

# **Why You Should Avoid Equity-Indexed Annuities At All Costs**

**This revised article supersedes all prior versions of this article and, to the extent it is inconsistent with the prior version, the inconsistencies contained within the prior article are retracted.**

*The Problems, Traps, and Pitfalls of What I  
Believe Is The Worst Investment Vehicle In  
Recent History*

**By Jeffrey D. Voudrie, CFP®**



## **Meet Jeff Voudrie**

Jeff Voudrie is president and owner of Legacy Planning Group Inc / Common Sense Advisors™, in Johnson City, TN. He serves as a personal, private money manager and counselor to clients nationwide.



A Financial Services veteran, Jeff began his career with Edward Jones in 1987. He later served as a Vice President of First Tennessee Brokerage. He founded his own firm in 2001.

### **He Has Strong Convictions**

Jeff’s years in the financial services industry have given him the strong conviction that now more than ever people need and desire a greater level of control over their financial lives. They want to understand the issues, know the possible solutions and decide for themselves the best route to take. All too often, though, they have nowhere to turn for accurate, independent information. Jeff wants to change that.

### **He Is Passionate**

Jeff is passionate about educating consumers on the complex issues that can dramatically affect their ability to live comfortably, to retire early and to put their children through college. He is passionate about enabling them to take control of their financial lives and become more involved in finding solutions. He is passionate about empowering them to achieve their financial dreams.

### **He is Innovative**

Jeff is the inventor of the Portfolio Guardian™, a revolutionary proprietary portfolio management and trading system, on which 4 patents are currently pending. This leading-edge platform (along with proprietary and other hard-to-find strategies designed to allow his clients to pursue rates of return others just dream about) is designed to limit the risk of loss to around 5% or less.

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### **He is Experienced**

As a Certified Financial Planner™ and a Certified Estate Planning Professional, Jeff deals with the complex real-life issues his clients and readers face on a daily basis. He has taught thousands how to get back and stay on track through financial courses and seminars. His ‘outside-the-box’ approach allows him to get into readers’ hearts and minds.



Jeff’s insightful and highly-acclaimed newspaper column, [Guarding Your Wealth](#), is syndicated in over 50 publications across the country, and reaches out weekly to over 5 million readers. He has appeared on the CNN Financial Network as a guest expert and has been interviewed in such stellar publications as The Wall Street Journal, The Christian Science Monitor and The London Financial Times, to name just a few.

Jeff and his wife, Julie, have an extensive media and publishing background. Together they wrote, produced and syndicated the fastest launching children’s radio program in Christian radio history, and have published four children’s books along with over 30 dramatized Bible stories.

### **He Is Committed**

Jeff is committed to giving clients truthful, straightforward investment advice and allowing them total freedom when it comes to control of, flexibility with, and access to their money. This permits his clients to pursue growth while limiting risk, and provides a value-laden relationship simply not found with other advisors.

An Illinois native, Jeff lives near Johnson City, TN with his wife of 20 years, Julie, and their four children.



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Dear Investment-Minded Friend,

Thank you for downloading this free report. I sincerely believe that the information contained here will help give you an in-depth understanding of what I consider to be the worst investment vehicle in recent history – the equity-indexed annuity.

What I have to say in this report may surprise you. I’m known for giving straight-forward, tell-it-like-it-is advice that regularly bucks the industry trend, and this report is no exception. My readers and clients have come to count on me for the unvarnished, no-nonsense truth regarding all aspects of investing and financial advising.

Steve Dinnen, financial columnist for *The Des Moines Register*, calls me “a lone voice in the wilderness” when it comes to speaking out on the downside of equity-indexed annuities, and that’s precisely what I do here – speak out. Loudly and strongly! As a nationally-syndicated columnist (my “Guarding Your Wealth” column regularly appears in publications nationwide), I have the opportunity to speak my mind about investing to a fairly large number of readers each week. I don’t pull any punches with them, and I won’t pull any punches with you.

My purpose in writing this report is to make you aware of what’s going on “behind the scenes” in the world of equity-indexed annuities.

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As John Hargrove, a respected Florida attorney who assists victims of equity-indexed annuities, says:

"This is a financial epidemic affecting the elderly.  
The scope would make your head spin.."

Once you've finished reading this report, you'll know a great deal about this 'financial epidemic', and you'll also know what to watch for when it comes to these products.

Remember: The person who is trying to sell you an EIA has a vested interest in your purchase because he/she will make money off of you. It may be that you end up buying an Equity Indexed Annuity, but it's vital that you be fully informed prior to making that decision.

Let me say that this is a biased report. I don't like equity-indexed annuities as they currently exist in the marketplace today. I believe the concept has merit but that currently the products don't deliver the value that they should. The industry CAN do better, and it SHOULD.

