A RESPONSE TO A DAVE RAMSEY COLUMN

May 5, 2014 by Kim OBrien

The National Association for Fixed Annuities, was very intrigued by the advice Dave Ramsey gave to an individual. The world of fixed annuities is governed by very strict laws of disclosure and suitability determination before any recommendation of a product can be given. The law requires that the individual providing the advice, must ask very prescriptive questions about the individual's age, tax situation, current assets, risk tolerance, to name only four of the 13 areas of financial objectives that are required to be discussed and evaluated before any recommendation can be made.

The National Association for Fixed Annuities believes that not all annuities are right for all Americans, nor is any one annuity the only choice for all of an individual's retirement funds. But we also believe that unless you know all there is to know about the individual's financial goals and retirement plans, you don't have any basis for making any recommendation on what the individual should do with his or her money.

We must also point out a very misleading and erroneous statement in your advice to "John." You state: "But if the economy goes completely down the tubes, and the government destroys things like mutual funds and real estate completely, your little bank-recommended annuity isn't going to make it either." You failed to inform John that the "little bank-recommended annuity" is issued and insured by a state-licensed insurance company. John would do well to know before taking any free advice from your column that the insurance industry was one of the few financial sectors to weather the Savings and Loan Crises of the 1980s and '90s, the economic collapse of the early 2000′s, and what is called the "Great Recession" of 2008.

But the more important message you failed to give John and your readers is that with a mutual fund, your money is invested directly in the market and you take the losses along with any gains. Fixed annuities are the exact opposite. Because they are insurance products first, John's premium and interest earned is never at risk from market losses.

According to Morningstar, over 11,584 out of the 11,585 U.S. and international stock mutual funds that they tracked lost money in the 2008 market crash. Meanwhile, during that same time, every individual who owed a fixed annuity lost *no* money.
You are also wrong in saying that a fixed annuity is an Investment. It is not, nor should it be considered an investment. A fixed annuity, whether sold through a bank or other distribution channel, provides insured guarantees that you cannot outlive your savings. You will never lose money because Wall Street does, and you will always earn a minimum interest no matter what.
With a fixed annuity your money is never at risk in the markets. Your money is protected by the state insurance laws on solvency, non-forfeiture standards, and explicit reserving requirements made and continually watched over by the state insurance department.

However, the National Association for Fixed Annuities is not recommending that John buy a fixed annuity. As we said, we know nothing about John or his financial needs. We are merely recommending that John receive the most accurate, complete, and actionable information that will help him to further educate himself. We respectfully suggest that is best accomplished with an annuity professional who has access to the best products and best information.

Kim O'Brien
President & CEO
National Association for Fixed Annuities