insurance products' NAIC regulation). In addition, equities products pay generous, consistent commissions where annuities pay commissions only one time, at point-of sale. For this reason, it is very likely that the registered representative does not sell indexed annuities at all. **And if the registered representative is not selling indexed annuities, then he is competing against insurance agents that do.**

So even if an indexed annuity *were* the most suitable retirement vehicle to address your readers' needs, it is highly unlikely that a registered representative will ever discuss the product with them!

The overall message here is that our nation's financial advisors and insurance agents have long-fought a battle to control 100% of their clients' assets. It is a shame that everyone cannot learn to "play together" and

ensure that the client has ALL of their financial services needs met, using THE most appropriate products for their needs, regardless of whom is able to sell it to them. You would do your readers justice by being informed on this unfortunate dichotomy.

Mr. Berko, indexed annuities have so many good features and they are a wonderful product solution for millions. Would you just open-up to the possibility that there is more here than just "a juicy story" here? You are hurting your readers when you position these products in a bad light. They need credible and reliable information on financial services products now, more than ever. Did you know that indexed annuities have many benefits including (but not limited to):

1. **No indexed annuity purchaser has lost a single dollar as a result of the market's declines**. Can you say the same for variable annuities? Stocks? Bonds? Mutual funds? NO.

2. All indexed annuities return the premiums paid plus interest at the end of the annuity.

3. **Ability to defer taxes:** you are not taxed on annuity, until you start withdrawing income.

4. **Reduce tax burden:** accumulate your retirement funds now at a [35%] tax bracket, and take income at retirement within a [15%] tax bracket.

5. **Accumulate retirement income:** annuities allow you to accumulate additional interest, above the premium you pay in. Plus, you accumulate interest on your interest, and interest on the money you would have paid in taxes. (Frequently referred to as "triple compounding.")

6. **Provide a death benefit to heirs:** all fixed and indexed annuities pay the full account value to the designated beneficiaries upon death.

7. **Access money when you need it:** every indexed annuity allows annual penalty-free withdrawals of the account value at 10% of the annuity's value; some even permit as much as 50% to be withdrawn in a single year. In addition, 9 out of 10 fixed and indexed annuities permit access to the annuity's value without penalty, in the event of triggers such

as nursing home confinement, terminal illness, disability, and even unemployment.

8. Get a boost on your retirement: many indexed annuities provide an up-front premium bonus, which can provide an instant boost on your annuity's value. This can increase the annuity's value in addition to helping with the accumulation on the contract.

9. Guaranteed lifetime income: an annuity is the ONLY product that can guarantee income that one cannot outlive.

PLEASE be conscientious in your future commentary on financial services products, especially indexed annuities. (As there is no excuse for the perpetuation of inaccurate information in this market- I am always available to validate information.) I would like to suggest that *The Chicago Sun-Times* consider a correction to your column. Or better yet, use this point-of-contact as an opportunity to educate your readers and humble yourself by writing a clarifying column yourself!

If you should ever have a need for information on indexed insurance products, I humbly extend an offer to assist you with your fact-checking needs.

Thank you.

Sheryl J. Moore

President and CEO

AnnuitySpecs.com

LifeSpecs.com

Advantage Group Associates, Inc.

(515) 262-2623 office

(515) 313-5799 cell

(515) 266-4689 fax

Did You Know?
Annuities are
Secured by Your State

Insured Retirement Institute

www.IRIonline.org

Insurance Regulation & State Guaranty Associations Q&A with Cathy Weatherford Insured Retirement Institute (IRI) President and CEO

Introduction

The Insured Retirement Institute (IRI) continues to field numerous questions about the safety and security of annuities during these uncertain financial times. Therefore, we've developed a Q&A to educate and inform investors and advisors about how regulatory efforts ensure maximum protection for annuity policyholders, and how state guaranty associations operate as additional safety nets.

IRI worked with NAIC regulatory experts to ensure the accuracy of the Q&A. The National Association of Insurance Commissioners (NAIC) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and five U.S. territories. The NAIC serves the needs of consumers and the industry, with an overriding objective of supporting state insurance regulators as they protect consumers and maintain the financial stability of the insurance marketplace.

