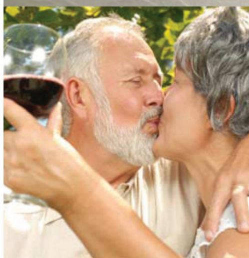
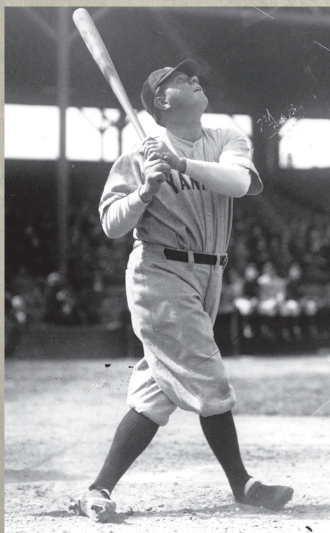
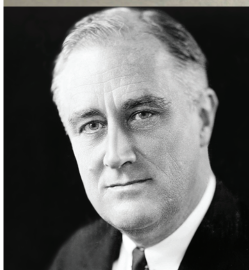
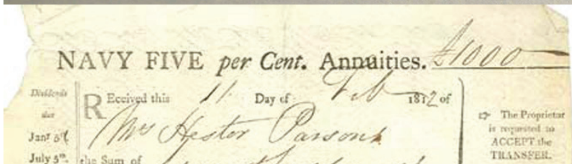
HISTORY OF ANNUITIES

The Backbone of Retirement
Throughout the History of the World









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HISTORY OF ANNUITIES

The Backbone of Retirement Throughout the History of the World

Annuities' Surprisingly deep, rich heritage and tradition built on a foundation of strength and longevity.

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History of Annuities - Part I

Introduction

Ancient Rome to FDR

How many financial instruments can claim to have the awesome, time-tested power of the annuity? Available for more than 2,000 years, the annuity has proven itself to be one of the oldest, most enduring and historically dependable financial tools on earth.

Yet, the annuity has meant so much more to the ongoing development of humankind.

Throughout the centuries, the annuity has been the financial key to the development of our modern world.

An historic builder of monuments, defender of nations and citizens across the globe, the annuity of today is widely acknowledged as the fundamental financial cornerstone for everything from the large estates to the modest retirement portfolios.

Yet, few are aware of the contribution the annuity has made to the history of the world. Few appreciate the role of the annuity in forming the political and economic shape of the planet as we know it today.

In ancient Rome, speculators sold financial instruments commonly known as "annua." Translated from the jargon of the times, annua meant "annual stipend," or annual payout, which, according to historic records at *savewealth.com*, still applies to the annuity today. Like so many other incredible innovations coming out of ancient Rome – the aqueducts, the Roman arch, the infrastructure of the Roman Coliseum – the Roman 'annua,' or annuity remains a fundamental building block for the financial security of industrial and government retirement programs, families, estates and individuals alike.

Annuities in Roman times worked in fundamentally the same way as today's more sophisticated annuity. A Roman annuity buyer made a lump sum payment. In return, the buyer received a contract that promised a fixed payment every year for his natural life. In ensuing years, annuities were modified to allow for enhanced payments for a specific period of years, called a term.

Historians believe an ancient Roman named Domitius Ulpianus was the first annuity dealer on earth. We know that Ulpianus helped create the first version of today's actuarial table, which tried to calculate the probability of human life expectancy at the time. Records show that Ulpianus and his life table calculated the eventual value of an estate on behalf of the beneficiaries of the decedent who purchased the annuity for his survivors. (Source: *annuity-insurers.org*)

For those in the annuity industry, imagine Ulpianus' life table in action. He very likely would have used his life table to make annuity sales presentations, similar to annuity and life insurance presentations today. Ulpianus and his staff would have used basically the same computations to ensure a safe, dependable level of income for his clients!

The Middle Ages

We often mistake the "Dark Ages," or Middle Ages, as a barbaric period of war and pestilence, a time devoid of progress and innovation. Yet there were exceptions to that perception. While the Middle Ages were marred by near-constant war, revolution and civil conflict, rulers of the time could remain in power only through the financing of armies to protect the people they ruled.

During the Middle Ages, the expense of war led to the widespread adoption of creative financing vehicles, one of the most popular being the annuity. Yes, the annuity was used by kings, queens and governments throughout the history of the world to finance armies and build arsenals for war. The annuity was the financial powerhouse enabling England and other nations to defend their borders, and to expand and colonize the world.