You should know that this is not a complete analysis of all of the features associated with equity-indexed annuities—I assume that if you're reading this report that you have a basic understanding of what these products are

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supposed to do. My purpose here is to present a counter-argument of why an equity-indexed annuity may not be what you are looking for.

In doing so, I am looking at an equity-indexed annuity from an investment point of view. I’m comparing it to other investment possibilities.

Technically, though, an equity-indexed annuity is not an ‘investment’, it’s an insurance product. As such, it provides things that other investments do not. This includes guaranteed benefits that last a lifetime, principal protection and a minimum guaranteed interest rate. Investments like mutual funds and stocks do not provide these guarantees.

You will have to determine the value you place on those guarantees. For some, they may be very important. If that’s the case for you, I would recommend you look closely at a traditional fixed annuity (non-indexed) or a variable annuity. For others, they may not. Either way, you need to know the facts so you can make an informed decision.

Lastly, I make a living managing money for my clients. That means that I am approaching my analysis from that standpoint. Over time, some of you reading this may become a client---but that is not the main purpose of this report. This report was created because this is something that I feel passionately about.

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Everyone should be fully informed before they make any investment decision. By ‘fully informed’, I mean opinions both for and against. That’s not the insurance company’s responsibility. I see it as mine.

It’s my firm belief that this report will help do that. I hope you find it helpful.

Sincerely,



Jeff Voudrie

P.S. You may also be interested in another report I’ve put together – a report which deals *specifically* with the Allianz MasterDex 10, the most popular equity-indexed annuity on the market. That report corrects the misunderstanding many investors have after reading the sales literature by carefully examining the contract, and putting it into terms and language that you may be more familiar with.

To learn more about this revealing report click on this link:

<http://www.guardingyourwealth.com/SpecialReports/Allianz.htm>

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## **Does This Describe You?**

If you're reading this report, chances are that at least one of the following statements is true:

- You're an investor between 50 and 70 years of age
- You've been to a seminar where Equity-Indexed Annuities were recommended as the perfect solution to all your investment worries
- You've been presented with a “golden opportunity” to invest in an Equity-Indexed Annuity by an insurance agent (an opportunity you'd be “a fool to refuse”)
- Your elderly mother or father, or other elderly relative, recently purchased an Equity-Indexed Annuity and you're trying to understand what they've invested in

No matter what your reason for wanting to learn more about equity-indexed annuities (or ‘EIAs’ for short), rest assured that you're not alone. Interest in EIAs is growing by leaps and bounds. In fact, according to *The Source*, over \$45 billion was invested in EIAs in 2005 alone, up from \$20 billion in 2002. As Boomers continue to swell the ranks of retirees, this trend will certainly continue.

## **Why Equity-Indexed Annuities Aren't The Moneymaker They're Made Out To Be**

You may have heard that EIAs are great money makers. Well, what you've heard is absolutely true.

***But not in the way you think!***

Actually, the popularity of these investment products with insurance agents and investors has little to do with their rates of return or beneficial features. We'll uncover why they're so popular with insurance agents in a few moments. But first let's look at why EIAs are so popular with investors.

As an investor nearing retirement, you (or your loved one) no doubt have two major goals:

- 1) You want to hang on to the nest egg you've so painstakingly accumulated
- 2) You want your nest egg to continue to grow so you don't have to lower your standard of living

Wanting to hang on to your nest egg, on one hand, and wanting it to grow, on the other, keeps investors in constant conflict. The fear of loss naturally

pulls people toward guaranteed investments, but these investments don't usually provide a decent rate of return.

**Enter the equity-indexed annuity, with its promise of stock market returns without the risk!**

The marketing push behind EIAs is tremendous. And one of the main elements of the way they are pitched to investors is that it's *almost as if they were a mutual fund where an investor can't lose any money.*

Who wouldn't want that?

Big deal if you have to lock up your money for several years. Isn't it more than worth it to be able to participate in the stock market without having to lose sleep over your investments?

Combine that with promises like these...

- Up-front 10% bonuses
- No taxes to pay each year
- Easy access to your money
- Guaranteed death benefits
- Lifetime income streams

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...and it's VERY easy to see why EIAs have become so incredibly popular!

But if you take the time to do a detailed analysis of these products, a very different picture may emerge.

*A picture that isn't so rosy..*

In the lines that follow, I'll help you in your quest to be fully informed. I'm going to use information taken directly from the insurance company's contracts.

Do you already own an equity-indexed annuity? If so, don't focus solely on the Annuitization Value shown on your statement. It's my contention that an investor will be better served to focus on the cash surrender value shown on the statement. The Annuitization Value represents what will be earned if all of the contract provisions are met, which may take several years. The cash surrender value represents the value today.

