



Letter to the Editor: Equity-Indexed Annuities

June 28, 2011

The following is in response to our article, [Fantasy-world Returns for Equity Indexed Annuities](#), which appeared May 31:

Dear Editor,

There are both good and bad EIAs, I suppose. National Life of Vermont has provided me with actual EIA history going back to 2003, including crediting rates based on the month of sale and annualized rates of return for products bought in each month over that time. The results aren't spectacular, but an EIA can be a fine non-correlating asset as part of a portfolio in lieu of bonds. It can also be a good choice for those who want safety and can hold securely until the surrender charge is over. At that point, clients may experience long-bond rates of return — or greater (or worse, too) — as well as 100% liquidity and no volatility. For people who are risk averse and want to participate in market upside, an EIA can be a viable product based on history. People may disagree whether an EIA is the best choice, but looking at this data, I don't think advisors should resort to a pharisaic tearing of their garments about EIAs. To do so would be, in my humble opinion, a display of either ignorance or prejudice, both of which can afflict even fiduciaries.

I was very dubious about EIA's at first, for years actually, because around half of the total return in equities has historically been from dividends that are not included in the mere index price change. But the part I missed is that there are no annual losses to principal in these products. So when the market progresses, these products start from a higher level. Once I was able to view actual history, I had to acknowledge that EIAs have a place in the investment universe in some cases. I am sure there are bad EIAs out there. There are bad mutual funds too, but that isn't a reason to not invest in mutual funds or condemn them in general.

I find all the ink spilled on EIAs very tiring at this point. Based on history of an actual product with an actual company, I can say the product has worked out OK for some people in a very tough market, saved them from terrible volatility and produced decent returns. What is wrong with that? If one wants to throw darts, what was the average return of the *actual* average investor during the 1990s bull market? According to some studies it was 2-3%. Couldn't those returns be read as an argument that the public should not invest in equity mutual funds because they lack the patience and knowledge to get market returns? Where are all those articles?



Lastly, some of the income riders on EIA products are quite good and reasonably priced. When I use Monte Carlo analysis I find I can only safely take a 3-4% draw from an investment portfolio for long-term income. And most people in the bottom 93% of Americans — who possess just 7% of financial assets — will need greater cash flow from their retirement accounts than that safe 4% withdrawal rate. Therefore they will be forced — if they receive good counsel — to use annuities to provide secure retirement income. You wouldn't shove someone out of an airplane with a parachute that only had a 60% chance of opening, would you? Relying on an investment portfolio to provide 5%+ returns for long-term income with a 40% chance of portfolio depletion by life expectancy is, perhaps, a form of malpractice. Read the work of [Jim Otar](#) on that.

I also find that all the self-righteous posturing of the Financial Planning Association and fee-only planners is bordering disgusting in terms of the rash judgment of commissioned agents and registered representatives operating under the suitability standard. In my religion, rash judgment is a sin. These suitability standard critics hurl accusations flippantly and sometimes imply that commissioned representatives were somehow the cause of the meltdown. John Bogle, in a misguided [article](#), implies that if everyone had been on the fiduciary standard, we could have avoided the financial crisis. Can he really be serious? Has his mind gone? A psychopath can still get registered with the SEC, and standards have little meaning for such people.

I am fee-only in terms of financial planning and investment management. This fact does not make me a better person, any more than Madoff is a better person than an ethical life insurance agent (whose fiduciary duty is to the insurance company as an agent). I do sell life insurance, LTC, DI, health and some fixed annuities for which I am paid commission. Does this make me evil and my opinions no longer of account? Is it not possible for me to care deeply about my clients and do the best I can for them? Is selling a commissioned annuity morally inferior to refusing to work with someone because they don't have \$100,000 to \$500,000 of investable assets? Ask the members of the Committee for the Fiduciary Standard what their account minimums are. Ask them how the fiduciary standard will scale down to \$5,000 rollovers of some blue-collar worker between jobs. They don't have a clue, and they seem not to care. If the fiduciary standard does not require additional time, work and money, then it will be a hollow reform with a different set of disclosures that our clients will still not read.



Fiduciary standard supporters don't have answers to how their standard will work for accounts of \$1,000 to \$100,000, but nonetheless they are cocksure that everyone must be a fiduciary. Moving forward on the fiduciary standard without knowledge of how the financial services distribution system will work for the 90% of Americans with less than \$100,000 of investable assets is irresponsible. The press should not let those advocates wrap themselves in the flag and assume they hold the torch of righteousness. For some of those advocates, the fiduciary standard could simply be self serving — a means to create a barrier to entry for competition. Imagine that.

Yours truly,

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