

The "Criminals" Who Sell Annuities

By Robert Brokamp (TMF Bro)

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As a writer of worldwide renown (as far as I tell my mother), I get email from a lot of different folks. I receive missives from admirers ("Let's get together -- click on my website for a good time"), detractors ("You 'fools' will be out of business within a year" - - that was sent in 2000), conservatives ("Please sign this petition to urge the beatification process of St. George Bush"), liberals ("This morning George Bush came to my house and ate my children!"), angry anti-breeders ("Thanks for contributing to overpopulation and for sending all of those diapers into overfilled landfills" -- in reaction to [this article](#)), and beautiful, forgiving procreators ("Robert, the kids need to eat something other than Slim Jims for breakfast!").

I also get a lot of email from people in the financial services industry, usually because I make fun of them. Here's a recent example:

I have spent the last half-hour browsing "the fool" and am astonished at the misinformation that writers like you are promulgating about annuities and the insurance industry. Your article in particular, "[Annuities: Who Needs Them?](#)," is a complete farce. It revealed either your complete lack of understanding about insurance products or your puzzling hatred of the insurance industry. ... Sometime in the future I hope that you will consult someone who actually has some knowledge of annuities (or any other product you decided to bash) before you embarrass yourself in print. ... You obviously don't hold an insurance license.

Well, he's right: I don't currently have an insurance license. However, I *did* have one when I was a broker several years ago, and even sold a few annuities myself. Ironically, when I was in the financial services industry, I sent an email -- similar to the one this guy sent me -- to Fool co-founder David Gardner in response to an article he wrote that painted all financial advisors with a cynical brush. (I'm glad David didn't remember it when I later applied for a job at Fool HQ.)

So I understand where this guy is coming from. The broker biz is tough. Stats I heard back in my training days indicated that as much as 70% of advisors drop out after the first year. Recently, **Morgan Stanley Dean Witter Hubba Hubba Shabadoo** ([NYSE: MWD](#)) announced that it would be firing 1,000 of its 10,500 brokers and cutting new recruits from 2,400 this year to 1,000 next year. Many good people enter the financial services industry, hoping to help people take control of their monetary futures. But they spend their first few years cold-calling, prospecting, trolling, seminar-ing, marketing, scrounging, mass-mailing, glad-handing -- whatever it takes to build a clientele and a reputation. It's not easy.

Plus, the aggrieved insurance agent had a point: His main beef was that I didn't distinguish between variable annuities (which is really what I was writing about) and fixed annuities (which have their own set of pros and cons). Plus, there are income annuities, which are a whole different beast. Indeed, I do think annuities make sense in

some cases. That's why I sold a few myself and have discussed their pros and cons in my [Rule Your Retirement](#) service.

And, yes, there are good people in the financial services industry. They're not all "thieves" and "criminals" -- an impression the emailing insurance agent accused me of propagating. From our brief email exchange, I think this particular fellow is one of the good guys.

Beware of the sharks

But then there are others. Generally, a broker or agent receives a much higher commission on an annuity than he/she would get from selling mutual funds, stocks, or bonds. This creates an incentive to oversell them. Consider these recent developments:

- **Bank of America** ([NYSE: BAC](#)) has agreed to return the money of anyone who purchased an annuity in 2003 and 2004 and was age 78 or older. The action is a result of an investigation by the Massachusetts Secretary of Commerce, William Gavin, who said, "My office has received several complaints from seniors and their families of high-pressure sales tactics used to sell an annuity to people for whom it was not an appropriate investment."
- Citizens Financial Group, acknowledging "unethical or dishonest conduct," agreed to offer refunds to all its elderly customers who bought variable annuities in the past two years, The company will pay a \$3 million fine.
- In April, **Waddell & Reed** ([NYSE: WDR](#)) paid \$18 million to settle charges that it pressured customers to exchange their annuities (i.e., switch from one annuity to another, generating a commission).
- A company that sold 202 annuities in Florida was placed into receivership because it wasn't properly licensed. The investors will not be able to get all their money back.

And then there's the way they're marketed. In 2002, the *Wall Street Journal* wrote an article about "Annuity University," where agents are taught how to sell annuities to the older crowd. "They [senior citizens] thrive on fear, anger, and greed," the instructor exhorts. "Show them their finances are all screwed up so that they think, 'Oh, no, I've done it all wrong.' This will make you money. ... Toss hand grenades into the advice to disturb the seniors. You're there to solve their problems, but you have to create those problems first. No problem, no sale." He later adds: "Tell them you can protect their life savings from nursing-home and Medicaid seizure of assets. They don't know what that is, but it sounds scary. It's about putting a pitchfork in their chest."

That might be an extreme example -- but not that extreme. As I've written before, because I subscribe to many financial periodicals, I regularly get [spam targeted toward brokers and agents](#). Here's a solicitation I just received for a marketing program targeted toward seniors: "[The system] attracts affluent prospects like bees to honey ... it prescreens them for you ... and then it puts them in front of you prepared to move assets -- mammoth-sized assets -- at your direction! ... [The program shows] how to find and acquire the PERFECT, affluent senior prospect (then instantly convert them for easy profits for the rest of their life!)."

Finally, there's this, from none other than Fran Tarkenton: "There are 38,000,000 Seniors in America. Do they know who you are? Seniors know and trust an American Classic, NFL Hall of Fame Quarterback Fran Tarkenton. If you are a professional in the insurance industry focused on the Retirement and Senior Market, Tarkenton Financial can help you build your business."

Nowhere in these ads will you find anything even vaguely along the lines of "we'll help you help your clients achieve their financial goals." Because, for some of these people, it's more about building their own net worths, not their clients'.

Seek advice, but be careful

Intelligent, informed, and ethical financial advisors provide a great service. I've met many, and I know their clients are better off because of their services. Some of these good advisors even sell annuities -- but only in the limited number of situations for which they're appropriate. If you're looking for an advisor, or looking at an annuity, take extra time to make sure you're getting a good one.

Robert Brokamp, editor of the [Rule Your Retirement](#) newsletter service, doesn't own any of the companies mentioned. Since this was an article about ethics, Robert is reminded of an episode of Mystery Science Theater 3000, in which a character in a movie says, "Only the good die young," to which one of the robots responds, "Yes, but most of us are morally ambiguous, which explains our random dying patterns." The Motley Fool is [investors writing for investors](#).