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HOME TAKING STOCK IRAS AND EQUITY INDEX ANNUITIES

IRAs and Equity Index Annuities

POSTED: Friday, March 25, 2011 at 09:22 AM PT
 BY: Malcolm Berko



Malcolm Berko

Dear Mr. Berko: We are in our mid-70s and have IRAs valued at \$493,000, still less than the \$715,000 value of several years ago. We also have \$120,000 in two CDs that pay 1.1 percent, Social Security and pensions. We are frightened about the economy and concerned for our IRA because we need the income. Our broker of five years, who is with a very big firm, wants us to put our entire IRA into an equity-indexed annuity that he says will guarantee 4 percent per year, will never lose money, has annual growth tied to the increase in the Standard & Poor's 500, is rated triple-A, ensures our beneficiaries will get every penny we invested plus gains, and will allow us to take money out anytime we wish. He told us that we do not have to pay a commission because the insurance company pays him for us. This sounds too good to be true. We don't want to make another mistake like we did when our old broker at Prudential sold us a private placement limited partnership in the late 1980s and it

went bankrupt a couple years later. At our ages, we cannot afford another mistake. We have been reading your column in our paper for over 30 years. We trust your advice. Please advise us as soon as you can. - P.B., Fort Walton Beach, Fla.

Dear P.B.: My goodness, my gosh - equity-indexed annuities have more moving parts than a Swiss watch, but unfortunately all those moving parts seem to be made in China. EIAs represent 70 percent of complaints received by state securities regulators. The financial landscape is littered with a carnage of slick schemes and broken dreams that literally vandalized the income of retired or soon-to-retire investors. Before you read any further, call that "brokester," tell him to shove a carrot in his ear and suggest that he take an advanced course in "torture resistance training."

EIA salesmen have to be sociopathic liars or dumber than a fistful of worms to sell this evil product. EIAs come with more confusing charges and fees than your cell phone, cable TV service and utilities combined, and more caveats and limitations than a used-car warranty. The calculations of an annuity's index values and related features that determine performance are pre-calculated to maximize the insurer's profits while mitigating the policyholder's gains.

And reports from the Securities and Exchange Commission, the Financial Industry Regulatory Authority, the North American Securities Administrators Association and the National Association of Securities Dealers (all available on the Internet) suggest that my criticism should be much stronger. As of today, more than \$220 billion has been invested in EIAs, and I would guess that if the entire amount were converted to cash, then the public would get back much less.

The insurance companies that design this infested product are as culpable as the "banksters" and "brokesters" who sell it. The victimized investors are never told that the commissions are 10 percent or more, or that the surrender fees can be 15 percent or

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Oh, it's in the prospectus, but my daughter - who is a lawyer - and her husband - who is a judge - would need hours to locate that information.

Meanwhile, I suggest that you visit FINRA's website and search for "equity-indexed annuities." You will be "gabberflasted."

I share your concerns about the market, and I think those concerns would be easier to accept if you got rid of this broker and hired a professional money manager who can give you conflict-free counsel and doesn't need to sell you things that pacify his boss or pay his country club dues.

Address your financial questions to Malcolm Berko, c/o The Daily Journal of Commerce, P.O. Box 8303, Largo, FL 33775, or e-mail him at mjberko@yahoo.com.

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