

# *Safe Money Advisory*

## *"What's the Hoopla About EIAs?"*

### **Houston, Texas** **For Immediate Release**

If you've been reading the popular press about investments, you've seen some derogatory comments about Index-Linked Fixed Annuities, commonly referred to as "EIAs". Please know you're getting biased information because, as is so often the case, those throwing the mud have an agenda. There are two main EIA opponents: the NASD and ex-stockbrokers turned financial journalists. As a well-known commentator says: "here's the rest of the story".

The NASD is not a government body, does not make laws and has authority only over brokers who sell securities. The NASD collects fees from the sale of securities (stocks, bonds, mutual funds, variable annuities and other investments). Much to their dismay, the NASD has no authority over EIAs because they are an "insurance product", not a security. In accordance with federal laws, the States regulate the sale of insurance, including EIAs. In the past few years EIAs have exploded in popularity, and in 2005 the retirement-minded purchased \$40 billion of them. The NASD receives no fees on EIA sales. To make matters worse, EIA sales take money away from mutual funds and variable annuities on which the NASD does collect fees. Do you see why the NASD is biased?

Most financial journalists got their start in the securities industry or they rely on it for information. Their "reporting" reflects this background. It's only human to support the cause of old colleagues or information sources, foster the business of advertisers, and report on investments offered by them. By the way, "security" according to Webster's means: (a) "freedom from danger: safety; (b) freedom from fear or anxiety". When financial journalists speak of a "security" they mean a stock, bond, mutual fund, variable annuity, etc.: ironically, all of these can lose value if the markets go south. A risky investment being called a "security" is similar to "true fiction"! Many financial journalists, even the famous ones, haven't learned what banks or insurance companies offer. They haven't yet discovered that "advertising" by the brokerage industry is "pure fiction". Their view of the EIA is biased, pure and simple.

Let's look, without a jaundiced eye, at the criticisms levied against EIAs. First: "EIAs are risky". This is assumed to mean "you can lose your money if you purchase an EIA just like with a security". This is simply not true. The only way you can keep from earning a positive rate of return with an EIA is to cash it in before the contractual term ends. The good thing about EIAs is that you know the cost of getting out prematurely at the time of purchase because a schedule of early withdrawal penalties is furnished in a written contract. A "security" doesn't provide this advantage!

"EIAs are too confusing" is another criticism offered by the NASD and others with vested interests. Does this mean the 80-page prospectus that comes with mutual funds and variable annuities is light reading? The "way earnings are computed" is generally the item that is singled out as confusing, and that's a legitimate complaint. In fact, EIAs have been characterized as a simple concept that insurance companies have made complicated. EIA earnings are linked to a common market index, and if the market rises you make money: if the market declines, you don't lose money. The EIA offers you an opportunity to make a good rate of return and guarantees that you'll never lose money unless you cash out early. The EIA doesn't guarantee that you'll earn 100% of the index gain: the price you pay for the no-loss guarantee. You decide if the value of "no loss" is worth less than getting all the gain in the index. Also, bear in mind that most money managers charging you fees to oversee your investments underperform the market indexes.

"EIAs are just not safe" is another objection. If no one has ever lost money in EIAs held for the full-term (which can be very short), how could they not be safe? EIAs are guaranteed by the same global companies insuring your home, car, life, health, business and virtually every valuable you own, and the same companies offering variable annuities. EIAs are safer than a "security", that's why there is no prospectus talking about "risky", "loss", and "no guarantee".

"EIAs tie up your money too long" is often heard. Maturities are as short as one year and as long as 20 years – just like the short-to-very-long bonds and bond funds offered by NASD brokers. EIAs are savings vehicles designed for the retirement-minded whose financial horizon is longer-term, and most offer generous liquidity along the way for systematic withdrawals or emergencies. If you purchase a "security" and decide to sell near-term, it could cost you twice: first, because the market declines and your investment drops in value and, second, the up-front commission you paid is kept by the broker. EIAs have no up-front broker fees: 100% of your money works from day one.

Please don't conclude that mutual funds, variable annuities, stocks, bonds and other securities are bad or should not be owned. These investments have a place and are very appropriate for certain investors, but so are EIAs. No single investment is for everyone, including the EIA. But, EIAs are not risky, dangerous, or evil as the NASD and others with agendas would have you believe. EIAs are safe, longer-term savings vehicles that offer the opportunity to earn a great rate of return without the risk of "investing". EIAs belong in the portfolios of the retirement-minded who cannot risk their principal. That's the "rest of the story".

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