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Ms. Lisa Gibbs,

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 article that you wrote, “The Safety Trap.” Quite honestly, Lisa, it ticked me off. Inaccurate reporting of indexed annuities is nothing new: I’ve been combating it since the products were first developed February 5, 1995. However, your article reads as if you made up your mind that “no indexed annuity is suitable for anyone” before you even drafted the piece! How can you paint an entire industry with one broad brush? Indexed annuities are not BAD. They are a valuable retirement income tool, that like any financial instrument, is at times used in the course of bad salesperson behavior. I appreciate that you attempted to do your homework. I see that you reached-out to several people that I work with at the National Association of Insurance Commissioners (NAIC). However, a lot of your data is incorrect. I believe that in order to maintain your journalistic integrity, you need to take note of the mistakes you made in your article. A correction to this piece is not only warranted, but would also help *Money* to maintain their integrity. So that you can have access to accurate information on indexed insurance products in the future, I thought I’d reach-out to you and clarify some mistakes, inaccuracies, and misleading statements in your article. I know this email is long, but I did not feel that I could address some of your errors and ignore others. Therefore, please see below my itemized list of issues I took with your article:

1. **You have the value proposition of indexed annuities all wrong.** They do not “promise you’ll share in the upside of stocks with no downside.” 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. Perhaps it would help if I first started with a brief overview of how indexed insurance products work. 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 117% worst-case scenario on the average indexed annuity. **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.

2. **Every financial product has, at one time or another, been the instrument of bad agent behavior.** An indexed annuity is not a bad product simply because some insurance agents in Illinois decided to use them inappropriately.

3. **Every indexed annuity pays the full Account Value to the designated beneficiaries upon death.** No rider is necessary to provide this benefit, despite what may have been implied in the Cline's case.

4. **The average indexed annuity commission as of 4Q2010 is 6.37%.** This is a far cry from the commission you cite in your article. And while you are technically correct that commissions can be "9% in some cases," the spirit of your communication is unappreciated. Commissions can also be as low as 1.5% on indexed annuities. So interesting that you didn't mention that… Keep in mind that this commission is paid a single time, at point-of-sale, and yet the insurance agent is expected to service the contract for life. Compare this to the generous, consistent commissions that are paid on products such as mutual funds, and I think you'll agree that indexed annuity commissions are fair.

5. **The average first-year surrender penalty for indexed annuities as of 4Q2010 is 10.77%.** (Note that this penalty is even lower for older-aged purchasers.) Again, this is a far cry from the surrender penalty you cite. Technically, you are correct: there is an indexed annuity that imposes a first-year surrender penalty of 20%, which is the highest first-year penalty in the industry. However, first-year surrender penalties can also be as low as 5% in the first year. Your disingenuous insinuations are not appreciated, Ms. Gibbs. A 20% penalty is not representative of the average indexed annuity.

6. **Premium bonuses are not bad and are typically a highly desired feature on annuities.** Note that all annuities, fixed, indexed, and variable, offer premium bonuses. The vast majority of premium bonuses on indexed annuities are credited and received on the day the contract is issued, contrary to what you suggest. Very few annuities offer bonuses that the client may possibly not "actually collect."

7. **Indexed annuities are not as complex as most perceive them to be. They are just fixed annuities with a different way of crediting interest.** Furthermore, complexity is relative. Some would say that fixed annuities, which are the simplest retirement income product offered by insurance companies, are complex. However, if someone can understand that they have the ability to deposit their money with an insurance company, defer taxes on the monies until they begin taking income, receive 10% withdrawals of the account value annually without being subject to penalties, and have the ability to pass on the full account value to their beneficiaries upon death- then they can understand nearly every indexed annuity sold today. As far as the indexed interest crediting is concerned, 98.4% of indexed annuities offered today have crediting methods based on the simple formula of (A – B)/B. My grandmother didn't even attend college, and she understands indexed annuities for goodness sake.

   Note that the perceived complexity of indexed annuities stems from the historical practice of offering numerous, complex, unique crediting formulae on the products. Historically, there have been as many as 42 different ways of calculating indexed interest on these products. However, since hitting that high point in the year 2000, the number of unique crediting methods on indexed annuities has declined annually and sits at 12 today. Of these twelve different methods, nine use the calculation (A-B)/B to calculate the gain.