## The Champion Of The EIA Market

The most popular equity-indexed annuity is a product known as **The MasterDex 10<sup>TM</sup>**. Investors in this and similar products sometimes believe that after 10 years they'll be able to cash out and enjoy all their market gains.

*But That Is Not Always True.*

In fact, I believe there are so many misunderstandings about this product that I've written a separate, in-depth report. To get a complimentary copy of **this no-holds-barred and highly informative report go to:**

<http://www.guardingyourwealth.com/SpecialReports/Allianz.htm>

However, the MasterDex 10<sup>TM</sup> isn't the only EIA where an account holder might get surprised. From what I've seen, it occurs with most equity-indexed annuities. There are often gaps between how the investor *thinks* it works versus how the underlying product *actually* works.

Let's take a closer look...

## An In-Depth Look At The Four Big Promises Of Equity-Indexed Annuities

I regularly talk with investors who want to invest in an equity-indexed annuity. Number One on their list of reasons for wanting to do so is:

### *EIA Promise #1*

*“I can get the stock market return without having to worry about losing any money, even if the stock market drops like a rock. And I’ll earn a guaranteed return to boot.”*

Wow! Sounds really great, doesn’t it? Enjoy the benefits of investing in the stock market – and without any risk. And when the stock market goes through hard times there’s no need for you to worry, like other investors do. Your money will be safe and sound, earning a wonderful rate of return, even when the market sinks like a rock.

If only it were true!

But alas, it’s not. To understand why, we need to break the belief down into two parts:

- 1) First we’ll investigate the claim about returns and then...

- 2) We'll take a close look at whether or not you can lose any money in an EIA.

### **Understanding The Guaranteed Returns**

At first glance, a guaranteed minimum return sounds great, doesn't it? And in an economy where we're lucky to get 4% on a CD, a guaranteed minimum of 3% sounds pretty nice. Unfortunately, most investors have the impression that on a year-to-year basis they'll receive *either* the guaranteed minimum return or the market return, whichever is higher.

*But that's not the case.*

In reality, you'll get *the greater of* the indexed return or the guaranteed minimum return at the end the contract. At the end of a 15-year contract, for example, the insurance company will look back **over the entire 15 years** and calculate whether you would have earned more at the guaranteed rate or at the market return rate. If the guaranteed rate is greater that's what you get.

This means that your overall index-based return will actually be affected by bad years in the market. You'll have a 0% return for those years.

**And Your Guaranteed Amounts Aren't Paid On 100% of Your  
Investment!**

Most EIA contracts don't give you the guaranteed minimum return on all of your money. For instance, according to agent literature dated 2/13/2006, some pay a 3% guaranteed minimum return on just 75% of your initial investment. At that rate it will take almost 10 years before the guaranteed minimum return equals your initial premium.

In other words, it's a guarantee that you won't make any money!

**Additionally, the Index Return Calculation Can Be Done  
in the Insurance Company's Favor.**

How the index return is calculated is complicated, too. It would make sense to offer an equity-indexed annuity that's tied to an index like the S&P 500 – one which would just give you a matching return. (And there are Federally-insured products that do that without automatic surrender penalties or long time commitments.)

Unfortunately with EIAs, it's not that simple. There are over 40 different ways these rates are calculated and they vary from one company to the next. They also vary from product to product within the same company:

*The insurance company that sells the EIA can change the variables used to calculate the index return from year to year. They can increase or decrease cap rates, participation rates, fee spreads and/or the interest rates*

*paid as specified in the contracts. For instance, the monthly cap on the index rate might be 3.5% the first year, but since they only guarantee that it will be at least 1%, they can reduce it to 1% from year two on—and there’s nothing you can do about it!*

Let me ask you an obvious question: Since insurance companies aren’t required to show ACTUAL past performance on EIAs, and the owner either has to leave the money there for many years or pay harsh penalties, what incentive do they have to pay you more?

### **The Complex Language of EIAs**

On a whole, EIA contracts are complicated vehicles and are extremely difficult to understand, even for those with advanced college degrees specialized in finance and insurance. In my experience, very few, if any, of the investment advisors out there actually understand the intricacies of these products and how the returns are calculated (and these are the people advising you on what to do with your money).

It’s also impossible to look at historic returns to get a feel for performance, because they aren’t standardized. There are so many variables that can be changed from year-to-year that it would be extremely difficult to do historical back-testing.

So the only thing you have to base your expectations on is what the agent tells you...and his/her advice may have no basis in fact.