England's State Tontine of 1693

After many exhaustive and costly years of war against France, England reportedly created a financial instrument similar to the annuity. Called the State Tontine of 1693, historians still debate the creation of the first tontine, but this instrument – according to historic records at *savewealth.com* - was one of the first types of group annuity. It essentially acted like today's single-premium life annuity. Detailed records show individual citizens buying into tontines, or special annuity pools. In exchange for an initial, lump sum payment of say, 100 pounds (a considerable sum at the time), purchasers received an annuity – an annual stipend – for a lifetime. They could also give their annuities to others, by will or deed, for the lifetime of a nominated survivor.

The amount of the annual stipend, or annuity, increased each year for the purchaser's survivor, as he or she received annuity-pool payouts that otherwise would have gone to the deceased. Upon the death of each former survivor, the remaining pool of cash was evenly distributed to an ever-shrinking number of nominees. As a result, annuities for survivors grew larger until the last survivor received the entire amount of remaining principle.

Since sole-survivor annuity payouts could be quite large, word of these wondrous windfalls spread far and wide. The tontine/annuity grew in popularity because it had all the aspects of insurance with a hint of lotto-style speculation – for the possibility of become the sole surviving nominee who won an impressive jackpot of cash.

The tontine soon gave way to more sophisticated forms of annuity programs. Throughout the 16th century, governments in Holland, England and other European nations chose to offer annuities as an alternative to government bonds (source: *annuity-insurers.org*). While such annuity contracts still promised a lifetime of payouts to their annuitants, the annuity contract proceeds also began to fund a variety of government programs and construction projects. Annuity proceeds virtually built many of the ancient, enduring buildings and monuments we see today, structures that have withstood the centuries all over Europe! And they still stand today, while the annuity itself is stronger than ever before, securing modern financial portfolios worldwide.

Annuities in 18th Century Europe

During the 18th century, growing numbers of European governments sold annuities, which gave individual citizens a lifetime of state-guaranteed income. From the 1600s through the 1800s, annuities financed government projects, administrative operations and the retirement income of select government officials. Some of the earlier versions of annuities were sold at the same, fixed price, regardless of the buyer's sex or age. Obvious problems arose with fixed-price annuities for both annuity buyers and providers, leading to more refined computations for payouts and pricing structures, and a growing array of rules, regulations and laws governing annuities.

In 18th century England, for example, Parliament enacted an intricate grid of virtually hundreds of annuity-related laws, which further defined the sale of annuities and the efforts they would help fund. Wars were one obvious recipient, yet annuities went on to do much more, even helping to provide an annual allowance for England's royal family.

Through a series of Acts of Parliament, annuities became the interwoven fiber of English financial law, part of the founding statutes of the royal realm. From the Middle Ages of Anglo-Saxon England to modern-day living in London, annuities have thus been an ongoing component in English life and the law.

Kings, Queens and Acts of Parliament

Detailed recordings of annuities and related Acts of Parliament first appeared in published form as early as 1483. According to data garnered from *Annuity Museum* archives, these were bound in Parliamentary volumes of legislative sessions dating back to the reign of King Richard the III and the first sitting of Parliament. While historians note the extreme rarity of such session recordings, prior to 1713, eight such early volumes do exist today in the Library of the House of Lords. The volumes attest to the existence and vital importance of annuities, the scarcity of volumes due to the high cost of printing and the proprietary nature of the content. These volumes were meant for the exclusive use of judges, members of Parliament and other high-level government officers. Yet a precious few have

survived, and in these volumes – now carefully maintained in certain libraries and museums – details of annuities and related law abound in considerable detail.

In the historic collection at the New Jersey-based online Annuity Museum, documents show Acts of Parliament relating to the issuance of annuities dating back to 1702. Granting the government's right to fund ongoing war through the sale of annuities, these records illustrate the fundamental role of annuities throughout history.

Museum records also show that Acts of Parliament relating to annuities occurred frequently, and again in copious detail, throughout the reign of Queen Ann, specifically during the period from1702 – 1714, and through the reigns of King George I, King George II, King George III and King George IV. Parliament continued to define and regulate the sale of annuities through the successive reigns of King William IV, from 1830 to 1837, and throughout the reign of Queen Victoria, from 1837 to 1901. Even the great Bank of England owes a debt of gratitude to the annuity. In 1693, when the English Parliament created the first charter for the Bank of England, the bank would be funded, in part, by the sale of certain shares, which promised a fixed rate of return each year. Sound familiar? Putting it another way, what stock or security would promise a fixed annual return? While historic records use the term 'share' or 'stock,' these 'shares' acted much like the 'immediate annuity' of today. Early Bank of England certificates indeed use the word "Annuity" at the top of each document issued to the purchaser.

