Clark Howard and the Annuity Think Tank have a few things in common. We are both educators, we both specialize in saving people money, and we both have unique specialties within the financial sector. Clark is hands down one of the best at finding ways to save the average American money: from airline tickets to vacations to home repair. Annuity Think Tank is hands down one of the best at educating people about both the good and bad features of annuities. We make sure both advisors and consumers know which annuities are the right fit for a certain client, and emphasizing suitability within every annuity contract.

Speaking of being an expert, Annuity Think Tank should stick with what it does best, and so should Clark Howard. He does make some valid points in his article below titled, "Index Annuities are Poison for Your Pocketbook", however the main theme of his article has many holes. It would be like me getting into Clark Howard's space and saying a certain airline is the biggest rip-off in the industry and don't use them just because I had one or two bad experiences with them and I felt I had overpaid. It could be that the airline I bad-mouthed specialized in flights on the west coast and could even be ranked #1 for both on time flights and most economical for anyone traveling anywhere west of Texas. Similarly, to blindly say any kind of annuity, security, or insurance product is "poison" and has NO fit for anyone, is outright misleading and deceptive. Can index annuities be poison for a certain client, Absolutely! Can they be the best retirement plan for the next client, Absolutely!

We will begin by saying there is NO perfect index annuity. In fact, the index annuity that is incredible for income, is one of the absolute worst for accumulation. And the index annuity that is best for growth, is horrible for guarantees and income flexibility. There is no "one-size fits all" index annuity. But used correctly, and sometimes in conjunction with other annuities to offset the positives and negatives of each contract, you can find a perfect fit for the right client.

Please see our replies to Clark's article below in red. You will notice we don't outright bash Clark like he did in his paper. In fact, we give merit to many of his findings. While others, we feel need more explanation.

"Index Annuities Are Poison For Your Pocketbook" - From Clark Howard

RIP-OFF ALERT: For years, I have warned people about something known as index annuities. They're one of the hottest products in the investment and insurance landscape, but they're poison for your pocketbook. Once again, there never has and never will be an index annuity that is a good fit for everyone. He is wrong here to assume that they are "poison" for every consumer. By starting his article in this tone, he is telling us that he doesn't think they could benefit a single client in the country. Had he done his research, he would know that there is only one (1) complaint for every $404 million premium sold of index annuities. Moreover, 13 of the top 25 index annuity carriers had zero (0) complaints in 2010. Kind of a tough argument to say index annuities are poison when you actually research the facts instead of basing a report on a few ticked off people who were sold an inappropriate product.

Index annuities really took off after the stock market got decimated a few years ago and marketers saw the opportunity to take advantage of people who were worried about outliving their money. True fact except for the part about "taking advantage of people". In this entire article, Clark leaves out one of the most important features of the index annuity. It's ability to guarantee a lifetime income stream. More importantly, some index annuities even have income riders that give as high as an 8% guarantee each year you hold it in deferral until you decide to take a lifetime income. That is exactly what a pension is Clark! Mr. Howard loves and praises pensions (for the fortunate few that still have one) but can't see that he is bashing a pension plan right under his nose.

Of all the things you could for your wallet, buying an index annuity at any age is just about the *worst* thought possible. First of all, I agree. It could be the worst thought possible...if you aren't a fit for it, you don't educate yourself, and if you don't make sure the annuity aligns up with your goals. It could also be the best thing you ever did as well. I am certain the clients who owned index annuities in 2008 (who didn't lose a single penny while their friends were down 35%) did not think it was the worst decision they ever made.

Money magazine recently ran a long-form feature about all the problems that have befallen those people who are sold these things. The story also dug into why index annuities are pushed so hard to the great detriment of buyers. The simple reason is a massive commission goes to the insurance salesperson who sells it! That Money article has been refuted and torn apart by numerous experts in the financial services industry. It was written by a columnist who has never sold the product, and didn't take any time to do enough unbiased research. They clearly had a goal in mind while writing it (much like Clark Howard): which was to get as much dirt as they could on index annuities. And if you can believe it, reporters and news anchors thrive on negative news. If that article was written about the majority of people who love their index annuity, no one would have read it. Get educated and know the facts - both good and bad. Furthermore, commissions on index annuities do NOT come out of the consumer’s pocket. If the consumer invests $100,000 into an index annuity, all $100,000 is fully at work for the consumer. The commission comes directly from the insurance company. The average index annuity commission is slightly less than 7% for a 10 year contract. Compare that to a mutual fund with a 1% fee each year for the same 10 years = 10%. Also compare with a money manager who charges 1.25% each year for the same 10 years = 12.5% commission. Not only are they higher, but they actually both come out of the consumer’s pocket. And we, unlike Clark, do not bash mutual funds or managed money because of that. They both serve a specific (and important) need for a certain client, just like an indexed annuity does.

Index annuities are sold with the promise that you can earn a return based on the stock market in good years, along with the guarantee that you'll *lose no money in bad years*. That's very attractive to someone who is 65 and worried about having enough money for the rest of their life. It's a lure that makes people think, "Hey, I can play the market with no risk on the downside? What could be wrong with that?!" Actually, so much is wrong here, though chiefly 2 things come to mind: Fair Points. Positioned that way, I can see how that appears misleading. Once again, that is where education and working with an ethical advisor is crucial.