8. **William Reichenstein has no basis for suggesting that indexed annuities "don't even deliver attractive returns."** Has he looked at any inforce policyholder annual statements? I highly doubt it. Not only do I own many indexed annuities, but I have collected policyholder annual statements over the past twelve years. Indexed annuities have consistently outperformed fixed annuities and certificates of deposit (CDs). On the high end of the spectrum, I have actual policyholder annual statements on my desk, showing one-year gains on indexed annuities as high as 47.65%. Are indexed annuities intended to return this much on a consistent basis? No. However, sometimes purchasers do "hit a home run" with these products. For a more realistic review of general gains on these products, I believe that you should consider a study that was recently done by Jack Marrion. Sure, the study has its flaws (i.e. small sample size), but this "Real World Returns" study is compelling. The study looked at ***actual returns*** of inforce indexed annuities and shows that from 1997 to 2007, the five-year annualized returns for actual indexed annuities averaged 5.79%. Interestingly, this is precisely the expected return for products over this period. I find it hard to believe that anyone would shun an average return of 5.79% following a period when the market declined nearly 50% in a single year. Keeping in mind that fixed annuities are currently averaging a mere 3.15% interest, I think that this return is respectable. Personally, one of my indexed annuities returned a gain of just over 7% this year, while my grandmother's variable annuity had a loss. You

must remember- **indexed annuities are primarily purchased by those more concerned with principal protection, not unlimited potential for gains.** Mr. Reichenstein's assertion that indexed annuities "almost always underperform" is based on faulty logic: *they are not intended to perform favorably against securities products*.

9. **While I can appreciate the data that 16 states sent to you about annuity-related complaints, it appears that your data is still skewed.** The consumer complaints on indexed annuities do not indicate there are "problems with indexed annuities". In fact, they illuminate that the indexed annuity market is much more "suitable" than many other markets. See data below from the National Association of Insurance Commissioner's Closed Complaint Database on annuities:

   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

   So, not only have complaints on these indexed annuities declined annually for the past three years, but the average has declined consistently for the past four years. Conversely, variable annuity complaints (which are overseen by the Securities and Exchange Commission) 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, but I would contend that an average of only 3.29 complaints annually, per company, is quite reasonable and not indicative of "problems with indexed annuities." Perhaps you should double-check the source of your data, as I have found that numerous state securities divisions combine their indexed and variable complaint data when reporting it publicly. So, while a state may be reporting that 30% of all annuity-related complaints involve *indexed and variable annuities*, it is likened to "babies and serial killers" accounting for the most heinous crimes in our nation.

10. **While Florida's indexed annuity complaints may be higher than the other states you compared it to, you must also keep in mind that more than 9% of all insurance**

**complaints originate in that state alone.** The scope of this comparison must be taken into perspective when evaluating your statements.

11. **Indexed annuities account for 15% of all annuity sales and 39% of all fixed annuity sales.**

12. **You fail to understand how surrender penalties on annuities work.** An annuity owner has no reason to be concerned with the penalty on their annuity, unless they plan on withdrawing money during the surrender charge period. Even then, the annuity owner has the freedom of taking out 10% every year without penalty. Some indexed annuities even allow as much as 50% of the annuity's value to be withdrawn in a single year! In addition, 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 these products pay the full account value to the beneficiary upon death, and I think that you'll see that consumers have tremendous access to their cash value when they purchase indexed annuities. These are some of the most liquid retirement income products available today!

13. **Your explanation of how insurers invest the purchaser's money on an indexed annuity is deceiving.** You make it sound as if the insurance company makes more money on indexed annuities when there is a decline in the index. You fail to recognize that the insurance company still has to make good on the minimum guarantees on the annuity. In an interest rate environment where insurers are lucky to earn 3% on their monies, paying-out these guarantees can be a costly proposition.

14. **Sales of indexed annuities were actually greater than $30 billion in 2009.** Sales that year hit a record of $30,114,497,035 in sales.

15. **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 see the limitation of indexed gains as a detriment, 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 in the event of a market downturn. Ultimately, if a consumer were looking for unlimited gain potential, an indexed annuity would not necessarily be an appropriate product to fulfill their needs.