In later years, Bank of England certificates replaced the term 'shares' with the more familiar term 'annuity,' further refining annuity products and features, as providers do today. And because interest rates changed routinely with economic conditions, annuities changed repeatedly with the times. Yet, *Museum* archives note that four basic periods mark the evolution of the annuity during the 100-year period between 1780 and 1880. During that era, the English created Consolidated Annuities, Navy Annuities, Reduced Annuities and the notorious, albeit short-lived, New Annuities.

During the aforementioned 100-year period of change, the British national debt continued to grow. Colonies were added and related conflict continued to escalate as the British Empire spread to all corners of the globe. The promotion and sale of annuities flourished as a result, with Parliament ever dependent upon such a win-win money raising instrument. Yet the ever-growing variety of annuities, and variable rates of interest, caused a good deal of confusion. Something had to be done.

As early as 1751, Parliament enacted a radical consolidation of securities into one, single issue. This instrument carried a fixed, 3 percent annual rate, which lawmakers dubbed the "Consolidated Annuity." Others dubbed it the 'perpetual bond' or 'consol,' which had no maturity date and was redeemable at any time deemed appropriate by the British government.

Annuities in 19th Century England

Consolidated annuities caught on and were widely respected as a solid retirement instrument, providing guaranteed income for elderly citizens of the realm. The Consolidated annuity became so popular, in fact, that from the latter part of the 19th century into the 20th, this instrument represented easily half of England's national debt!

During the latter half of the 19th century – according to a variety of online sources - the British government introduced the "Three Percent Reduced Annuity," or simply the "Reduced Annuity," which allowed the government to borrow money at lower interest rates in other markets. These annuities were so popular and pervasive in their heyday that criminals attempted to forge their own names on Reduced Annuity certificates. Most unfortunately for the culprits, English law in that era carried a death sentence for Reduced Annuity forgery. As a result, many a criminal met the hangman's noose in Old Bailey and Newgate Prison.

In the midst of it all, for an 11-year period from 1810 to 1821, the indebted English Navy issued annuities of its own to balance the ledger (source: *Annuity Museum)*. These were hot commodities, indeed, because the Navy Annuity carried relatively high interest rates – up to five percent - fostering a ready popularity for this short-lived instrument. Naval commanders and others used the proceeds to buy needed materials and the so-called "Navy Five Per Cent" became so pervasively popular, it even found its way into English literary novels. In one chronicle, a crew member with the famed Captain Cook is shown to will a portion of "Navy Five Per Cents" to his survivors.

Another annuity of the period, and by far the most controversial, came in the form of the British "New Annuity," which attempted to carry a lower rate of return paid on the former Navy Annuity. In 1823, probably hoping to correct a deal too good to be true, the British government lowered the New Annuity return from 5 percent to 4 percent. The resulting public outcry probably rattled the windows of Westminster Abby.

Avid readers of Charles Dickens and other period authors know the popularity of annuities in upper tiers of English society of the day. Annuities were de facto *de rigueur* for high society all over Europe in the 18th and 19th centuries (source: *immediate-annuities.com*). Aristocrats and wealthy merchants knew annuities could protect them from a humiliating descent into poverty, which was common among investors in other markets, and equally common among high born 'wagerers' willing to gamble away family fortunes at the ever fashionable gaming table. Without the protective power of annuities, even the lofty echelons of royal gentry were at financial risk.

Peeking into the exclusive, curtained salons of European high society, we spy the simple truth of the times: family honor, individual reputations and legendary royal lifestyles - all were quietly preserved with the help of annuities.

Yet, despite the traditional British-Continental love affair with annuities, early Americans were slow to adopt the time-honored savings tool. Founded as early

as 1759, on the eve of the American Revolution, one of the first known American annuity producers began as the Corporation for the Relief of Poor and Distressed Presbyterian Ministers and Distressed Widows and Children of Ministers. The company provided annuity payouts for the survivors of deceased ministers (source: *savewealth.com*).

As the War of 1812 began to rage, a Pennsylvania company opened its doors to offer annuities and life insurance policies: It was called The Pennsylvania Company for Insurance on Lives and Granting Annuities. For the first time in American history, anyone could purchase annuities through PCILGA but a relative few seized the opportunity.

Early American Annuities…and Beyond

Although annuities have been sold and managed in the United States for more than 200 years, life insurance policies would outpace annuities through the remainder of the 19th century, and both instruments would be slow to gain acceptance. Given the agrarian nature of American society at the time, large, extended families lived in widespread isolation on family farms and ranches. Such extended American families cared for their elders in retirement, making the annuity's guaranteed income seem less important than it certainly is today.

