NAFA
National Association for Fixed Annuities
Securing the future!

TO: Rich Oppel, Austin News
roppelstatesman.com

FROM: Kim O'Brien, Executive Director

RE: Another No for Annuity, June 3, 2007 by Scott Burns

NAFA is troubled by the strident defense Mr. Burns puts up regarding his April 14th article on indexed annuities. NAFA may have caused the reaction with a statement we made in our response to that article:

> NAFA believes your readers would be better informed if they knew these individuals [Mr. Burns was citing a report published by Securities Litigation Consulting Group (SLCG)] are for-hire consultants used by plaintiffs' attorneys in class action lawsuits working with SLCG. Your readers should know that SLGC is generating revenue by soliciting clients to sue insurance companies based upon the theory that fixed indexed annuities are prima facie unsuitable and inappropriate for any purchaser.

NAFA's interest was the proper disclosure of all relevant facts to allow readers to make a decision based on a balance of information. NAFA is aware the Mr. Burns is not an employee of your newspaper but rather a syndicated advice columnist indexed annuities and obviously is entitled to his opinion on annuities. However, we still assume that your paper is interested in a fair representation of the facts and issues so your readers may arrive at an informed conclusion or decision.

There is no doubt about Mr. Burns' skepticism about or aggressiveness against annuities. A quick tour of the free portion of his website, AssetBuilder.com, tells us he's passionate about his securities-only business model. We respect his passion. NAFA is equally passionate about fixed annuities. However, NAFA is writing today regarding your last requirement, fairness, which NAFA adamantly supports. Webster tells us fairness is "marked by impartiality and honesty: free from self-interest, prejudice, or favoritism." NAFA's primary concern and reason for our first response was to encourage Mr. Burns to provide all of the relevant facts surrounding the debate of indexed annuities so that readers could make a decision based on a fair balance of information. Unfortunately, his second article did not do any heavier lifting of research to make his claim against indexed annuities and your readers are the ones who suffer from Mr. Burns' partiality and favoritism toward "many better alternatives" that he sees for your readers' money.

Mr. Burns claims to know that NAFA's belief in indexed annuities as insurance products is because "it doesn't want its marketing and sales to be subject to securities regulators' scrutiny." Mr. Burns never contacted NAFA about our position on indexed annuities and their regulation. Under separate cover, we will ask for In light of this, NAFA respectfully requests a full and complete retraction. If Mr. Burns had contacted NAFA, the association would have shared the following:

Insurance products, including indexed annuities, are regulated by state insurance authorities under state insurance laws. The SEC has examined Indexed annuities and has not required that they be regulated under the federal securities laws. The SEC regulates variable annuities and variable life insurance because these products differ in three important ways from those of fixed insurance products. These differences are investment risk, investment account, and benefits.

Variable Insurance Products	***Fixed Insurance Products***
*The owners, not the insurance companies, assume the **investment risk** that the value of their benefits will decrease rather than increase under management of their money through the insurance companies. The federal securities laws apply to protect owners in light of this investment risk.*	*The insurance company, and not the owner, assumes the **investment risk** regarding payment of the rate of interest derived by a formula with reference to an index.*
*Purchase payments and earnings under these products are invested, usually through **separate accounts** of life insurance companies, in funds of stocks, bonds or money market instruments.*	*An insurance company invests premiums in its **general account**. To fund the obligations under the indexed annuities, the general account includes an investment portfolio of options and futures or a reinsurance contract.*
***Benefits** vary up and down in dollar value with the increases and decreases in the investment performance of these stocks, bonds or money market instruments.*	***Benefits** can increase in amount depending on the changes in financial market indexes. At the same time, benefits have **guaranteed floors** that protect against loss of principal and previously credited interest if the performance of financial market indexes is not favorable.*

State insurance laws also provide for various protections designed to assure that insurance companies remain in a financial position to make good on their promises to pay benefits under indexed products. These protections, for example, require insurance companies to maintain dollar amounts of reserves, keep books and records, file periodic financial reports, cooperate in inspections and examinations, and, under certain circumstances, make product owners whole.

It is for the above reasons that NAFA believes existing state insurance laws and regulation already assure consumers of the marketing and sales scrutiny over fixed annuities. Early in his article, Mr. Burns makes the unsupported claim that indexed annuities are the "most litigated" product. Notwithstanding the absence of documentation to warrant this hyperbole, just the fact that a claim could be filed demonstrates the existing state insurance laws and oversight are working!

NAFA also finds it curious that Mr. Burns acknowledges his "alleged bias" and defends it by stating that he was trying to keep things "short and sweet" while providing in this article "further data." Despite the comparative lengths of each article (the first around 900 and the second a little over 1000 words), NAFA will focus on the new "data."