16. **I find it interesting that you suggest a "common cap right now is 4.5%."** While it is true that there are products with caps of only 4.5%, there are also products with caps of 10.85% or more. So, was this just a way for you to deceive your readers without making a boldfaced lie? I'm not sure if you are getting bad information or trying to twists the facts.

17. **Caps have far exceeded 20% in the past decade!** So, while your statement that caps have "been as high as 13%" in the past decade is correct, it is again misleading.

18. **While insurance companies reserve the right to change the rates on indexed annuities in years two plus, that does not mean that they actually change them, much less change them adversely.** Have I seen companies reduce the rates on annuities in years two plus? Yes, but I have also seen companies increase the rates in years two plus. What you must understand is that the guarantees of the contract are clearly spelled out on fixed, indexed, and variable annuities and can never change once the annuity is issued. However, non-guaranteed elements, which are clearly disclosed to the purchaser, are sometimes subject to change in years two plus of the contract in the event of a volatile market (the current interest rate on a fixed annuity, the current cap on an indexed annuity, or the current fees on a variable annuity). I personally feel much more confident that the companies offering these products today will be able to make good on their claims-paying ability, considering such flexibility in the event of unforeseen circumstances. If the press actually understood this feature, I think that they would appreciate it as well.

19. **It never ceases to amaze me how people like you can so misunderstand the concept of dividends being excluded from the crediting calculation of indexed annuities.** You comment that dividends are excluded from the indexed calculation on indexed annuities as if it were a detriment; it is not. The insurance company never receives the benefit of the dividends on the index on an indexed annuity, because the client is never directly invested in the index. The insurance company invests the indexed annuity purchaser's premium payment in the general account, which protects them from declines in the index. *The premiums are never invested in a pass-through account, which would provide the benefit of the dividends, but also expose the client to risk should the market decline.* For this reason, the dividends cannot be passed on to the consumer. By not directly investing in the index (which would pass-on the dividends), the insurance company is protecting the purchaser from losses. **So, you see- this is a benefit to the indexed annuity purchaser, not a disadvantage.** And while it is true that your readers will not "benefit from dividends in an indexed annuity," they also won't risk losing their money as a result of market volatility.

20. **While your comparisons of indexed annuities and bond funds, Treasury bills, and stocks are amusing, they are disingenuous.** It is inappropriate to compare risk money places, such as stocks and bonds, to safe money places, such as indexed annuities. It is most appropriate to compare indexed annuities to instruments such as CDs and fixed annuities. The average 5-year CD rate is currently 2.23% (according to bankrate.com) and the average fixed annuity rate is currently 3.15%. I would say that having the potential to earn as much as 10.00% or more annually on an indexed annuity, while deferring taxes and guaranteeing lifetime income, is a VERY attractive proposition as compared to CDs and fixed annuities. Bear in mind that the investments you compare indexed annuities to cannot provide tax deferral or an income that cannot be outlived either.

21. **Only 54% of indexed annuity sales are qualified as of 3Q2010.** And you fail to realize that although additional tax advantages may not be realized on qualified funds, the

combination of protection/potential and the guarantees of indexed annuities cannot be matched by any other retirement income product available today.

22. **It is absolutely insincere for you to suggest that there are "other ways of getting guaranteed lifetime income."** An annuity is the only financial services product that can provide an income that cannot be outlived.

23. **While you are quick to note that CDs are backed by the FDIC, you fail to mention that insurance companies are backed by the State Guaranty Fund Association in a similar manner.** Since the market crashed in 2008, 330 banks have failed. Very few insurance companies did so over that same period.

24. **While it is true that you can lose principal in an indexed annuity if you "cash out too soon," that is true of all annuities, and even of CDs.** *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. Keep in mind that annuities are intended to be long-term savings vehicles and purchasers should not place 100% of their savings into any one instrument, including indexed annuities. That being said, indexed annuity purchasers do retain outstanding liquidity on their contracts, in the event that they need access to their funds.

25. **Where on earth did you do your fact-checking for this article?** You have so much information wrong. The average first-year penalty on indexed annuities as of 4Q2010 is NOT 12.5%, it is 10.77% and even lower for older-aged purchasers. The average first-year penalty on fixed annuities as of 4Q2010 is 9.69%, not 7.5%. While you are quick to point-out that indexed annuity surrender charges can extend for as long as 16 years, I see you fail to mention that they can be as short as three years. You also fail to mention that fixed annuities can have even longer surrender charges than indexed annuities do. Do your readers a favor next time and verify that your data is accurate, please. Your misinformation has the power to sway in a manner that might put your readers' retirements at risk.