- These plans come with massive fees. There's what's called a "surrender charge" that can hang with you for 15 years. If you buy in and then need to get out before 15 years, that surrender charge can be tens of thousands of dollars or more. There are actual zero (0) fees on index annuities. There are riders that you can purchase (you have to sign an entirely separate disclosure in most cases) like a lifetime income rider or a death benefit rider that could cost money each year. . In regards to surrender charges, he is actually correct. If you have to get out early, then there is a charge. Very similar to a CD, a mortgage, or any other contract you purchase for multiple years. However, it is clear that Clark didn't do all of his homework on this one. The "need to get out before 15 years" is very misleading because there are only 2 (out of hundreds) of 15 year index annuities that we are aware of. And where do you get the tens of thousands of dollars or more from??? This is another example of Clark not doing his homework and hearing one client's bad experience. Surrender charges go down over time so even if a 15 year annuity existed, by the 14th year, the surrender charge would be minimum (usually only 1-3%). So I guess Clark is assuming everyone is buying $500,000 index annuities. We can't be more clear on this, understand the surrender charges on your annuity before you buy one. These products are usually a fit for retirement money, not your entire nest egg. Can you think of a reason that you would need to grab all of our retirement money at one time? Medical issues? Death? Index annuities have benefits built in for those issues that Clark fails to mention. Know the facts before you make a decision.

- In most of the convoluted contracts for index annuities, the insurance company can decide to change how much these policies earn each year. So they can offer you upfront a great deal and pull a sucker move on you by changing the payout. Then you're stuck unless you want to pay that huge surrender charge. Good point, the insurance company does have the right to usually have 1 moving part (cap, participation rates, spread, etc) on each index annuity. Index annuities have been around for almost 20 full years now. Think about this: if even half of the insurance companies "pull a sucker move" and ruin your annuity, wouldn't index annuities be long gone from the marketplace already. A truly crappy product in any industry can exist for a year, but not 20 years. And based on only one (1) complaint for every $404 million of index annuities sold, I think an educated person can understand it is in the insurance company’s best interest to have happy clients. Finally, many of the index annuities sold today are used for income purposes solely. There isn't a better vehicle to be found that can give guaranteed lifetime income than an annuity. So for fun, let's give Clark the benefit of the doubt and assume that every carrier purposely tries to piss off their clients and ruin their reputation every year. If you are using it solely for guaranteed lifetime income, you don't care about the moving part that he mentions above. That only deals with your walk away value. If anything, this should be a reminder to current annuity owners why you purchased your annuity in the first place.

The number of complaints filed with state insurance regulators about people who sell index annuities around the country is huge. But state regulators often cannot or will not do anything to help those who were sold on false promises. Not sure where he gets his facts but they are wrong. Go to www.naic.org (National Association of Insurance Commissioners) who gathers every single complaint from every single state. And state regulators have been all over index annuities for years, ensuring that they are more and more consumer friendly every quarter. Interview anyone that is actually in the industry.

Here's a final word of warning: The pitch for index annuities often starts with an invite to a free lunch or dinner seminar to learn more. Believe you me, that is the most expensive meal you will ever eat. If you are past 60, index annuities are a danger to your financial health, your financial security and your long term ability to live independently. Kick that insurance person who tries to sell you that junk straight to the curb! Does he assume everyone that goes to any free seminar (regardless of industry) buys everything they see? Free lunch or dinner seminars are exactly what you think they are in any industry. It is someone trying to show you a product or service hoping that you will buy from them. I have sat in on numerous of these "annuity dinner events" and I have seen some really top notch presentations, and I have seen a few where I back up Clark 100%. In fact, a few of the advisors should not have a license to sell in my opinion. This all goes back to doing your research. Check out reputable websites, talk to actual friends or acquaintances that have owned index annuities, and ask to speak to other clients that have done business with the agent you are meeting with. We have yet to find the perfect index annuity like we mentioned in the onset of this blog.

In summary, I think anyone reading this will agree that there exist good salesman and bad salesman in any industry: from buying cars, homes, electronics, stocks, insurance, etc. I also hope that after reading our replies to Clark you realize that he took as much negative data about index annuities as he could get his hands on to build his argument. At no point did he ever have one positive thing to say. It is impossible to have an unbiased research paper or article without acknowledging both sides of the table. We can't be more clear that we agree with everything he says for that particular client who buys an annuity that doesn't really need one. It can end up being a nightmare. On the other hand, done correctly with a true professional and only on a certain portion of your assets, it could be the best vehicle for your retirement.

Lastly, Clark Howard, Money Magazine, any reporter reading this...if you ever want to publish another negative article on index annuities, please contact us first. Not only did you do a horrible job of pointing out any positive features, you even did a poor job on reporting the negative aspects. We could have written a negative article about index annuities that would have made yours look like a Mother Goose nursery poem. True experts always know both the good and bad story better than any amateur trying to do his or her best on one side. Next time, interview experts, get the real facts, get educated on where index annuities have saved people's retirements, and don't just focus on the handful of people it has hurt. You can find angry people in any industry with any consumer related product.

The Truth About Index Annuities - website

The Truth About Index Annuities - video