First, Mr. Burns claims that indexed annuities are the "heaviest marketed" insurance product. Despite this claim, they represent just 10% of all annuity products sold. (Source: LIMRA 4th Quarter 2006 Study). That doesn't even count the other insurance products such as life, health, property, etc. Indexed annuities also represent just one third of the total fixed annuity market. One would think the "heaviest marketed" product would result in more market share. (For details on the sales numbers of fixed annuity please contact NAFA at 888-884-NAFA.)

Next, Mr. Burns cites as his research "one of the largest and most respected life insurance companies, Massachusetts Mutual." NAFA does not question Mass Mutual's respectability or integrity; in fact, we know that respect is earned and much deserved. NAFA would like Mr. Burns' readers to know, however, that Mass Mutual's sales of annuities in 2006 represented just 7/10th of one percent of the total annuity market (Source: LIMRA). Of that number, almost two-thirds of the sales were variable annuities. These numbers make it clear that Mass Mutual spends most of its time and capital on insurance products other than fixed annuities and may not be the best source for an article on fixed annuities. Indexed annuity products are just twelve years old. It is well known that pioneering product and technology is often developed among smaller firms in an industry, with a resulting lag in market entry by more established firms and, not surprisingly many other large and respected companies have entered the indexed annuity market. The two most recent to do so are Principal and Lincoln National.

Despite Mass Mutual's lack of experience with fixed indexed sales, NAFA was thrilled to see that its study showed indexed annuity owners may have earned 5.8% per year "over the 30-year period ending in December 2003." A simple review on any indexed annuity historical calculation website shows this number to be reasonable. Mr. Burns asks "did you get that number? Only 5.8% a year," NAFA believes that the millions of individuals placing over 14 billion dollars of their savings into indexed annuities that year alone would be more than pleased to "get that number" especially considering that from December 2000 through December 2003, individuals who did not have the protection of fixed annuities ***lost*** about 5% a year (Source: Finance.Yahoo.com) During that same period, fixed annuity policyholders lost ***nothing – none of their premium, nor any of their prior interest earnings.*** A fixed annuity is for the money individuals want to protect from market losses and not for money targeted for the highest risk and reward.

Another source that Mr. Burns uses is Glenn Daily, who will "evaluate an EIA you already own for [only] $495.00" Mr. Burns states that the cost should give you an idea of "the complexity of the product." NAFA searched the internet, using "EIA Calculation" as the search criteria. The third listed (one and two had to do with energy and were linked to the Department of Energy at www.eia.doe.gov) was VirtualAnnuityData.com. Here, by completing just ten simple fields which include the start date of your annuity, your initial premium, the length of your surrender period, etc., you could evaluate your own indexed annuity ***for free***. Using a personally owned annuity, the calculation also matched our annual reports from the insurer. In addition, many of the insurance companies and marketers offering indexed annuity products provide a calculation method free on their website. Also, a licensed insurance agent or carrier selling indexed annuities will provide this analysis, including actual interest credited to the contract. NAFA believes your readers should be offered many options, since they and they alone are in the best position to choose.

Mr. Burns concludes his article with the question, "Why do we hear so much about indexed annuities?" Perhaps the correct answer was just written by a colleague of yours at the Wall Street Journal, Holmen Jenkins. According to Mr. Jenkins, quality journalism has two elements:

1. It has a semblance of being written by "somebody with a living mind, not just re-executing the media's general template"
2. It does not contain the excesses of "billboard journalism -- the habit of casually intruding a noisy paragraph that oversells and distorts the story below, leaving an unsatisfying jumble of facts that don't live up to the assertions at the top."

There is no doubt that indexed annuities appear to fit the current media template. Another simple internet search of media outlets, using the words "indexed annuities, bad", comes up with close to 1.3 million hits of stories and articles using the same talking points against indexed annuities. With statements and headlines like "sizzle and no steak", "the good, the bad and the ugly", and "investment from hell", there is also no doubt about the use of billboard journalism to sell newspapers.

NAFA believes that fixed annuities, including indexed annuities, are not for all individuals or for any individual's entire retirement plan. However, they are a good choice for an individual who:

- desires ***guaranteed payment for life***
- wants ***guarantees that their principal will still be there***

In the interest of providing your readers with advice that is a balanced portrayal of all the facts - not just the ones profiting a journalist's business model - NAFA will provide any information necessary to demonstrate the features and benefits of indexed annuities that make them a suitable choice for individuals with safe money needs. NAFA also encourages you and your financial columnists to read its White Paper on Fixed Indexed Products available at www.nafa.us. Once there is a clear understanding **and reporting** of the facts, we believe fixed annuities and fixed indexed annuities will stand on their own for their protection, security, and safety. More importantly, NAFA believes that **ALL** consumers have the opportunity to weigh **ALL** financial products against their unique financial needs to ensure they achieve the optimal and most diverse portfolio.

Cc: Scott Burns