As times changed, beginning around the turn of the last century, from the 1890s through the 1920s, American families became less multi-generationally focused. They might not live near one another, in a centralized geographic area. As families began to drift and spread into a more modern, mobile society, annuities accordingly began to appear in growing numbers of financial portfolios.

During the early part of the 20th century, the concept of the group annuity took hold, requiring both employee and employer to contribute to employee retirement plans. This type of annuity would add to future retirement income provided through company pension plans, with an overall goal of reaching roughly 50% to 60% of a retired worker's former salary.

Yet, the annuity's true popularity would have to wait for an explosive catalyst, one of the greatest economic disasters in global history: The Great Depression.

During the Great Depression, Americans were suddenly clamoring for stability, asset safety and security. The by-word of the era, during the administration of President Franklin D. Roosevelt, was: "Save for a rainy day." The annuity served that purpose more than any other savings tool at the time, at a time when banks began to collapse at a catastrophic rate.

Suddenly everyone ran to the staunch bastions of well-known insurance companies, which offered self-retirement plan alternatives in the form of annuities and life insurance. At the same time, companies and corporations began to see the value of safeguarding employee pension plans through annuities.

Annuities in the late 1930s and early 1940s were comparatively simple, offering a fixed return during accumulation periods, and guaranteed safety and return

on principle. Tax-deferral would become a major feature of the annuity, making compounded accumulation all the more attractive. And if those annuities had few of the features available today, they did offer a fixed, lifetime income when annuitants were eligible to make withdrawals. Or the annuitant could choose to receive payments over a set number of years.

Then we saw the advent of the variable annuity. Created in 1952, the variable annuity allowed interest-type earnings based on more speculative financial vehicles in separate accounts (source: *savewealth.com*). While variable annuities offered certain guarantees of principal, they also posed greater levels of risk for purchasers. In short, variable annuities placed some of a purchaser's earnings at risk through the issuer's involvement in securities and other investments. The variable annuity accordingly acted like an early version of the contemporary mutual fund, which began to mushroom in popularity through the 1960s, and through several catastrophic recessions, to the present day.

Circa 2000-2007: Ups and Downs, Waiting for the Tsunami

Today, after millions of consumer-level investors have lost trillions in recent markets, annuities have again begun to gain widespread popularity. As fund managers anxiously listen to the rising call for safe-haven, asset preservation in annuities, some have created separate accounts for the annuity premiums of insurance companies. Designed to cater to tax-deferred variable annuities, such accounts may be managed in a different fashion than mainstream mutual fund operations. They may offer the opportunity of higher returns, but they are essentially prone to greater risk than fixed annuities.

Regardless of the bedrock security of fixed annuities, or the more risk-oriented nature of the variable annuity, both offer tax-deferred growth and safety of principal. As a result, annuities have been growing steadily in popularity as the American mindset began to dwell on the post-9/11 effect on Wall Street - also post-9/11 terrorism, catastrophic market corrections, market adjustments, borderline market panic and the ever-present threat of a softening, recession-prone economy.

Little did we know what was to come in 2008, which is detailed in the following chapter; it will show why the annuity continued to grow in popularity, as it had in the past: The combined sale of fixed and variable annuities reached $98.5 billion in 1985, a paltry figure prior to 1999, when annuity sales soared to $155 billion. In 2007, annual annuity sales topped $200 billion. (Source: *savewealth.com*)

Annuities continued to garner larger portions of American savings, as an ever cautious generation of Baby Boomers round the last turn into their retirement years. Part of the growth came from other factors, including the Tax Reform Act of 1986, which reduced the ability of Individual Retirement Accounts to defer tax liabilities for investors. IRAs became somewhat less attractive as a result, strengthening the tax-deferred appeal of the annuity.

Annuity product features and design innovations meanwhile gave investors

new options, particularly for variable annuities. Premiums for variable annuities had increased dramatically during the previous 10-year period, competing with the upsurge of health insurance premiums. Yet the realities of annuities remained, posing basic choices for investors in the years to come.

While annuities offered a sort of insurance policy for principal, some carried hefty surrender charges and transaction costs. And while the well-publicized controversy over annuities has sometimes mistakenly included fixed annuities, the real target of criticism at the time fell on the variable annuity.

Fixed annuities are indeed monitored by insurance regulators and rightfully treated as insurance products. Critics argued, however, that the variable annuity was essentially a security, while some in annuity and insurance sales countered that the variable annuity should be regulated as an insurance product.

