

ANNUITY WARNING REPORT



Information insurance companies, brokers, and others who profit from selling annuities
don't want you to know.

NO CONFLICT — JUST INTEREST®

*To avoid any conflict of interest, our compensation is
not dependent on selling products or on commissions.*

Providing truly *unbiased* guidance.



-WEALTH MANAGEMENT INTERNATIONAL INC.-
Independent Wealth Protection Consultants

Annuity Warning Report



“We estimate that between 15% and 20% of the premium paid by investors in equity-indexed annuities is a transfer of wealth from unsophisticated investors to insurance companies and their sales forces.”

Craig McCann, PhD and Dengpan Luo, PhD
Securities Litigation and Consulting Group, Inc.,

“We are reminded of the adage about something being too good to be true, and feel that Annuities are another product meant to be ***sold***, not ***bought***. David Swensen, Yale University’s chief investment officer, commented in his 2005 book, *Unconventional Success*, ‘As a general rule of thumb, the more complexity that exists in a Wall Street creation, the faster and farther investors should run.’ Many annuities have significantly high surrender charges and other hidden fees. For this and other reasons, we feel that it is not prudent for investors to purchase annuities for their portfolios.”

Educated Investor – November 2005

“Annuities are perhaps the most oversold and misunderstood financial product you could buy.”

Steven Roth, President
WMI

If you have requested this warning report, we assume it is because you or someone you care about has an annuity or are considering one – and you want reliable, balanced, unbiased information.

The purpose of this report is not to make you an annuity expert, but to alert you as to some of the issues and illustrate the need for you to have your annuity objectively reviewed. Annuities come in many variations. Each annuity must be individually reviewed – considering your specific facts and objectives – to determine whether it is a sensible choice for you.

Overview

Annuities are complex financial products that are sold with the allure of tax benefits. Commercial annuities (Variable and Equity Indexed Annuities sold by insurance companies) contain various hard to assess guarantees, such as protection against market declines, lifetime income, and death benefits.

But are they worthwhile?

Because of the complexity of annuities, it is very difficult for investors to fully understand what they are buying. We've found it just as difficult to find an annuity salesperson who understands what they are selling. Yet, over \$1.2 trillion dollars are invested in annuities, with annual sales nearing \$180 Billion in 2006¹ (excludes Private Annuities). With annuity commissions typically ranging from 4% to 10% or more, it is no wonder that annuities are so heavily pushed on investors. By way of comparison, commissions for mutual funds are around 1%. **That's four to ten times the incentive for an annuity to be sold to you.**

It is therefore not surprising that the vast majority of annuities we reviewed were highly inappropriate and costly mistakes for the clients. That being said, annuities can be suitable to some investors in limited situations. We are not saying annuities aren't good, period. But because of the overwhelming inadequacy of annuities, **the question is...**

Are they good for you?

In order to evaluate whether an annuity is right for you, there are many factors that must be carefully considered, such as:

- Your liquidity needs (how long you can keep your money tied up)
- Your current and future income tax situation
- Your age and life expectancy
- Your risk tolerance
- Your financial objectives and anticipated needs

Next, you must compare all of the above factors to the particular annuity. This involves great expertise. To competently evaluate an annuity for your situation, one must first possess a detailed understanding of:

- Various tax laws (income, capital gains, dividends, and special annuity taxation rules)
- Life expectancy statistics and trends
- Various policy provisions and nuances
- Financial markets
- Insurance law
- How the various insurance benefits (riders/options) work
- Probability theories (likelihood of loss, gain, and benefits becoming payable)
- Financial modeling (calculating the outcome of the above items, backing out taxes, expenses, etc.)

¹ Source: LIMRA International (an association that provides research to financial companies) - sales of equity indexed annuities (EIAs) totaled more than \$28 billion in 2006 and \$145 billion for variable annuities.

As you can see from the previous list, there are many complicated considerations to be made before recommending an annuity, and many areas of expertise necessary to properly match an annuity to a client. However, the training annuity salespeople receive is far from adequate in this regard. We very rarely encounter an annuity salesperson who can accurately explain how the annuity he or she sold a client works, or how it compares to other available alternatives.