A recent article in *Wealth Manager* magazine has this to say, referring to a former SEC economist with a Ph.D.:

**“It can take him up to a half-day to analyze a single contract, leading him to conclude that not even ‘one-half of 1 percent of stockbrokers in this country could understand the product.’ ”**

**If a professional with extensive training has trouble deciphering the ins and outs of these contracts, what chance do you have?**

And that’s the point.

Insurance companies are careful to disclose all the details about their products, but the investors I talk to still don’t understand the in’s and out’s of these products. At least, not until it’s too late...

### **Ways You Can Lose Money In An EIA**

Can you lose money in an EIA?

***Let me count the ways!***

Each equity-indexed annuity product varies from the next, but in general, the following statements hold true:

- 1) You can lose money in an EIA if you need to access your money before the contract period is over.
- 2) You can lose money by forfeiting all of your up-front bonus and all your market gains if you cash out even after 10-15 years (in the most popular EIA).
- 3) You can lose money by the use of crediting methods that undermine the stock market’s actual performance.
- 4) You can lose money if the index gain is zero.
- 5) You lose money on dividends you would have earned, had your money been in an actual index mutual fund.
- 6) Your beneficiaries can lose money if they take a lump sum distribution on your account.
- 7) You can lose money in higher taxes.

Let’s go through each of these one by one and look at each point in greater detail:

**1. You can lose money in an EIA if you need to access your money before the contract period is over.**

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Most people understand that if they access money from their EIA before the contract is up they'll have to pay a penalty. In general, they drastically underestimate the cost, **because the penalty is actually much higher than you think.**

If you've invested in an annuity, you most likely don't think you'll need your money before the 10 years or so is up. Thousands and thousands of investors who thought the same thing ended up losing big money because their circumstances changed, because the investment didn't work as expected or because an agent suggested they change to a 'better' product.

It takes a lot of time and effort to gain a detailed understanding of just one of these contracts. Think of the work involved if you needed to compare different EIAs (something that should be done with every decision affecting your money)!

There are so many different ways to lose money and so many different moving parts that it's almost like a wheel spinning within a wheel. That's why it can take a professional with years of advanced training literally hours and hours to decipher them.

Here are some important points to consider when it comes to surrendering policies and withdrawing money from an EIA:

1) You can't access your money during the first year FOR ANY REASON without significant penalties. If you do, you will probably only receive 87.5 cents on the dollar. The penalty-free withdrawal isn't available until after the first contract year.

2) If you access your money through the surrender penalty-free withdrawal option you'll still lose money. Recognize that it's just free of the **surrender** penalty, not other penalties. First, you may forfeit any bonus on that money, regardless of how long it has been invested. Second, you may forfeit any interest or index gain on that money for that contract year. If your withdrawal takes place toward the end of a contract year, even if it's ONE day before the end, you may lose an entire year's earnings on that money.

3) Some companies will let you withdraw 10% per year without a surrender penalty. But they may limit the total amount withdrawn to 50% over the life of the contract. If you need more than the annual 'surrender penalty-free' amount of 10%, you'll pay through the teeth. I've seen EIAs with surrender penalties of 22.5%.

Many prospective EIA buyers say, "I'm not going to need this money anyway. Why should I mind tying it up for 10 years?" The answer is simple: life is unpredictable. You can't guarantee what tomorrow will bring, let alone what life 5 to 10 years from now will bring.

There are many reasons why you may need to or may want to surrender your contract. Family situations, health reasons, or any number of other sudden events can make it necessary. There’s just no way to know what curve balls life is going to throw at us at any given moment. In some cases, the investment itself may be the culprit, since you may be disappointed with its performance. It’s also very likely that an agent will approach you a few years down the road and convince you to transfer that money to a different annuity (but more on that later....)

Investors aren’t surprised when they have to pay penalties in order to access their money early. But they are certainly surprised by this next point:

**2. If you withdraw all of your money (surrender the contract) 10 to 15-years down the road, you could STILL forfeit ALL of your up-front bonus and ALL your index-related gains.**

EIA investors think that once they reach the end of their contract period, they’re home free. They can withdraw all that money and put those market gains to good use. That true in some contracts, but not in others.

The most popular equity-indexed annuity will only allow you to keep your bonus and your index-related gains IF you agree to annuitize your account (or set up a Systematic Withdrawal Benefit), over a period of up to 10 years

in some cases. This means that the 10-year investment you thought you made suddenly becomes a 15 to 20-year investment!

And depending on how you take distributions over that additional period, you may not earn any additional index-related gains! Instead you'll receive a low rate of interest... perhaps lower than you could get elsewhere.

**3. You can lose money by the use of crediting methods that undermine the stock market's actual performance.**

We already mentioned how the insurance companies use over 40 different methods to calculate the index return and how they can change the underlying variables used in that crediting method each year. What is startling is how much impact the crediting method chosen can have on your return (assuming you actually get it).