If the variable annuity acts like a security in the way premiums are exposed to securities markets, variable annuity providers are still required to maintain separate "reserves," or asset pools designed to preserve principal. Critics still contend, however, that the variable's line of demarcation is thin when gauging the difference between the variable annuity's securities features, versus those of insurance products. Thus, the debate over variable annuities would continue, providing yet another chapter to the uniquely ancient history of the annuity.

Growing Pains, Industry Reform

Regardless, by 2006 major *fixed*-annuity wholesalers like the Denver-based Brokers Choice of America led the American nation in the generation of annuity sales. At the same time, BCA and other companies formed industry coalitions to counter a then-rampant promotion of high-risk securities in the stock market. No one in the securities market accurately predicted the coming Crash of 2008 and the Great Recession; risk promoters continued to decry anything but rampant market risk.

Since the centuries old value of the fixed annuity placed it in the asset-savings arena, it was destined to run against the interests of speculative securities promoters. And as BCA and other firms ran a steady stream of informational campaigns to defend the historic, asset preserving qualities of the annuity, certain elements in the securities industry launched a subversive campaign of disinformation aimed at life insurance companies and annuity providers.

The result led at least one state in the U.S. – Massachusetts - to look into allegations lobbied by anti-annuity interests on Wall Street. However, after a lengthy investigation and series of hearings, the State of Massachusetts declared BCA and other insurance-related companies innocent of wrong-doing.

After the Massachusetts test was won, Brokers Choice of America continued, more actively than ever before, to campaign for improved annuity products, pushing for the creation of more consumer-friendly features.

At the same time, BCA led the charge for increased professionalism, account-

ability and ethical standards in the annuity industry itself - this to ensure against any isolated allegations of consumer abuse involving the annuity. BCA and other companies realized the risk of sitting quietly on the sidelines, allowing disinformation to mislead consumers about annuities. They also considered the annuity too important to permit any form of misrepresentation, no matter how isolated, by some rogue agent in the field.

From 2005 onward, other companies, including life and annuity producers like industry giant Allianz, joined BCA in the effort to heighten self-regulatory efforts across the U.S. Both companies formed a growing coalition with others, forging a nationwide campaign through their professional affiliates to broadcast the truth about annuities - versus any disinformation generated by risk-promoting securities consultants.

With the help of one catastrophic securities-market crash after another, from 2000 through 2007, the results of the pro-annuity campaign brought more than $50 billion out of securities and into annuities…from 2005 to 2007, alone.

By then, millions of investors had had enough. It was time to return to the by-word of the FDR era. It was time to “save for a rainy day.” Little did they know how fortunate they were! By the end of the following year, the securities market and banks that had supported the massive, mortgage industry meltdown would be in sheer chaos, on the brink of total collapse.

Thus, historic truth will always remain the best defense for the time-proven, resoundingly honored annuity.

From the height of ancient Roman society to the technological marvels of 21st Century America, the annuity has changed little over a period of two thousand years. It is, and always will be, the first and last defense for hard-wrought estates and the hard-bought life savings of working people around the globe.

Ever since the financially chaotic, post-9/11 global economy began to gather momentum, circa 2001, we all might agree on at least one, final postscript: Winds of time and human hands may carve away great monoliths of stone, but the timeless annuity will remain, so long as investors continue to covet the most rare and special commodity of all.

And what would that commodity be? Written into the Iliad and the Odyssey as the Elysian Fields, translated through time as a place called Heaven, humans continue to yearn for that one, precious place in a timeless universe. No matter how we define the name of the place, we would all agree that it would have once essential quality. We call that quality “Peace of Mind.”

With the help of rational thinking, asset preservation and instruments like the annuity, some of us just might find it.

The next chapter will explore in considerable detail the events leading up to, and through, the Great Recession of 2008. The critical, life-saving role of the annuity will be revealed along with the dramatic turn-around of critical opinion – among media and on Wall Street - and a world of investors who accordingly flocked to annuities after the crash.

History of Annuities - Part II

Darkness Before the New Dawn

At the Edge of the Abyss

The first installment of our history of annuities covered the development of annuities through the centuries, going back to ancient Rome and bringing annuities forward to the very brink of an unprecedented global economic disaster, which ironically began mere weeks after the publication of our History of Annuities Part I.

When Part I was finished, circa February 2007, who could know what was to come with such alarming speed? Only a few analysts suspected that we were on the virtual doorstep of a worldwide financial meltdown, which would lead with frightening momentum to the collapse, or near collapse, of every major bank and brokerage firm in the nation.