26. **I have news for you: independent agents are not the only type of insurance agents that are not employees of the insurance company.** Your understanding of what an independent agent appears to be incomplete. Where a career agent would only be permitted to sell the products of the company they are appointed with (with very few exceptions), an independent insurance agent can sell the products for any company they choose. There is no difference in the suitability standards for either of these distributions; both types of agents must act in their clients' best interests. So, while you believe being

an independent agent is a disadvantage to the client, it is actually a tremendous advantage. Independent agents can offer their clients whatever product is best for them, regardless of which insurance company offers it.

27. **Surrender charge waivers for terminal illness and unemployment have existed on indexed annuities since they were first developed in 1995, this is not some new development in light of perceived recent complaints.** Also consider that there are annuity provisions that waive surrender charges in the event of disability and unemployment as well. These benefits have ALWAYS been available on indexed annuities!

28. **It sounds like you do not properly understand how a premium bonus works.** Bonuses are offered on fixed, indexed and variable annuities. A premium bonus of 5% would immediately increase a purchaser's $100,000 annuity's value to $105,000. In order to offset the risk that the purchaser would buy such an annuity, merely to earn a 5% return and cash surrender, insurance companies must extend/escalate the surrender charges on annuities with premium bonuses. This is no secret, in fact it is plainly disclosed in the materials that are provided to the purchaser that "bonus annuities may include higher surrender charges, longer surrender charge periods, lower caps, higher spreads, or other restrictions that are not included in similar annuities that don't offer a premium bonus feature." You see, a bonus is merely a choice that the consumer can choose to take or not, depending on their needs and desires. Every company that offers an indexed annuity with a premium bonus also offers indexed annuities with no premium bonuses. It is not as if the purchaser is forced into longer surrender periods against their will, in order to obtain the benefits of an indexed annuity. However, bonuses can be a particularly attractive feature for long-term savers that want a jump-start or have recently lost money due to market declines.

29. **I understand that you feel there are "too many moving parts," but indexed annuities are simpler than you perceive.** Let me explain. 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. The annuity purchaser then has their choice of one of 12 crediting methods (calculations) for their gains. Again, most companies merely offer only an annual point-to-point crediting method, but several companies offer more choices. Then, 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.

30. **I have news for you about Met Life and New York Life: they sell variable annuities.** When the stock market declines, sales of variable annuities drop overnight. Conversely, when the market declines, indexed annuity sales increase. I would hardly consider companies that compete against those selling indexed annuities to be a credible source of information on the products, Ms. Gibbs.

31. **Interestingly, you might question those companies further as both of them allow their registered representatives to sell indexed annuities that are available from other insurance companies.** I find it hard to believe that they feel so strongly that there is "a high likelihood that clients could misunderstand what they were getting and possibly end up being disappointed," and yet they feel it is okay to allow their licensed producers to sell the products via other companies. It would lead one to believe that there is another reason that they don't sell indexed annuities…their distribution model doesn't work, their administrative systems would need overhauled, they don't feel they have the talent to develop a product on their own, etc. Sounds to me like "some large insurers" just used you as a way to say "don't buy those bad indexed annuities, buy OUR annuities!" Again, your source's credibility is an issue here.

32. **All annuity purchasers are permitted to "cancel the deal" and get their money back if they are not satisfied with their annuity purchase.** This is referred to as a "free look provision," and each state's insurance commissioner determines the standard on how long after the purchase is made the client has to receive a refund. Generally, the free-look is from ten to 30 days, depending on state.

33. **Although it is sad to hear what happened to the Grubicy's, the client does need to bear responsibility in understanding the paperwork that they sign.** Fortunately, the NAIC requires plain-language disclosures, which are used on all indexed annuity sales. In addition, the average indexed annuity contract is only 26.7 pages long, making it much easier to decipher than the average 200+ page variable annuity prospectus. Ultimately, however, the client needs to 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.