A detailed study released in 2005 illustrates that difference. Using one crediting method, \$100,000 would have grown to \$1.1 million over 40 years. But using a different crediting method, that same \$100,000 would have grown to only \$428,614 over the same period. That's a difference of \$671,386!

Keep in mind that these returns are hypothetical. They assume that all of the internal variables such as participation rate, caps and asset charges remain

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the same over the entire time-frame. But the insurance company can change those variables from year to year *so there's no way to know what the actual returns would have been.*

An article in *Wealth Manager* had this to say about such major discrepancies in crediting methods:

*“Morningstar’s Donald Moine [an industry expert] found the gulf between crediting methods alarming and is urging the industry to roll out better products.... [Moine says], ‘ The problem is that the majority of EIAs are simply not very good and are designed to benefit insurance companies and the agents rather than the clients.’ ”*

Since each annuity contract is an actual contract between the insurance company and the investor, the insurance company is not required to disclose actual performance of previous or existing contracts to prospective customers. So there's no way for you to compare any of these contracts based on actual performance.

Compare that to a mutual fund, which is required to report actual performance using a standardized formula. With mutual funds you can compare apples to apples. You can't do that with equity-indexed annuities.

This is very important. If these returns aren't disclosed, what incentive is there for the insurance company to increase your return? The insurance companies retain the ability to adjust the numbers used in these calculations from year to year. It doesn't matter whether you like the change or not, you either have to accept it or pay a substantial surrender penalty to get out.

Equity-indexed annuities typically utilize some form of index averaging. Depending on the crediting method, the index-related gain credited to the contract may be based on the average monthly returns (which are subject to a cap) or the average annual returns. Any time the return is based on averaging, it can destroy the return you receive.

There isn't a 'best' index crediting method. The one that will perform best depends on various market and economic conditions. If the economy is slowing and there is an extended bear market, then one type of crediting method will do well. Other methods will perform well in a side-ways market and still others in a strong bull market.

Again, you are the one who bears the risk, *because you can't change the crediting method from year-to-year*. But the insurance company can change the variables used to calculate the return according to the terms in the contract.

Some believe an EIA is designed to give you 100% of the stock market index return, but the use of caps greatly limits your upside potential. Suppose, for example, that the stock market goes up 5% one month. If you have a cap of 2.5%, then you're only credited with 2.5%. And most contracts allow the insurance company to lower this cap during your contract, further eroding your returns.

**4. You can lose money if the index gain is zero.**

EIA investors wrongly think that if the stock market has a bad year, they'll still be earning a guaranteed return. In other words, if the guaranteed rate is 3% a year, the investor believes that if the market goes down in a crediting period that they will still have earned the 3%. But that's not really true. That guaranteed return is calculated over the life of your contract, not on an annual (or crediting period) basis.

Think of it this way. There are two ledger balances kept over the life of the contract. One is the value based on the index gains, the other on the guaranteed interest rate. If the index ledger is greater than the guaranteed ledger then the owner receives the index value. When there is a negative index value for a crediting period, the policy index ledger gets credited with zero, not the guaranteed rate. So some years you can actually earn 0%.

Combine that with the fact that **there are limits imposed on gains made during the good years** and you end up earning much less than you should. It doesn't make any sense.

**5. You lose money on dividends you would have earned, had your money been in an actual index fund.**

Although the returns on EIAs are based on index returns, the index used in the calculation doesn't include dividends people investing in the stock market index receive. For the S&P 500, this amounts to around 2% a year. Over ten years, the guaranteed loss of 2% a year can really add up.

**6. Your beneficiaries may lose money if they take a lump sum distribution on your account—INCLUDING THE BONUS AND ALL INDEX GAINS.**

Upon the death of the contract annuitant, the beneficiaries have a choice regarding how they take distributions. I suspect the majority of beneficiaries won't want to receive their inheritance in bits and pieces over the years. Instead, they will choose to take it in one lump sum.

Depending on the equity-indexed annuity, choosing the lump sum may cause them to unknowingly forfeit the up-front bonus you received AND any index-related gains over the life of the contract!

**7. You can lose money in higher taxes.**

**a) Taxes During Your Life**

The earnings from an after-tax (non-IRA) annuity are taxed differently than dividends or gains on a stock or other stock-market type investment. Money withdrawn from an annuity (since technically it's not an investment) is taxed as ordinary income. If your Social Security is taxed, it's taxed at ordinary income rates. Distributions from a pension or IRA are also taxed at ordinary income rates.

When you take money out of a stock-type investment it is taxed at a lower capital gains rate. The maximum rate on capital gains and dividends is currently only 15%.