Led by the overnight unraveling of the once unstoppable U.S. mortgage industry, the Great Recession of late 2008 would annihilate retirement savings of many American seniors both in, and on the verge of entering, their retirement years. Millions of jobs would vanish, millions of homes would slip into foreclosure, and the horizon for economic recovery would extend well into the next decade

We all know the rest, from the backwash of symbolic developments including exposure of the Bernie Madoff Ponzi scheme – an outrageous example of securities-related fraud – to the more glaring revelations regarding the global securities market in itself, where a tradition of baseless profit projections were made without the benefit of substance. Investor savings and fortunes were lost accordingly, and the brokers responsible would one day find themselves scrambling for credibility by recommending a product they had once loathed as a deterrent to market profiteering – those very same brokers would, by necessity, rally around the humble, dependable and now irreplaceable annuity.

At the time, our History of Annuities concluded with the simple fact that annuities were at last coming into their own. After derisive decades of attack by competing interests in the securities market, annuities were, as proponents had been saying all along, not an investment but an asset safeguard with a steadily growing inventory of features, some allowing for a degree of upside market potential, others offering an increasing array of consumer friendly safeguards, all designed to protect principal and income no matter what happened in the greater market beyond.

Yet, asset safety and annuities were was still a hard sell in the early 2007 securities market, which had grown unchecked for nearly three years. Citing a cyclical near-certainty of market implosions, annuity proponents were still engaged in an uphill fight, some critics continuing to slam annuities. For the purposes of

marketing propaganda, critics still – with erroneous abandon - insisted upon cementing the negative side effects of the index-driven “variable” annuity to *all other* annuities, with the obvious goal of maintaining anti-annuity sentiments among investors they had already immersed in risky, security-based asset allocation strategies.

Then it all came crashing down, and it came down fast.

An economic downdraft hit the greed-driven mortgage market first. By the end of April, 2007, mortgage bankers, bundlers, brokers and underwriters were watching the last of an era slip away. And as the mortgage industry went into full-tilt collapse through the summer of 2008, major global banking and investment institutions would soon begin to slide over the brink, leaving governments and the very taxpayers victimized by their behind-scenes tactics to pick up the tab - through ill-conceived bailout programs threatening our financial horizon today.

Leading Up to the Big Down on the Dow

Ironically, statistical truth had always been there, nagging the momentum of greed with common sense, in this case through studies conducted by the Coalition for Fixed Products: As far back as September 1998, a full immersion investment in the S&P of $100,000 would rise to $135,000 by the year 2000. Placing the same $100,000 into a Fixed Index Annuity in 1998 would result in an FIA worth $125,000, again by the year 2000. Securities critics would gleefully point to the short-term, superior gain of $10,000 on the S&P while ignoring the historic nature equities risk, also ignoring warning signs predicting the Year 2000 market collapse soon to come.

History would present its own reality: By September, 2002, the once rising S&P portfolio above would quickly plummet to $78,000. At the same time, as of September, 2002, the FIA had not only maintained its value, it had risen to $130,000 without a moment of downside risk.

As securities advocates might eventually point out, the S&P portfolio would slowly crawl out of its own ashes, finally recovering to a value of $145,000 by early 2007. Yet, the Fixed Index Annuity had steadily grown, without investor angst, to $157,000 during the same period. And the FIA would continue to grow while, tragically, the S&P portfolio would once again slip beneath the murky waters of market volatility. By September, 2008, the S&P folio would be down to $110,000…and falling; within days, it would plummet another 29 percent.

Not surprisingly, sales of Fixed Index Annuities began to rise through the recession, underscoring the inverse relationship between FIA sales and S&P 500 returns: Basically speaking, sales go up when people worry about losing money in the market.

As the great recession took hold, high-profile opinions began to change in favor of the once maligned annuity. During the latter days of the recession, in fact, one-time asset-allocation stalwart and veteran planner Suze Orman finally said, “…for those who do not want to take any downside risk, the index annuity can

be a good option." Good advice. Times had overwhelmingly changed for the once relentless equities strategy. By the end of 2009, few investors wanted equities risk. Market volatility had already wiped out $2 trillion in retirement savings, while FIA investors never lost a penny.

Yet, through the traumatic ups and downs of a decade or more leading up to the great recession- an era spanning from the late 1990s day-trading frenzy until 2008 - wisdoms gained would have to wait for countless years of lessons learned. Then again, some held on to equities until the very end, shunning annuities until they lost it all.