If you weren't 1) asked questions for all of the above criteria, and 2) provided with an analysis for your particular situation that made clear why the annuity was appropriate for you, then there is no way the salesperson or the insurance company could have known either. If you are unsure, look no further than your annuity's application to see what questions were asked of you that would provide the needed information to determine suitability. You will most likely find that few, if any, of the above areas were ever discussed with you – and therefore considered by those selling you the annuity.

This makes clear the importance of getting an expert, unbiased analysis of any annuity.

Common misconceptions

- As annuities are tax deferred, you will always have more money
- Variable Annuities guarantee you a guaranteed rate of return or cannot lose money
- Equity Indexed Annuities let you get a stock market like return with no risk

Anyone who profits from you buying the annuity has a conflict of interest. To know if an annuity is suitable for you, our Objective Annuity Analysis service is required.

In evaluating your annuity, you need to know:

- What is the value of the annuity to you?
- What does it cost you?

The cost & value of annuity benefits

We have found that the benefits of most annuities are very costly compared to what they actually provide. For most of our clients, there was never a significant likelihood that any of the insurance benefits would ever be paid. However, the high annuity charges eroding their savings was absolutely certain. And in almost every case, our clients' understanding of their annuity was very different from what they actually had. It is therefore likely that your understanding of your annuity is also different from what you really have.

The high, hidden cost

Insurance companies don't bill you for your annuity's insurance premiums. Rather, the charges are quietly deducted from your annuity account. It is estimated that the premiums collected to provide for the insurance benefits are many times greater than what the insurance company needs to cover claims. This makes annuities very profitable for insurance companies – and a bad bet for you.

Tax deferred fallacy

Conceptually, not paying taxes on investments for many years leads you to think you will have more money in the future. However, this is not always the case. Because annuities carry high insurance and administration fees, and because they are ultimately taxed unfavorably compared to other investments, annuities leave most investors worse off in the long run than comparable taxable investments.

So how do you know if an annuity is good for you?

There are many different types of annuities, and the variations of contracts available only add to the confusion. **The only way to be sure is to obtain an expert, objective review of your annuity.** WMi can provide this review.

Who protects you?

Who makes sure an annuity is suitable for you?

Here's who doesn't:

- The **insurance company** who profits from selling you one
- The **salesperson**, who also profits from selling you one

Here's who should, but doesn't necessarily:

- **Your CPA and financial advisors** – Even if you ran it by them before you bought your annuity, did they really understand it and appreciate its value - or lack thereof? NOTE: Annuity taxation and assessment is not part of the standard training accountants or tax attorneys receive. In our experience, of those professionals who believe they understand annuities, most don't know enough about it to properly evaluate them, and most often arrive at the wrong conclusion. We have found that many clients bought inappropriate annuities for their situation – with their CPA's or other financial advisor's blessing.
- **The National Association of Securities Dealers (NASD)** – a self-regulatory agency. Do they? Not really... The NASD has done little more than issue alerts to its members regarding abuses. However, members are securities brokers and dealers, not the investing public. After all, they are not the National Association of Securities Buyers. They do occasionally fine, suspend, or ban abusive salespeople and companies who break their rules. However, we believe these rules are inadequate to protect you, as they are not proactive. Any help you may receive is only *after* you have been harmed. Think of them as the fire department. They don't prevent fires... they just put them out – if you happen to call them. The NASD is years behind the curve. We've had personal experience with how overwhelmed, under qualified, and often disinterested in following up on abusive situations NASD investigators are. They generally only get involved once you have already lost money.

The alarming reality:

We brought a major annuity fraud matter to the NASD's attention involving a broker with a long disciplinary history with them. She had been investigated, fined and suspended by the NASD in the past for having deceived dozens of investors, costing them millions of dollars, and she had been the center of many complaints. The same broker proceeded to commit perjury regarding her NASD record in the

aforementioned annuity fraud civil matter, by denying the existence of customer complaints, fines, suspensions, and that she had been terminated from several companies for breaking their rules. When we alerted the NASD of her continued professional misconduct, they informed us that they were not interested in investigating the matter, or even reviewing the transcript of her perjured testimony. They simply asked to be informed should anyone else lose money because of her in the future. Until then, they would do nothing. This alarming, yet all too common episode when dealing with self-regulatory agencies, clearly demonstrates the NASD's failure to enforce its own code of conduct on its licensed members – a code that supposedly exists to protect you from dubious and crooked professionals. Yet, the NASD does not proactively control the ethics of its members and usually will only investigate them once the damage has been done. Of the many people harmed in complex arrangements like annuities, only a small percentage figure it out, and only a fraction of those ever file complaints and get any money back.

