



\$870 Billion Protected By Variable Annuities And They Still Can't Admit They're Wrong

Hypocrisy Prevents Media From Applauding The Protection Provided By Variable Annuities In The Current Financial Crisis

We hear every day the complaints about the media bias in this country. But usually the debate is about politics. Well, we're here today to tell you that **the media bias does actually exist – against VARIABLE ANNUITIES.**

The numbers of articles blasting variable annuities as "too expensive" compared to mutual funds have outnumbered the positive articles by 100 to 1 over the years. Well, we're now asking who was right? Where are all of the articles saying "mea culpa" from their catchy headlines? Where are the apologies for not getting under the hood and really understanding the guarantees of variable annuities? Don't hold your breath – they are not coming. Read on to see why we're so dismayed by the job done on Americans by the many financial publications. (Don't even get me started on the regulators who let the fat cats and financial "engineers" on Wall Street get away with financial murder while wasting inordinate amounts of time and money on annuity "costs".)

\$300 Billion Of Losses Averted And Still No Apology

As of June 30, 2008, Americans (mostly senior Americans) had approximately \$870 billion invested in

the stock market (about 62% of the \$1.4 trillion invested in variable annuities). The market, as of the timing of this article (September 29, 2008, 4:49pm New York time), has dropped 37% from its 52 week high. Math being what it is, we were able to calculate that **the variable annuity investors are enjoying a guaranteed value \$300 billion more than the current market value they have in their accounts.** That's right. Variable annuity investors are enjoying guaranteed values (either through a death benefit or income benefit) that are **\$300 billion more than would have enjoyed had their money been invested in identical mutual funds.** Even forgetting about the tax benefits of annuities, which we have always believed was merely a secondary benefit, a variable annuity investor has protected their retirement capital much better than mutual fund investors.



Perhaps we just lit the match on a much needed conversation, but the reality is that variable annuities are better as retirement investments than mutual funds for many investors and the recent market crash just proved it. A variable annuity is a mutual fund based program with a very, very important guaranteed principal and lifetime income benefit. And the insurance component of variable annuities just paid a big dividend.

Insurance, by definition, is supposed to replace something of value that is lost. Well, we'd say that protecting \$300 billion for families or the income derived from \$300 billion is exactly what was supposed to happen. Insurance bought and insurance coverage delivered. Actually, in this case, the variable annuity investor probably got the better of this deal as most variable annuity insurers weren't expecting losses of this magnitude.

Wouldn't Most Mutual Fund Investors Have Spent 1% To Save 37%? We Think So.

Ah, yes, but what about the "extra costs" of variable annuities, as the mindless media folks might ask. Well, first, let's put it into perspective. Insurance always costs something, so, of course a variable annuity costs more than a mutual fund. Vanguard or American Funds with insurance is supposed to cost more than their mutual funds without insurance. But let's toss the media a bone and assume that the average variable annuity is costing 1.0% more per year than a mutual fund (not all variable annuity investors have the living benefit riders, so we're averaging). With \$1.4 trillion invested in variable annuities, the insurance cost \$14 billion in the last 12 months. And what was the insurance provided for the \$14 billion premium? \$300 billion in protected assets!

That's right...\$300 billion protected for a cost of \$14 billion. I'd say that most investors would make that deal any day of the week. Mutual fund investors would have saved \$14 billion but lost \$300 billion of their retirement capital.

The only sad part of the story is that most Americans do not know about variable annuities or they have been woefully misinformed by the mindless media. Fidelity alone has over a trillion in unprotected mutual fund assets...almost as much as the entire variable annuity industry! Investors need to immediately take a cold, hard look at what they are getting with unprotected mutual funds and open their eyes to the many benefits of variable annuities.

And, we'll close by sounding the bell and hope that it is like a lighthouse for a boat during stormy seas: the variable annuity "port



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during a storm" with all of the current guarantees may be going away. Why? Well, the guarantees that variable annuity insurers are now on the hook for may require them to either raise prices, eliminate the guarantees or roll them back to 1998 levels (not as valuable). If mutual fund investors want the protection that other variable annuity investors have enjoyed during the recent financial nightmare, they'd better think and move quickly.

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