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## Regulators urge caution with equity indexed annuities

By Dave Hodges  
Democrat business editor

The equity indexed annuity, a financial product that is one of the fastest-growing segments of the insurance industry today, has an appeal that resonates with market-weary investors.

The products often are marketed as a way to achieve the gains that stocks can generate, but avoid the risk of those investments. There can be the promise of a guaranteed minimum interest rate, as well as an upfront "bonus" paid to the customer if he or she must liquidate another annuity or investment to buy the new annuity, incurring cancellation charges in the process.

By far, equity indexed annuities generate the most complaints to the office of Chief Financial Officer Jeff Atwater, surpassing complaints from purchasers of fixed and variable annuities,

said Barry Lanier, chief of the CFO's Bureau of Investigations.

"Equity indexed annuities have a lot of moving parts," Lanier said. There are caps on earnings, along with various methods used to credit interest to a customer's account.

Even when the underlying stock index, such as the S&P 500 or the Russell 2000, moves 20 percent, for example, there is a participation rate that is used to describe how much of that gain translates to the return the customer sees in the annuity. "You don't get the full effect of the upside," Lanier noted.

In his own letter to Atwater recently, retired educator Delio G. Diaz, executive director of the Dade Association of School Administrators, pointed out two big limitations that surface later to penalize buyers.

"I'm hopeful that I can exit this equity indexed annuity

product with current balances intact and avoid the hefty surrender charges," Diaz wrote. "I find it hard to see how any retiree could benefit by having their money tied up for 10 years."

Walter Dartland, executive director of the Consumer Federation of the Southeast, echoed the same cautions. "I don't like equity indexed annuities," he said. "They are so loaded with fees and penalties and complex language."

Dartland said warnings and stipulations in the annuities' contracts often aren't read. "The only time people get worried about the details is

when they are about to make a purchase or a decision," he noted. That's the time to ask about fees, surrender charges and whether such a product is the best choice for you. "You can have a basket of good, low-cost mutual funds and have the same gains, plus access to your money," Dartland said.

Consumers who find they must tap that money because of an emergency or other need realize they may be facing a surrender charge of up to 25 percent. Lanier recommends taking the time to read everything thoroughly, ask questions, and get several propos-

als by shopping around.

Consumers also have the benefit of the "free look" period of 21 days from the date the annuity contract is delivered by the agent.

Because annuities are often funded using retirement plan disbursements, such as those under the state's Deferred Retirement Option Program, individuals may be approached at that time about purchasing an equity indexed annuity. Clara Cook of the Florida Education Association said many teachers find themselves in that situation and buy the annuities, not real-

izing their limitations.

"I think these would be very good investments for young people, from what I know," Cook said.

Retirees, however, give up access to their money in exchange for the ability to avoid market risk. "They are just being misled," Cook said.

"I would advise them to get a reputable financial adviser and make sure that they listen and study the things that are out there," Cook said.

For a copy of the CFO's advisory on equity indexed annuities, visit [http://www.myfloridacfo.com/consumers/guides/life/annuity\\_alert.htm](http://www.myfloridacfo.com/consumers/guides/life/annuity_alert.htm).