- **Securities and Exchange Commission (SEC).** Albeit being a more serious organization than the above, unless you've been defrauded by a large company and/or the dollar amount is significant, they probably won't notice you. They too fine, suspend, ban and sue rule-breakers. But again, it's after the fact.
- **Your State Department of Ins.** Again, they only get involved once you have already lost your money.

So who, if anyone, is actively protecting you?

Most likely, no one. Even the professionals you trust to have the knowledge and expertise to advise you probably only hold a small piece of the picture. This is why you need to find an independent, unbiased, yet competent source to help you understand what is being sold to you.

WMI's Objective Annuity Analysis guarantees you objective, relevant, and accurate guidance. *Because we don't sell annuities or competing investments, you can rest assured that you will receive valuable and unbiased information.*

Policy benefits & their value

After reviewing various annuity products, we concluded that most of the time the high-cost insurance benefits will never materialize for investors. Here are a few points to consider:

1. How likely is it that you will lose money in the investments within the annuity if there were no insurance?
2. How do the insurance benefits really work?
3. What are you paying for the insurance benefits?
4. What is the "guaranteed loss" to your savings as a result of the annuity's costs?

Buyer beware

We have reviewed dozens of annuity sales brochures and websites of major, well-respected insurance companies. They are designed to make you buy – leaving off all, or including only in fine print *some* of the negatives. Perhaps the most disturbing thing we have found is the inaccurate projections (the numbers) insurance companies and

salespeople represent to you about annuities. Simply put, don't trust their numbers. These numbers are often based on flawed assumptions, and therefore do not illustrate what the annuity will do for – or to you.

There are two basic types of annuities offered by insurance companies: 1) **Variable Annuities** and 2) **Equity Indexed Annuities**.

Then there are **Private Annuities** (a.k.a. Private Annuity Trusts), which are less common yet more complex. Private annuities are agreements between private parties and are not issued by insurance companies. When used to defer capital gains tax on the sale of appreciated assets (i.e., real estate, stocks, business interest, artwork), due to the many complex layers of tax imposed on Private Annuities, they most often leave you worse off than a taxable sale.

**Whether Variable, Equity Indexed, or Private,
an annuity is probably a very costly mistake for you and those you care about.**

Wrong most of the time

In our experience, over 90% of annuities sold to investors are inappropriate, and in many cases dubiously so. Annuity suitability is rarely established by the salesperson. As a reminder, annuities pay much higher commissions than most investments, providing a rich incentive for the salesperson to put his or her interest over yours. Suitability can only be determined on a case by case basis, after thorough analysis by experts in the appropriate fields who possess the necessary tools and knowledge, and no conflict of interest.

Often, your salesperson has never even read the prospectus or policy cover to cover, nor done any independent research or analysis.

For perspective, a proper analysis typically takes 50 – 65 hours. Undoubtedly, this was much more than the salesperson spent determining if the annuity was suitable for you.

Thinking about buying an annuity?

It is prudent to investigate any investment vehicle before including it in your portfolio. If you are considering an annuity, we recommend that you obtain an unbiased, expert analysis before making a decision. It is highly likely that another investment vehicle — without the various restrictions and many drawbacks typically associated with annuities — would be more beneficial to you.

Like marriage, annuities are much easier to get into, than out of...

Already have one?

Obtain an unbiased, expert analysis to determine if your annuity makes sense to keep and if it was misrepresented to you. In the case of misrepresentation, you may be able to recover your losses. If this is your situation, there may be time limits (statutes of limitations) that may run if you don't act immediately. Additionally, the longer you wait, the more you lose.

WMI can help you.

Our **Objective Annuity Analysis** service covers all the issues mentioned in this report — to adequately inform you of what your annuity really does for you. To see a WMI Sample Annuity Report, contact us today.

Guarantee

If we can't improve your position, there's no fee.



Contact us today to have your annuity assessed.

1 (866) OPTIVISED (460-2889)

WEALTH MANAGEMENT INTERNATIONAL, INC.
1901 AVENUE OF THE STARS
SUITE #1900
LOS ANGELES, CA 90067

contact@wmi-consultancy.com