



---

COVER TO:

News & Observer Editorial Staff

[Dan Barkin](#) Senior Editor News & Observer (919) 829-4562

[Steve Riley](#) Senior Editor (919) 836-4940

[Linda Williams](#) Senior Editor (919) 829-4524

[Mary Cornatzer](#) Business Editor (919) 829-4755

Charlotte Observer Editorial Staff

[Ann Caulkins](#), President and Publisher

[Jim Lamm](#), Circulation Vice President

[Rick Thames](#), Editor

[Ed Williams](#), Editorial Page Editor

James E. Long  
Commissioner of Insurance, State of North Carolina  
North Carolina Department of Insurance  
1201 Mail Service Center  
Raleigh, NC 27699-1201

[Governor Michael F. Easley](#)

Office of the Governor  
20301 Mail Service Center  
Raleigh, NC 27699-0301  
Fax: (919)733-2120

FROM: Kim O'Brien, Executive Director, NAFA

DATE: July 28, 2008

Re: July 28<sup>th</sup> Article

The National Association for Fixed Annuities (NAFA) mission is to promote the understanding and awareness of fixed annuities including index, declared rate and immediate payout. Unfortunately, [Thomas Goldsmith's article](#) in today's paper did little to help consumers understand and make informed decisions on when an annuity is suitable for them or when a sales recommendation should be considered. Instead the article contained half truths and misinformation in a transparent attempt to support its bias for federal oversight.

HALF TRUTH Number 1: Mr. Thomas concludes for his readers that sales of index annuities are "skyrocketing" and justifies his criticisms, in part, on the growth. The whole truth is that sales have been at about \$25 billion a year for the past three years and represent only 10% of all annuity sales during that same time period. Annuities in the United States can be traced back to 1772 when they were reported by the Continental Congress. Indexed annuities were introduced almost 225 years later in 1995. It isn't surprising that a new product, offering one of the most significant innovations (crediting interest that protects savings from market downturns while locking in previous interest earnings) since the variable annuity came on the scene in 1960, would see sales growth. Any growth from zero is mathematically significant. Another important fact is that while index annuity sales have remained steady for three years, variable annuities have increased 33% from \$138 billion in 2005 to \$184 billion in 2007. The justification of criticisms based on sales growth is specious given variable annuities have grown by factor of 2 to 1 since 1960. Growth in any product offering - whether it is a hybrid car or an annuity - is a good reason to be cautious and watch the marketplace. But, embellishing the facts has no place in an investigative article.

HALF TRUTH Number 2: "During the past three years, more than 400 North Carolinians have complained to the state." The whole truth is that the insurance department of North Carolina states on its website that it logs all complaints "both 'justified' complaints (companies were found to be out of compliance with applicable North Carolina insurance laws, or otherwise at fault) and 'unjustified' complaints (companies were found to be in compliance, and not at fault)." So we are not told how many of the 400 were "justified" and how many were "unjustified." Mr. Thomas goes on to state that Allianz, a NAFA member company, receives over 1/3 of its business from index annuities but didn't tell us that individual company complaint reports cited about 4 complaints a year between 2005 and 2007. That's 4 complaints a year on 26, 503 policies sold. Also, the whole truth would be to report that the complaints have decreased from 6 to 4 to 3 during that same time period. In fact, NAFA pulled the state's log for those same years and the top five index annuity carriers (Allianz, American Equity, AVIVA, Midland and Old Mutual – all NAFA member companies) representing about 62% of 2007 index annuity sales nationwide had just 1 complaint for every 3,000 policies sold. NAFA member carriers representing almost 86% of all index annuity sales in the US reported the same statistic with more than two thirds reporting zero claims. Most important to the whole truth is that the total complaints tallied against NAFA member companies in North Carolina (keeping in mind these are both justified and non-justified) **decreased by more than 40%** between 2006 and 2007. It is no coincidence that the significant decrease follows the enactment of the NAIC Suitability Model Act and NAFA member carriers following strict and thorough suitability processing and review processes. It is impossible to make a fair comparison of this data to similar statistics in the security industry as there is no such consolidated reporting and analysis of consumer complaints made public by the overseer of security sales or by the security industry. NAFA members consider even a single complaint too many and take each one very seriously as the article demonstrated with your story's subject receiving their money back plus interest.

HALF TRUTH #3: "Salesmen get commissions of as much as 8 percent to 10 percent on the policies." Since the article is targeted to individuals who are "seniors," the whole truth is to inform those reading that commissions are commonly reduced, generally by as much as 50 to 100%, for annuities sold to older individuals. This is very dissimilar to mutual funds or other market risk products that do not waive surrender charges or guarantee certain minimum positive returns in the

event of death, nursing home confinement, terminal illness, RMDs, creation of a lifetime stream of income, etc. NAFA is not aware of any other financial instrument that reduces commissions or sales fees due to age. Actuarial studies have concluded that a no-surrender charge product with a typical 1% or 2% annual asset fee as opposed to a 7 or 8% street level commission (on a 7 or 10 year surrender product) will actually have a higher cost to the client.

HALF TRUTH #4: “Without additional regulation, seniors and others who venture into complicated retirement investments do so at their own risk.” Since the sale of this product to your story’s subject, The NAIC as well as individual states have taken the lead on initiatives involving education, training, suitability, licensing and supervision. NAFA has a complete listing of state and NAIC initiatives at its website at [www.nafa.us](http://www.nafa.us). Based on the actions that the insurance companies, state insurance regulators and industry associations have taken and will continue to take to eradicate abusive, misleading and/or fraudulent marketing practices, to ensure suitability supervision and review, and to oversee agent training, education and licensing, consumers today enjoy a safe and secure environment to consider the purchase of index annuities and the insurance company or their local state insurance commissioner’s office to seek redress if they believe they have been misled or pressured into buying an unsuitable product.

The true value to an index annuity is its insurance value. While it is true that the fixed annuity does provide for accumulation of interest on a tax deferred basis, its most valuable role is in providing three insurance guarantees. The first for Mr. Thomas’ federal employee who bought an annuity that was “was crafted to start paying off in monthly installments when the federal retiree was 90” would provide an income stream –that cannot be outlived - guaranteed. That income stream can be used for health care, nursing home care, a vacation, or whatever the client chose. Also, most annuities today offer surrender-free withdrawal for nursing home or home health care, terminal illness or at death. Additionally, the guarantees of a minimum rate of interest and principal protection are very important in today’s increasingly unpredictable financial market. At the very least readers should be made aware of these features so they can ask about them when considering an annuity. At [www.nafa.us](http://www.nafa.us) there is a resource tab where readers may find some helpful [consumer tips](#) to consider before buying a fixed annuity. If you’d like additional information or clarification, please call us at 888-884-NAFA or email [kim@nafa.us](mailto:kim@nafa.us).