At the Beginning of the End

In 1997, *Bloomberg News* would note the impetus behind a precipitous 4.8 percent one-week drop on the Dow, a rapid slide then blamed, in part, on the damage Asian markets had done on "the bottom lines of multinational companies" ("Traders anticipate a challenging time," *Bloomberg News*, 1997). Astute observers were increasingly alarmed by a globally economy growing rapidly inter-dependent on itself. If only they could have foreseen how our global reliance on other nations would grow unchecked. By 2011, even the miniscule economy of Greece (32nd in the world) would hold the fate of Western Europe and the world in limbo as it struggled to decide whether or not to adopt measures to assure its own solvency!

But the future was a gauzy horizon of optimism in the late 1990s, with all too few visionaries calling for conservative financial planning. While annuities still struggled for presence in a run-away day-trading frenzy, in October, 1997, columnists like Jane Bryant Quinn warned against remaining in stock "as we age," prophetically noting that "we have no idea what the long-term average will be." (Source: "Remember: stocks still carry risk," *Beacon Journal*, 10-27-97).

How tragically true; tragic because few would listen. In that article, market strategist Raymond Devoe warned, "Don't stake everything on stocks. Today's incredible passion for easy gain could turn into the crack of doom." Meanwhile, securities laden IRAs had become all the rage. In October, 1999, CNN/Money noted that IRAs were fast becoming "the darling of estate planners;" IRAs were, of course, heavily invested in mutual funds at the time.

Annuities advocates then touting "safe-haven" instruments like fixed annuities were resoundingly panned by securities promoters until the 2000 crash - when historic events would have investors briefly running toward a landscape of common sense. After the tech crash of 2000 and the more startling post-9/11 market crash in 2001, a bear market would continue to topple gains in equities markets through 2003. And by December 2002, the *AARP Bulletin* would declare, "Annuities Bounce Back." Skyrocketing sales of fixed annuities had Americans pouring "more than $50 billion into fixed annuities during the first half of 2002." It seemed as if skies were clearing for the pro-annuity message of principal preservation in favor of guaranteed income.

Earlier that year, growing choirs of media pundits including *Beacon Journal*'s Scott Burns were quietly beginning to pose questions about equity laden portfolios. Burns cited the "unexamined solution" of lifetime annuities, while contesting 1995 projections made in a *Worth Magazine* article by Fidelity co-chairman Peter Lynch. In Burns' article, Lynch was quoted as saying, "…you could retire with a 100-percent stock portfolio" and "safely withdraw 7 percent a year for the rest of your life" (*Beacon Journal*, 8-23-02). The Lynch strategy represented a brand of reckless optimism that would drive equities into the crash cycle fueling the 2000-2003 bear market.

Yet, after 2003, within a couple of short years after the bear went into hibernation, securities promoters would be at it again and investor memories would fade. Maybe the short-lived bear market had been a blip on the radar, after all. For some, notions of safety would accordingly take the back seat to risk once again. The intoxicating lure of greed would pull them back into risk.

For others, however, a series of minor "corrections" would signal a new reality. A new minority of investor was not so eager to again buy in to the golden dream of Wall Street. Instead, they would quietly begin to ask for annuities, demanding more innovation and flexibility, which would eventually challenge carriers to respond.

By 2005, amidst the rising contention between opposing securities and insurance camps, a new generation of annuities - then called Equity Index Annuities – were entering the marketplace. Increasingly wary of market volatility, investors wanted market participation while having the ability to lock in their savings, and periodic gains, against future losses. A few insurance carriers accordingly responded to the call with innovative instruments that did just that. EIAs guaranteed a minimum rate of interest, gave investors additional earned interest based on index activity, and provided protection against loss of principal. In August, 2005, the *Christian Science Monitor* reported that EIAs then accounted for a tenth of sales in the $218 billion annuity market, and EIA sales were growing (*CSM*, 8-21-2005). Unfortunately for securities brokers, rising EIA sales reduced the number of potential trades, prompting brokers to claim that EIA sales should be controlled (and accordingly limited) by the securities industry – even though EIAs were annuity/insurance contracts following strict guidelines imposed by state insurance departments (securities brokers would eventually lose that fight).

As the debate gained momentum within the financial services industry, investors ignored the controversy and continued to leap on the EIA band wagon. Mauled by the bear market of 2000-2003, crash-weary investors drove EIA sales to $23 billion between 2003 and 2004, for an explosive 66 percent increase in sales with projections calling for further growth to $28 billion by the end of 2005. (Source: Compendium Advantage.)

