

Dear Mr. Slaughter:

Thank you for your concerned letter on indexed annuities. We are writing to offer a bit more information that might help the readers of the Knoxville News. I am submitting the following on behalf of NAFA. NAFA, the National Association for Fixed Annuities, is an advocacy trade association founded in 1998 and dedicated exclusively to fixed annuities. Its mission is to promote the awareness and understanding of fixed annuities. They educate annuity salespeople, regulators, legislators, journalists, and industry personnel, about the value of fixed annuities and their benefits to consumers. NAFA's membership represents every aspect of the fixed annuity marketplace covering 85% of fixed annuities sold by independent agents, advisors and brokers.

Thank you for your concerned letter on indexed annuities. I would like to offer a bit more information that might help the readers of KnoxvilleNews.com. I am submitting the following on behalf of NAFA.

“Neither NAFA nor its members believe that fixed annuities are for everybody or that annuities are an individual's sole retirement savings or wealth accumulation solution. NAFA believes that there is a role for every financial product and financial strategy available today and that the more choices consumers have the better off they are to compile the best set of products to meet their financial objectives.

Advertising and disclosure laws in the state of Tennessee require that “no advertisement [shall have] the capacity or tendency to mislead a purchaser or prospective purchaser of an [insurance] policy to believe that he will receive, or that it is possible that he will receive, something other than a policy.” Therefore, if an invitation is sent by an insurance licensed individual and the purpose of the meeting is to discuss insurance products or the meeting can lead to an appointment to discuss insurance products the invitation must clearly identify that purpose and the fact that the speaker/presenter/host holds a Tennessee Iowa insurance license that authorizes the sale of fixed annuities or life insurance products. Readers of the KnoxvilleNews.com or any Tennessee resident is encouraged to contact the Consumer Insurance Services department whose web address is: <https://sbs-tn.naic.org/Lion-Web/servlet/org.naic.sbs.ext.onlineComplaint.OnlineComplaintCtrl>.

It important too, that you (and the KnoxvilleNews.com) are aware that according to the FINRA BrokerCheck Report on Malcolm J. Berko (Report #455575-38307), available at www.brokercheck.finra.org, numerous clients, over the period of 2001 - 2009 made formal complaints to FINRA, alleging everything from unsuitable investments to fraud to breach of fiduciary duty. Upon investigation of these complaints, on July 13, 2009 FINRA **barred Mr. Berko permanently from the securities industry**. Although he can no longer act as a principal or investment adviser, Mr. Berko continues to write his syndicated column, "Taking Stock" and coincidentally wrote an article with the same title as your letter to the editor. It is important that readers understand Mr. Berko's credentials and background so they may make their own judgments on the veracity of Mr. Berko's statements.

Regarding the statement on complaints, NAFA has asked for NASAA, the North American Security Administrators Association, to submit the reports that can demonstrate the complaint numbers often quoted or cited by securities advisors. Even the courts, during the litigation of the SEC Rule 151A asked for the data. The NASAA states that they do not actually retain such records and are unable to document these claims. Yet, state law requires that all insurance companies doing business in Tennessee document complaints received and report those complaints to the Tennessee Department of Commerce & Insurance who then reports the complaints to the NAIC (the National Association of Insurance Commissioners). The NAIC documents the complaints by product and complaint type and

posts the [reports online](#) at www.naic.org. In fact, only 58 complaints were filed on indexed annuities in 2013. With over 500 billion in-force premium serving roughly 3.5 million Americans (according to AM Best reports of indexed annuity carriers) that demonstrates a very HIGH satisfaction rate. In fact, the latest study tells us 93% of individuals still own their first fixed annuity based on a 2013 Gallup Study conducted by The Committee of Annuity Insurers, Survey of Owners of Individual Annuity Contracts (The Gallup Organization and Mathew Greenwald & Associates, 2013). And Tennessee can be extremely proud that insurance companies and the Tennessee Insurance Department reported ZERO complaints on indexed annuities in 2013 according to the NAIC Consumer Complaints website.

Perhaps the statement most damaging to retirees and those saving for retirement was “with reductions in service for [the elderly population] health benefits, the last thing they need is the loss of their hard-earned pension assets.” WRONG! Unlike securities and other investment products, you cannot lose money in your indexed annuity when the stock market loses money. If the market index (e.g., S&P 500) drops 7%, your annuity will not lose one penny. Plus, one of the best insured benefits of an annuity is that you can turn it into a lifetime income paycheck, contractually guaranteed, no matter how long you live. Again, indexed annuities aren’t for everybody or for everyone’s total savings, but at least let’s only report facts so that individuals may make reasoned and informed decisions that impact their financial livelihood.”

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Beware of equity indexed annuities

It all begins when a very formal invitation arrives in the mail inviting the recipient to a scrumptious free meal at an upscale restaurant. The targeted group: seniors who have struggled for several years with almost nonexistent returns on their IRAs, who are extremely worried that they will outlive their financial resources, who are not well informed on financial matters and who will jump at almost any investment that offers well-above-average returns with a guarantee they will not lose any of their principal. If this sounds too good to be true, that is because it is just that.

The true purpose of the invitation is usually masked with some informational offerings such as tips for a worry-free retirement or little-known benefits available to veterans, but the real purpose is the hard sell of a product that is anything but in the best interests of the guests.

The product is equity indexed annuities, which, according to Malcolm Berko, a financial writer for the Herald Sun, “have more working parts than a Swiss watch, but most of those parts are

made in China.” Burko goes on to state that 70 percent of all complaints received by state securities regulators involve EIAs.

Anapol Schwartz, an attorney who specializes in National Association of Securities Dealers class-action lawsuits, notes: “Sales abuses are rampant because EIAs generate enormous commissions and are not regulated by the investment industry.”

For an elderly population already faced with reductions in service for their health benefits, the last thing they need is the loss of their hard-earned pension assets. Yet, EIAs continue to be sold, and according to Barbara Roper, director of investor protection for the Consumer Federation of America, these products are “one of the most abusively sold products on the market today.”

--Jack C. Slaughter, Knoxville