For more information and a link to state insurance departments, visit www.naic.org. For access to NAIC's Consumer Information Source, visit https://eapps.naic.org/cis/.

Question & Answer

Q. How are insurance companies regulated?

A. Insurance companies are regulated at the state level. Each state has its own set of laws, rules and regulations over the insurance companies that domicile in the state as well as extensive oversight of insurance companies domiciled in another state that also seek licensure in the state.

Q. How has insurance regulation evolved in recent years?

A. Over the past two decades, insurance regulation has evolved to become similar in many aspects. The most similar, cooperative and collaborative area of insurance regulation is in the area of solvency.

The states have established a uniform system of laws, rules, regulations and mutual cooperation that every state strives to adhere to through the National Association of Insurance Commissioners

Solvency Accreditation Program. As of March 2009, fifty departments were accredited. Furthermore, since the program began, all 50 states and the District of Columbia have adopted laws and regulations designed to bring them closer to meeting the NAIC's accreditation standards.

Q. How do insurance regulators monitor a company's capital?

A. State insurance regulators have applied conservative requirements on insurance entities, which have bolstered the life insurers to remain solvent in these difficult economic times.

First, state insurance regulators apply more conservative accounting requirements by not allowing certain assets (non-admitted) to be included in capital and surplus.

Second, many states have implemented investment limitations to reduce exposure to a single issuer as well as to specific asset classes such as bonds and equities. Additionally, many other risky types of transactions are either limited or prevented.

Third, many states have incorporated derivative restrictions whereby insurers who write derivative contracts must cover these transactions with assets set aside for that risk.

Fourth, state regulators have set minimum capital requirements in Risked Based Capital (RBC). Most life insurance entities have RBC levels of six to seven times their solvency capital.

Finally, in addition to regulatory reviews, insurers must also undergo annual independent audits. State regulators monitor the solvency of insurers at least quarterly or more frequently for at-risk insurers.

Q. In spite of these conservative state regulations, there is no guarantee that a company will not become troubled or insolvent. What else is in place to protect consumers in the event that a company becomes troubled or insolvent?

A. Regulators can protect policyholders' interests by requiring insurers to meet certain financial standards and take corrective action (intervention) when necessary. With regard to a troubled insurer, the nature of the appropriate intervention varies depending on the circumstances. The essential objective is to prevent or minimize losses and to provide protection for policyholders. There are two levels of regulatory actions with respect to troubled companies: 1) actions to prevent a financially troubled insurer from becoming insolvent; and 2) delinquency proceedings against an insurer for the purpose of conserving, rehabilitating, reorganizing or liquidating the insurer. Preventive actions can include restriction on activities, cease and desist orders, supervision, and notice of impairments.

If intervention and receivership proceedings do not fully address concerns, state guaranty associations have been established to protect policyholders, annuitants, claimants and beneficiaries against financial losses due to insurer insolvencies. Essentially, in the unlikely event that an insurer in liquidation is unable to pay all its financial obligations, states would access the guaranty association to make up the difference. The guaranty association will pay certain policies up to specific statutory limits in the event of a shortfall from an insurer's assets.

Q. What is a state guaranty association?

A. State guaranty associations are offered in every state to protect contract owners against the insolvency of an insurance company that has issued certain insurance contracts, including annuity contracts.

Q. Do guaranty associations differ by state, or are they uniform across the country?

A. Guaranty associations differ by state because each state's laws set different limits on benefits and coverage.

Q. Are insurance companies required to be members of a state guaranty association?

A. Yes, all insurance companies licensed to sell life or health insurance in a state must be members of the state's guaranty association.

Q. How are guaranty associations funded?

A. Guaranty associations are funded by the insurance industry, not taxpayers. In order to amass the funds needed to protect the state's policyholders, insurers doing business in that state are assessed a share of the amount required to meet all covered claims.

Q. What are guaranty associations?

A. Guaranty associations are non-profit organizations created by statute for the purpose of protecting policyholders from severe losses and delays in claim payment due to insolvency of an insurance carrier.

All states, the District of Columbia and Puerto Rico have one or more guaranty associations, with each association handling certain types of insurance. Typically, most states have two types of guaranty associations: a life and health insurance guaranty association and a property and casualty insurance guaranty association.

