Debunking Dave Ramsey's column advice is just too easy

Opinion: "Seriously Dave?!"

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Dear Dave Ramsey: There is a difference between investment advisors and financial advisors. Here, the personal finance entertainer was photographed in his broadcast studio in Brentwood, Tenn. (AP Photo/Mark Humphrey)

When writing this column, I enjoy using Dave Ramsey's written opinions far more than what he says on the radio.

Unlike live radio, in his column, *Dave Says*, Ramsey has the chance to think about what he wants to say. He can review each word, sentence and paragraph to make sure the message given is the message intended.

Ramsonites often charge me with not giving Mr. Ramsey enough leeway and encourage me to consider that everyone makes mistakes. While true, written work largely debunks this assertion.

Let's take a look…

In the January 28, 2017 edition of *Dave Says*, Durnae asks:

*"**Dear Dave:** My husband was recently laid off, and he has $229,000 in a 401(k). He has been told that he should roll it into a hybrid annuity. Is this a good idea?"*

Before we jump into this, I must say I do find it fun every time someone brings up permanent life insurance, asset allocation, annuities, or gossip in the workplace. Be careful to only talk about gossip when you're not near Dave because Ramsey once brought a gun to a team meeting as a visual aid to deter gossip. (I invite you to Google it. It's true, promise.) Also, when Durnae references 'a hybrid annuity,' she's likely referring to a fixed indexed annuity.

Back to business. Dave wrote: "Absolutely not! It sounds to me like he's been talking to an insurance agent instead of an investment adviser. There's no reason to put a 401(k) into an annuity. Annuities are there to protect money, as it grows, from taxes. Well, guess what? The 401(k) is already protecting it from taxes."

Where to start? First let me say that my column isn't arguing for or against annuities. I'm using an example about annuities to illustrate how little Ramsey knows about financial products and financial terms. Let's begin with a subtle detail most will miss. *"It sounds to me like he's been talking to an insurance agent instead of an investment adviser."*

Ramsey inferred that Durnae's husband should be talking to an investment advisor rather than an insurance agent. This is very interesting because Ramsey has continually made it clear he doesn't advise using an investment advisor.

According to "Dave Ramsey's Guide to Investing," Ramsey "prefers paying [a] commission because it is cheaper." This means he's recommending a financial advisor over an investment advisor. For those who are unaware, fee based advisers are ALWAYS investment advisers.

Basic knowledge is important when advising people what to do and how to do it. Dave Ramsey is clearly unaware an investment adviser is different than a financial advisor. He went on to tell Durnae to, "find a good financial adviser." Apparently, Ramsey is oblivious to the fact that these two terms aren't interchangeable.

Let's keep going.

Ramsey often says that a traditional IRA, invested in good growth stock mutual funds, incurs "half the fees," of an annuity. I can't fault Ramsey, who didn't know he was suggesting a compensation model he's publicly argued against for years. *But fixed index annuities are available without fees*.
Annuity pundits might argue caps, spreads and participation rates are all actually fees with other names, since they limit growth. But this is foolish, since "fees" occur in both positive market cycles and negative. No policy holder has experienced a loss due to participation rates, caps or spreads.

Further, they might argue that riders, which many annuities have, come with a fee. But again, not all indexed annuities are purchased with riders. Even more perplexing to the average anti-annuity rhetoric is the fact that there are riders without fees and riders that refund the fee if the rider isn't used.

Lastly, one could argue that surrender charges are fees. But let's face it, you could also drive a car 100 miles per hour without wearing a seat belt. Both are pretty stupid.

Surrender charges are not the same as fees since they're only applicable when withdrawal rules are not followed properly. A fee is incurred no matter what; a surrender charge is only potentially incurred.

Let's have a bit more fun with this, shall we?

Ramsey says mutual funds will be half the cost of an annuity. But the type of funds Ramsey widely suggests, carry an upfront commission of 5.75 percent. So even the irrational assertion that surrender charges are the same as a fee, still doesn't prove Ramsey's point as there are fixed index annuities with surrender charges starting at less than 10 percent. What's more, most of them have a declining surrender schedule, meaning the potential charge goes down over time.

In layman's terms, just so we're all on the same page, surrender charges are only incurred if withdrawing more than what is allowable. They decrease over time, and if the annuity is properly used, then they will never be incurred. Upfront commissions, on the other hand, will always apply, not sometimes, not maybe, not 'we'll talk about it later.' Yet Ramsey believes these funds will be half the cost…

When I was first teaching my oldest child how to add, I asked him what 4 + 4 is. He answered, confidently and proudly, "44." I think he could have a future at Ramsey Solutions!

Ramsey doesn't fail his annuity test purely on the points above. No, that would be too easy. Ramsey also wrote to Durnae, *"Annuities are there to protect money, as it grows, from taxes. Well, guess what? The 401(k) is already protecting it from taxes."*

Not exactly. Annuities aren't popular because they protect money, as it grows, from taxes. This was a benefit touted prior to the explosion of tax-deferred retirement accounts. This is the sort of anti-annuity rebuttal you'd expect to hear from someone working at a large national firm in the late 1980s or early 1990s. (I won't name any of them but what rhymes with America and starts with the word Prime? If you can solve that riddle, then you know the company where nearly 30 years ago Ramsey received his copious amount of financial experience over just a few years' time.)

Although Ramsey clearly doesn't know this, annuities are most commonly used as an additional source of predictable retirement income. That, oddly enough, is what retirement funds like IRAs and 401(k)s were intended to be used for.

Most people today do not have a pension. Their Social Security benefits are insufficient to cover their monthly needs, and they haven't received the promised high single digit to low double digit returns on their investments. This, in the end, is the reason people choose to purchase annuities — not for what they might do but for what they know they will at least do. People like Dave Ramsey or the money manager and author Ken Fisher could better serve their companies and their clients if they'd learn this simple truth.

Finally, Ramsey argued against the annuity because “*the adviser won’t make anywhere near the commission he’d make on an annuity*,” and “*one of the reasons so many ‘advisers’ push annuities is because they wind up with bigger commissions*.” But are commissions a viable reason to dismiss annuities? Of course not. First of all, the funds Ramsey suggests pay nearly the same amount as the big-bad-annuities do. And, most annuities allow the producer to select lower upfront commissions in exchange for trails (residual income), thus completely debunking Ramsey’s beliefs.
Mind blowing, I know.

In the end, maybe you’re thinking, it’s not that big a deal if Dave Ramsey doesn’t know the main purpose for annuities, or that he’s incorrect about the fees within the financial products that he’s dismissing, or even that he doesn’t know the difference between an investment advisor and a financial advisor. Or maybe you contend that he simply didn’t mean to use the wrong term? But how can anyone trust advice from an entertainer who’s not only unlicensed but also lacks a basic familiarity with everyday financial terms and products?

Seems pretty rudimentary to me.