34. **I hardly think that Karrol Kitt is in a position to judge whether, or not, insurance agents understand indexed annuities- she is an educator at the University of Texas at Austin, not an insurance professional.** Insurance agents must pass a rigorous exams and attend regular continuing education. Insurance companies selling indexed annuities have meticulous training as well. In addition to many states requiring annuity-specific continuing education, some states have continuing education requirements that are specific to indexed products. I am a licensed insurance agent and a continuing education provider. I have never contracted with any insurance company or marketing group in

order to maintain my credibility as a third-party expert. However, I must attest that over my many years of continuing education (on many types of products), I have NEVER attended a course that instructed "how to sell," as Mr. Tony Bahu suggests. It sounds like Mr. Bahu is trying to create fear in consumer's hearts, so that they will seek him out to evaluate their annuities "for a fee!" Again, we go back to the question of credibility in your sources, Ms. Gibbs.

35. **The average commission information that was provided to you is inaccurate.** Advantage Compendium doesn't even track products and commissions. If you look, they cite my firm's data. AnnuitySpecs has product information for every single indexed annuity available today. In addition, Beacon Research focuses on fixed annuities that are distributed through banks and broker dealers. So, not only do they not have indexed annuity product information for all of the products available today, but the fixed annuity product information they would provide you with would be skewed. Indexed annuities are distributed by independent agents and the products that are developed for this distribution are very different than those developed for banks and broker dealers (i.e. banks and broker dealers' products are generally shorter-term with no bonuses and different compensation structures with trails, etc.). For these reasons, the data that they provided you with is not credible as it relates to this article.

36. **The incentive to replace annuities with other annuities is not as big as Mr. Birnbaum would lead you to believe.** First of all, all insurance companies must track such activity and report it to their local insurance division. All insurance companies have policies on such replacement activity and they are quick to terminate agents that systematically replace their clients' annuities. Also keep in mind that many indexed annuities have levelized commission structures, which pay out commissions over several years. This encourages servicing of the contract and provides a disincentive to replace the contract.

37. **The statement you make regarding MONEY's study on replacement activity is skewed.** My firm receives gross and net sales, so we can break out what percentage of indexed annuities are a replacement and it is much lower than the figure that you provided on *all* annuity replacements from 25 states.

38. **Only a thorough suitability review can determine what is/is not right for the customer, regardless of what Kim Shaul says.** Considering that a suitability review is required on every annuity sale, it would be relatively easy to spot an unsuitable sale before an annuity contract is even issued. Also consider that product development has brought numerous new and valuable benefits to the indexed annuity market since 2006. In light of these new benefits, I would find it hard to argue that "annuity replacements aren't right for the customer" in all cases. I am currently considering the replacement of one of my own annuities due to new product innovation, so this can hardly be the case.

39. **The insurance companies are ultimately responsible for the training of the insurance agent.** Even if they delegate this responsibility to a marketing organization, the insurance company is diligent in assuring that the marketing organization is doing a

good job, or the insurance commissioner will be coming after the insurer for deficiencies. Therefore, the perception that marketing organizations are having a free-for-all with the independent insurance agents of our nation is disingenuous. Most marketing organizations do a very good job; they are essential in the distribution of insurance products. The marketing organization is able to provide necessary functions, that the insurer would typically perform, in a much more efficient manner. This is why today's insurance distribution has shifted from a career/captive system to the independent agent distribution.

40. **Marketing organizations are not paid by insurance agents.** They are always paid by the insurer, but they are paid based on the agent's sales.

41. **I resent your insinuation that insurance agents are a bunch of crooks.** The majority of insurance agents are good people that are doing their clients a tremendous amount of service. Note that the Texas insurance division could have experienced four complaints and seen a 36% increase. What number is that 36% increase based on? The manner in which this information was presented is not appreciated.

42. **You are quick to cite how many securities licenses have been revoked recently, but you failed to post the same information about insurance licenses: why?** Insurance commissioners revoke insurance agents licenses and impose fines the same way that FINRA does. Interestingly, many states' securities divisions are right in their insurance divisions' offices, so I am perplexed on your research that yielded results of registered representatives not losing their insurance licenses. Perhaps there is more to this than meets the eye.

43. **I laughed aloud at your conclusion that "16% of those people…are free to sell indexed annuities!"** In general, registered representatives HATE indexed annuities and are quick to sell AGAINST them. Even if a former registered representative were to contemplate selling indexed annuities, you must consider the fact that only 8% of licensed insurance agents even sell indexed annuities. That drives your percentage down tremendously, Ms. Gibbs.