The highest ordinary income tax rate is 35%. Even if your ordinary income tax bracket is lower, you may well end up paying twice as much in taxes on earnings from an annuity as compared to capital gains and dividends from a stock.

This can amount to a lot of money. Let's say you currently have \$50,000 a year in income and that you cash in an annuity that has \$100,000 in gains. You'll be paying taxes at the rate associated with \$150,000 worth of income for the year in which you cashed in.

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Based on the 2005 IRS tax tables, if you are married, filing jointly and have \$50,000 in taxable income you'll owe \$6774 in tax. Adding in the earnings from the annuity will give you \$150,000 in taxable income. That will result in taxes of \$23,317.50!

The money from the annuity can push the investor into a higher tax bracket than they would otherwise be in. With \$50,000 in income you were in the 15% tax bracket. With \$150,000 in income you are in the 28% bracket.

That's almost double.

Lastly, with an equity-indexed annuity, you cannot deduct any losses in bad years. You CAN deduct losses on stock-type investments. A good manager will take advantage of that from year-to-year to minimize the overall tax bite on non-annuity investments.

### **b) Taxes At Death**

There is a tremendous difference between how an annuity and stock market type investments are taxed after death occurs. Regardless of whether a non-spouse beneficiary pays all the taxes at once, spreads them over five years or annuitizes the contract for a longer period, there will still be ordinary income taxes paid on the gains as they are received.

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On the other hand, stock market-based investments and real estate can be passed in-kind to your heirs. For example, if you own \$100,000 worth of GE stock, it doesn't have to be cashed in when you die. Instead, the shares can be transferred to your heirs. That means there aren't any income taxes due on those gains when you die.

Moreover, when that stock is transferred at your death, it receives a step-up in cost basis. If you paid \$10,000 for the GE stock and sold it before death you would have to pay taxes on the \$90,000. If the stock passes to your heirs as stock, there aren't any taxes due right away. Taxes are due when they sell the stock, but only on the gain from its value when they inherited it.

In other words, passing \$100,000 worth of GE stock to your heirs at death did away with the taxes associated with \$90,000 of gain.

It doesn't work that way with an annuity.

Owning individual stocks or a stock market index allows you to determine when you pay taxes. Even if you make a fortune it's still taxed at the 15% rate—and it doesn't affect the rate at which your other income is taxed.

So don't be fooled by the tax-deferral benefit associated with an equity-indexed annuity. The salespeople make it sound like a wonderful feature that will save you lots and lots of money. I don't believe it will.

In the long run, you may lose money in the annuity by having to pay more in taxes than you otherwise would have.

## **A Critical Look At The Bonus**

How wonderful! And how generous of them! Now why are they being so nice, I wonder? Could it be a little honey to sweeten the pot? Certainly. Many times this bonus is used to cover the surrender penalties from one annuity so it can be moved into a new one. This allows an agent to capture assets from other agents while earning another commission pay check.

Based on my years in the industry, it's common practice for an agent to try to convince you that some new annuity is so good it's worth paying the penalty to get out of the old one.

Equity-indexed annuities carry very steep penalties for accessing your money before the 10-15 year contract is up. “Oh, but I know I won't need that money before then”, the investor tells me. Little do they realize that in all likelihood, an agent will approach them before it's due and try to talk to them about moving it to another!

*The main point is that many people would leave their money in their existing contract if there wasn't the 'bonus'. When they receive a 'bonus' on the new contract, they think that the transfer hasn't cost them anything. But it has!*

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*The surrender penalty amounts on the new contract are significantly higher than a similar contract that doesn't have the bonus. The surrender period may also be many years longer. There's nothing free about the bonus.*

People transfer money from variable annuities to equity-indexed annuities all the time. And they pay a penalty to do it.

Think about this for a moment. When they purchased the variable annuity they knew there were horrendous penalties, but they thought they'd never have to pay them. They were wrong though.

Are you so sure it can't happen to you?

The other problem with the bonus, however, is that some people will never collect it. As we mentioned earlier, you only earn this bonus if you follow all of the contract rules. (And you may not even be aware of many of them!)

You may lose a portion, or even the entire bonus, if you do any of the following:

- Take out any money prior to the end of the contract period, even if it's through the penalty-free option;
- Cash out of your contract even after 10-15 years instead of annuitizing it;

- Die and your heirs cash out the contract.

Besides, a 10% bonus spread over 10 or 20 years only equals about ½ - 1% a year. That’s not nearly enough to compensate you for all the flexibility you lose.

## **The Price Of Early Withdrawal**

*“I can get my hands on my money if I need to.”*

That’s true, but at what price? Should the day come that you actually do need to get your hands on *your* money, you’ll be shocked at how much it’ll cost you.