Q. Are there practical examples of how guarantee associations work?

Q1. If a given state provides $100,000 in protection on a client's annuity, is that protection capped at $100,000 regardless of how many annuities they own? For example, suppose a client has $1,000,000 in annuities and has ten $100,000 annuity accounts spread out at ten different insurance companies. If two of the insurance companies became insolvent, would the client's protection be $200,000 or would it be capped at $100,000?

A. The client's protection would be capped at $200,000 because the coverage is related to one particular company.

Q2. If the same client had, for some reason, all ten annuity contracts at the same insurance company, would they be limited to $100,000 in coverage?

A. Yes, however, there may be some flexibility if the policy/contract types are different.

Q3. If the same client actually received $100,000 due to a failure, and then a year later another company that they had a $100,000 account with went out would they be eligible for protection? In other words, is there a reset or a window of time where a client is only eligible for a certain amount of protection?

A. Yes, the client would eligible for the same protection. There is no time limit for a client to be eligible for a certain amount of protection.

Q. Who oversees the guaranty association?

A. A board of directors and the state's insurance regulator generally govern the guaranty associations.

Q. Do state guaranty associations cover all types of insurance?

A. Individual and group life insurance policies, as well as individual annuities, long-term care and disability income insurance policies are covered by life and health guaranty associations.

Q. What are the primary advantages of state guaranty associations?

A. By virtue of their role, guaranty associations are able to provide two important benefits, including prompt payment of covered claims and payment of the full value of covered claims up to the guaranty association's cap.

Q. On average, what is the coverage provided for annuity contracts?

A. The coverage provided for annuity contracts varies from state to state, but cash values and annuity benefits generally are protected for at least $100,000.

Q. What type of protection is typically available for variable account contract holders in the event of insolvency?

A. Variable annuity contracts are typically issued through life insurance company separate accounts, which are insulated from the general creditors of the life insurance company in the event of insolvency. In some states, annuity assets are shielded from a contract owner's creditors as well.

Q. Can policyholders file claims with more than one guaranty association?

A: The state guaranty association system is intended to assign a given claim to only one guaranty association. In rare instances, it may be possible that one association has primary responsibility for a claim and another state guaranty association has secondary liability. In such cases it may be possible to file a claim with both associations, but in any event, the total amount paid cannot exceed the amount of coverage provided under your policy.

Q. What requirements have to be met in order for claims to be covered by a guaranty association?

A. To be covered by a guaranty association, a number of conditions must be met. The claim must:

- Be unpaid

- Exist before the insolvency or arise within 30 days after the Order of Liquidation
- Be on a policy written by an insolvent insurer that was licensed to do business in the state and in a line of business covered by the guaranty association
- Be brought by a claimant or insured who is a resident of the state
- Be filed with the guaranty association before the claims cut-off date
- Not be covered by other insurance

Q. Has there been any recent legislation introduced surrounding guaranty associations?

A. A new proposal was introduced to Congress in April 2009 to grant insurance companies the option of being federally regulated and create a guaranty association to protect consumers against the insolvency of a federally regulated insurer.

Federally regulated companies would have to pay into the federal guaranty association as well as pay insolvency assessments levied by the state guaranty association in which they are licensed to do business.

It remains to be seen whether this legislation will be passed.

Q. How do I find out more about the guaranty association in my respective state?

A. See NOLGHA link for information. http://www.nolhga.com/

Insured Retirement Institute

About the Insured Retirement Institute: The Insured Retirement Institute (IRI) is a not-for-profit organization and is the authoritative source of all things pertaining to annuities, insured retirement strategies and retirement planning. IRI exists to vigorously promote consumer confidence in the value and viability of insured retirement strategies, bringing together the interests of the industry, financial advisors and consumers under one umbrella. IRI's mission is to: encourage industry adherence to highest ethical principles; promote better understanding of the insured retirement value proposition; develop and promote best practice standards to improve value delivery; and to advocate before public policy makers on critical issues affecting insured retirement strategies. Visit www.IRIonline.org to experience the new, vast resources of the new Insured Retirement Institute for yourself.