Independent Service Company

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As a fiduciary for my clients I have been disturbed by the unsuitable sales practices of some Annuity Salespeople.

In one recent case we witnessed the following:

- A 70 year old plus male was aggressively sold an Equity-Indexed Annuity that was designed for people in the accumulation and not distribution phase of life. The product was designed to be untouched for 10 years before taking distributions. This was offered as a solution for all of the clients assets. There were provisions to take out 10% annually without penalty, these monies did not then benefit from the growth of the index. The salesperson later admitted that the product was unsuitable. In doing this they admitted not knowing their customers needs, and recommending an unsuitable product.
- When the client asked how much the salesperson would make in commission he stated he "wasn't sure, probably 2 or 3 percent". We looked it up, he was going to make a 10% commission over the first 3 years. The salesman later stated that he was not allowed to disclose his commission to his prospect. In our business as fiduciaries transparency of fees is important for many reasons. Generally products that can pay the salesperson a 10% sales commission means there is a very high cost built into the product for the insurance company as well. Ultimately this cost is born unknowingly by the consumer. If the solution is of such high value that it warrants a large fee for the insurance company and salesperson, then this should be honestly addressed and overcome in the sales process. Insurance companies should not hide behind current lack of regulation by making these Equity-Indexed Annuities impossibly opaque to the consumer.
- There were inappropriate models generated for the client. Comparing components of a conservatively balanced portfolio against the annuities hypothetical performance to upset the client with their current advisor. For example, the "annuity outperforms your money market so you should buy it instead". The salesman was glazing over to the client the reason they were partially invested in money market according to an appropriate and conservative asset allocation.
- Undue sales pressure was placed upon this individual with an extra "bonus" that was going to expire within 2 weeks from the sales pitch. There was incredible urgency conveyed to act immediately to buy the annuity or else leave a large sum of "money on the table". The assets in question of this client represented his life savings, and sole source of future income. Such decisions should not be encouraged so aggressively. This extra bonus was later found to be of questionable value, because none of it would be economically realized for 10 years. Again this is a 70 year old male who has statistically small percentage of living much past age 80.
- A replacement was then suggested by this salesman after it was determined the EIA was inappropriate. Another version of an EIA, also designed for accumulation and not distribution phase. Also with high costs not divulged to the customer.

The bottom line is good people are being taken advantage of every day by certain unscrupulous or ignorant Annuity Salespeople. It is very important that all financial professionals be held to a fiduciary standard to act as prudent experts for their clients. Advising individuals on how to meet their most important life goals is a solemn duty that must be taken seriously. The insurance companies will lobby aggressively to fight against rule changes because it is in their best interests, not their customers. The reality is they have done an inadequate job ensuring prudent practices for a portion of their industries professionals.

This rule needs to be passed to protect the American consumer from improperly sold Equity-Indexed Annuities.

Thank You,

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