Insurance companies know that consumers are understandably hesitant to lock up their funds for 10 years or more, so they try to ease the pain by allowing investors to access up to 10% without paying a penalty. Some even promise that you can access your money if you go into a nursing home.

Money accessed before the end of the contract is NOT penalty free! You may not pay a ‘surrender penalty’ but you will pay in many other ways.

First, there isn’t any way to access money during the first year. If you do, you will forfeit the initial bonus on that money and any interest or market

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gains on that money for that contract year. But there will also be a hefty surrender penalty as well!

Secondly, even when you stay under the 10% a year ‘penalty-free’ amount on withdrawals after the first contract year, you may forfeit the bonus you initially received on that money. You may also forfeit any interest or market gains on that money for that contract year. If you pull it out at the end of the contract year you may forfeit an entire year’s worth of earnings.

By the way, the most popular contract in the industry allows you to withdraw up to 10% a year, but only up to 50% of the premium over the life of the contract. Go beyond that limit and you get hit with those onerous penalties.

Thirdly, what if you need more than 10%? You may forfeit the initial bonus on that money and any interest or market gains on that money for that contract year. There will also be a hefty surrender penalty as well. In some contracts, the surrender penalties can be as high as 22.5%.

The nursing home provision may not give you the access you think it does. Some contracts ‘allow’ you to annuitize or take out your money ‘penalty-free’ over 5 years instead of 10-20 years. But if you need your money sooner than that, you once again get hit with all those penalties. Most people going

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into a nursing home can't afford to wait 5 years to gain access to all of their money.

Additionally, the typical transition for someone no longer able to care for themselves is to pay for in-home care. Once that's no longer an option they move into an assisted-living facility and eventually a nursing home. Industry statistics show that the time spent in the nursing home is less than the time spent in assisted-living facilities.

The NURSING HOME waiver doesn't provide for penalty-free access to cover in-home or assisted-living expenses.

Keep this in mind. IT'S YOUR MONEY. You shouldn't have to beg someone to get access to it and you shouldn't have to pay to do so! It doesn't make sense.

## **What Your Agent Doesn't Want You to Know About Equity-Indexed Annuities**

Would you like to know the **real** reason equity-indexed annuities are so popular?

**They're major money makers...**

EIAs are by far the highest-commissioned products currently available. It's not uncommon for agents to get a 10% commission off of every dollar you invest. Notice I didn't say 'earn'— because what in the world did the agent do to 'earn' so much money? Nothing.

All they had to do was talk you into it.

To put this into perspective, assuming a \$100,000 investment, an advisor can make \$10,000 selling you an equity-indexed annuity. If that advisor put that money into a mutual fund instead, he/she would probably only earn \$3,500 (or less).

(Of course, this example assumes that the 'advisor' can sell a mutual fund — one of the most basic of investments. But many can't. I'll tell you more about that in a minute.)

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These sky-high commissions are causing some agents to turn to the dark side and push these investments onto investors they were never intended for. I can't tell you how many horror stories I've heard where unscrupulous agents push 80+ year old widows into investing 100% of their assets in an equity-indexed annuity with 15-year surrender penalties.

Some are even convincing investors to mortgage their paid-for homes and invest the proceeds into EIAs. Others will try to get you to transfer all of your IRAs, 401(k)s and company retirement money into one. I've even heard of agents suggesting you cash in your cash-value life insurance policies to get even more money to put into one!

Obviously, these are extreme examples but they may occur more often than you think.

## **Equity-Indexed Annuities: They’re Regulated Much Differently Than Securities.**

How can agents get away with such despicable practices? And why doesn’t the Securities Exchange Commission (SEC) or the National Association of Securities Dealers (NASD) do something about it?

Well, they can’t. You see, even though they are thought of as the perfect *investment*, equity-indexed annuities are considered an *insurance* product. This means they avoid all of the stringent security-related requirements that normally have to be met. It also means they are regulated by your state insurance commissioner, not the federal government.

The regulations governing insurance agents are considerably less restrictive than those regulating stock brokers or registered representatives. In the brokerage industry, firms are required to have a Compliance Officer. Insurance agents aren’t required by state law to have a designated compliance officer.

Compliance officers must meet licensing requirements beyond those held by those they oversee. The Compliance Officer is charged with putting policies and procedures in place to prevent certain activities from taking place and to spot them if they do. Each transaction has to be approved by compliance.

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For instance, the brokerage firms that I’ve worked for in the past had a policy that the transfer from one annuity to another would not be allowed if the surrender penalty on the old contract was over 3%--regardless of whether the new contract had a ‘bonus that would cover it’.