44. **Your insinuation that lawyers can only pursue securities firms in litigation is not true.** Lawyers can bring lawsuits against any marketing group and such groups have been named in lawsuits in the past.

45. **You assert that "a chorus of complaints about indexed annuities led the SEC to try to reclassify them as investments.** Yet, the SEC said directly in their Rule 151A that the basis for their rule was not (a lack of) complaints, but RISK. (As the purchaser runs the risk of receiving back only their premiums paid plus interest. This too is laughable.)

46. **The regulatory regime of the SEC is not supreme to the regulation provided by the NAIC.** Let me enlighten you with an overview of financial products' regulation. Investments (products where consumers risk the loss of principal AND gains) such as stocks, bonds, and mutual funds are regulated by the SEC and the Financial Industry

Regulatory Authority (FINRA). 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 National Association of Insurance Commissioners (NAIC).

The insurance commissioners regulate indexed annuities with rigorous standard non-forfeiture laws, advertising guidelines, suitability regulations, and other rules. The states hold the authority to take sanctions against insurance agents including, but not limited to, license revocation, penalties and fines. An interesting comparison of state and federal regulation exists relative to annuity complaints specifically. If I need to make a complaint on an indexed annuity, the state insurance division has to respond to me within ten days; and I incur no cost in my efforts to resolve the problem. Compare this with the exhaustive complaint process on the securities side; delays, lawyers, and a lot of my money spent. Yes, SEC regulation is different, but it most definitely is not better than insurance regulation.

Most that perceive insurance regulation to be lacking have an inappropriate frame-of-reference. They see that the SEC regulates products such as variable annuities, and in these transactions the NAIC is responsible for the insurance company's solvency. Therefore, they assume that with insurance products, there is no regulation- only a regulator ensuring company solvency. They do not understand that with non-registered products, the NAIC performs the same functions that FINRA and the SEC do on the securities side: market conduct regulation, suitability enforcement, etc. If more people understood the state regulatory structure, such a misconception would not persist.

47. **Iowa is not "home of five big indexed annuity sellers."** SEVEN indexed annuity insurers are domiciled in Iowa and collectively these companies' sales account for 38.62% of all indexed annuity sales.

48. **Senator Tom Harkin's amendment to the financial reform bill was intended to protect Americans from future financial hardship.** Indexed annuities are the only retirement income product that can guarantee Americans an income they cannot outlive, while still providing a minimum guarantee and protecting from loss as a result of market volatility. In light of this, I think you can see why Senator Harkin's amendment was quite appropriately attached to the financial reform bill.

49. **The NAIC's most recent annuity suitability model act mirror's FINRA's Rule 2821.** So, if consumer advocates are critical of our model on the insurance side, why aren't we hearing complaints about the securities market's version of the model? That's interesting.

50. **Why on earth would someone want to *EMULATE* an indexed annuity, when it is so much easier to just purchase one?** It just doesn't make sense for someone to subject themselves to the market's risks if they are unwilling to tolerate such risks. If someone is

saving for retirement, and wanting to outpace traditional fixed money instruments while still preserving principal and gains, an indexed annuity is their best bet.

51. **I am curious to know why didn't you publish any commentary from insurance agents that sell indexed annuities**? You appear to have requested comments from financial planners; individuals who belongs to a group that generally compete against insurance agents that sell indexed annuities. Financial planners generally sell investments, Ms. Gibbs. You need to speak with someone who actually sells indexed annuities to receive credible feedback on their value.

52. **Lastly, but perhaps most importantly, why would ANYONE ever advise someone who is risk averse enough to seek out an indexed annuity that alternatively they should invest in index funds?** This is not only ignorant, but it is reckless. The consumer risk profile for someone purchasing securities such as stocks and bonds is someone looking for "risk money places"- where they can have the potential to earn 20% at the cost of having a chance of losing 20%. The consumer risk profile for someone purchasing insurance products like fixed and indexed annuities is someone looking for a "safe money place"- where they can have a guaranteed preservation of principal plus limited interest. Indexed annuity purchasers are more concerned with the return **OF** their money than the return **ON** their money. I'm certain your readers would GREATLY appreciate this difference be taken into consideration in your reporting of these products.

Lisa, 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?" 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 reporting of 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.) And 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*

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