State insurance regulations prohibit agents from ‘misrepresenting the benefits, advantages, conditions or terms of any insurance policy’. State laws grant the states’ insurance regulatory authorities the right to investigate and prosecute wrongdoing and impose penalties and fees.

There isn’t anyone who is legally accountable to sign off on each transaction like there is in the brokerage industry. I’ve talked to several investors who paid surrender penalties of 5% or more to transfer money from one contract to another.

I have and do work under both the federal securities regulations and the state insurance regulations. In my opinion, there is a big difference between the two.

Some insurance commissioners are becoming more proactive where EIAs are concerned. Florida and Nebraska are two examples. Unless new legislation is enacted in each state, though, their hands are tied. A sale can be *unethical*, but still be completely legal. If the agent and/or insurance

company didn't technically break any state statutes there's nothing the regulators can do.

The insurance companies are fanatically opposed to additional oversight or more restrictive legislation. They will do whatever it takes to defeat measures in each state. Their ferocity can't be understated.

Interestingly, variable annuities are regulated as an investment and fall under the oversight of the NASD, the SEC and state insurance authorities. I advocate that equity-indexed annuities have the same oversight.

Often, those selling these products may NOT be qualified to give you *financial advice*. The typical person selling equity-indexed annuities is an insurance agent with a background in selling life insurance, not in giving financial advice.

They might call themselves financial advisors, but so can you. Anyone can call themselves a financial advisor. Some might have fancy sounding designations, like Certified Senior Advisor. But that certification is easily obtained and doesn't reflect any financial expertise at all.

Not all insurance agents who sell equity-indexed annuities are doing so just for a quick buck. In fact, I believe that most have the best of intentions. They

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are well-respected members of the community. They are your neighbors. They are members of your church.

It's not that they are bad people. Most are convinced they are doing what is in your best interest. But have they taken the time to diligently research the facts behind equity-indexed annuities? Do they simply accept what the insurance company tells them? And because EIAs are such an easy sell and the agent can earn so much selling them, there's little incentive to do so. (I've seen the same thing in the brokerage industry, so don't think that just because someone has a securities license that you are 'safe'.)

Let me put this in perspective. A moderately successful agent selling annuities (just one \$100,000 sale a week) can make over \$500,000 a year. There are many agents that are making much more than that. Some make over \$1 million a year selling these products.

Where does all this money come from? How can the agent make so much in commission AND the insurance company pay you a 10% bonus up-front? That means the insurance company is out about 20% every time someone buys one. How can they do that?

It doesn't make any sense.

## **Key Points to Remember**

The following are the most important points to remember when it comes to EIAs:

1. EIAs probably won't give you the return you expect.
2. There are numerous ways you can lose money in an EIA.
3. It could take you 10-20 years to get that 'bonus'.
4. It will cost you big time to tap your money early.
5. EIAs aren't regulated by a Federal agency, aren't subject to the rules governing the sale of securities and the people selling them may not even be licensed to give financial advice.

## **So, Jeff, What’s My Next Step?**

1. Feel free to drop me an email at [jeff@GuardingYourWealth.com](mailto:jeff@GuardingYourWealth.com) with a financial question. I’m always glad to hear from my readers and I’ll try to get back to you with an answer inside of 24 hours, if at all possible.
  
2. Have you, or someone you know, been contacted in regard to purchasing the Allianz MasterDex 10™ equity-indexed annuity? Would you like to learn more about the *most popular* EIA in America right now? My brand new **no-holds-barred report** takes this specific product by the horns and shows that it doesn’t work anything like what most people think. To learn more go to:  
  

<http://www.guardingyourwealth.com/SpecialReports/Allianz.htm>
  
3. By downloading this report you’ve taken the right step toward educating yourself about investing and proper money management. If you are interested in reading more about investing and financial self-defense, you’ll find a number of free articles on my Website to help you. Just go to <http://www.GuardingYourWealth.com>

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4. It may be that you'd like to know more about alternatives to equity indexed annuities (and there are many, many of them out there). If so, my special free report, “The Unvarnished Truth About Investment Advisors...And Why You Don't Need One In Order To Manage Your Money Well”, may interest you. To download this highly informative and provocative report about the behind-the-scenes story of the financial advisory world, just go to:

<http://www.guardingyourwealth.com/SpecialReports/FinancialSelfDefense.htm>

Lastly, I would like to hear your story. Have you been approached or purchased an annuity or investment product and lived to regret it? Tell me about it---maybe together we can help others become more aware (email me at [jeff@guardingyourwealth.com](mailto:jeff@guardingyourwealth.com)).

Thanks again for taking the time to download and read this important information.

Sincerely,



Jeffrey D. Voudrie