By the end of '05, Morningstar headlines shouted, "Retirees Turn to Annuities for Retirement Planning - Annuities Give Investors the Security and Income Needed for a Worry-Free Retirement." Morningstar also noted that "nearly half" of all retirees were unable to meet their regular expenses in 2005. Citing the need for retirees to save in a safe, supplemental environment, Morningstar touted annui-

ties as *the* most sensible way to protect savings. (Source: *Morningstar,* “Retirees Turn…” 11-17-05)

The tide of media sentiment was slowly beginning to turn in favor of the annuity, despite an ongoing campaign of roasting media criticisms many consider the behind-scenes work of securities traders.

Who’s Minding the Store?

Unfortunately, too many investors were listening to anti-annuity propaganda, being driven further into risk by openly unscrupulous advisors. Even the National Association of Securities Dealers (NASDQ) expressed worries in 2006 that certain brokers were avoiding proper disclosure to customers – brokers camped in bank lobbies, in particular. While certain bank “investment advisors” were cheerfully failing to tell customers that bank-promoted investments carried more risk than CDs, an efficiently manipulative conversion system was clearly in force in many banks: When a customer’s CD was about to mature, the customer would be steered toward risky securities by bank-affiliated broker-dealers, and it worked much of the time. Using the bank environment to assure customers that bank-related investments would always be protected, one financial advisor reportedly told her variable annuity buyers that their money “wouldn’t be invested in the stock market.” NASD would bar that advisor from trading for such claims, but such abuses were rampant at the time. (Source: *Wall Street Journal*, “Concern Over Brokers at Banks,” 10-28-06)

Unbelievably, such practices persist today in some banks, but even in late 2006 the word was getting out about safe alternatives to security oriented products.

Reliable sources continued to sort out the differences between good and bad annuities, although their voices were often left to the wayside of mainstream media in obscure industry publications. Noting, for example, that variable annuities were securities putting investors at risk, industry publication *Retirement Source* called variables “mutual funds inside an insurance wrapper”. Noting a “vast difference in the appropriateness” between variable annuities and the newer, more consumer-friendly immediate annuities and certain fixed annuities, *Retirement Source* prophetically cautioned against the “erratic movement” of equities markets and unusually low interest rate environments. The observation was made in early 2006, only a year before the impending mortgage meltdown. (Source: *Retirement Source, 1-27-2006)*

To the eventual detriment of individual investors, many of those in mainstream media still ignored the vital distinction between variables and a new generation of annuities designed for some growth, immediate income and, above all, protection of principal – this at a time when even top experts including Fed Chairman Ben Bernanke failed to see the full brunt of the incoming recession. Media meanwhile continued to slam annuities in favor of so-called balanced “asset allocation” strategies, which had been traditionally based on securities, and too many critics failed to see the light: As we all know today, annuities protect cornerstone retire-

ment assets from catastrophic loss when global markets plummet into the abyss.

But this was 2006. Markets didn't crash in 2006. Many people used a second mortgage on the home they couldn't afford to buy even more stock they knew little about.

Yet, with or without media endorsement, many investors had seen the light, thus illustrating an increasing gulf between the reality of market loss and mainstream financial wisdoms of the day. In May, 2006, the *Wall Street Journal* reported that $1.8 trillion had been placed into annuities to date, a figure nearly equal to the $2.1 trillion then embedded in 401(k) plans (*Wall Street Journal,* Appetite for Income, 5-13-06).

A traditional and often staunch advocate of securities-based strategies, even the *Journal* began to suggest deferred, immediate and fixed annuities as a strategic alternative to conventional planning. Perceptive readers began to take note. Given the explosive numbers of sales – a full year before the first salvos of the Great Recession hit Main Street, USA - visionary financial advisors were obviously guiding their clients away from securities-ridden 401(k)s, urging conversion into instruments like the emerging Immediate Annuity, a single-premium instrument safeguarding steady, guaranteed income.

Bernanke Flees from Equities

Talk about writing on the wall.

Few investors spotted what should have been a glaring headline in the July 26, 2006 edition of *USA Today,* which read, "Bernanke Plays it Safe With His Finances." As if to promote the growing flight into annuities, Bernanke reported that his own retirement portfolio was soundly entrenched in *two annuities*, along with some Canadian Treasury bonds ("Canadian," mind you; Canada weathered the recession fairly well compared to other nations) and a smattering of "no-frills U.S. Treasury securities."

Bernanke went on to reveal that the largest chunk of his assets were in the two annuities, one being a TIAA Traditional, another in a CREF Stock Large Cap Blend, each of which were valued between $500,000 to $1 million. The value of Bernanke's assets at the time ran between $1.14 million and $2.39 million and his annuities clearly dominated his personal portfolio.

How much encouragement did people need to adopt safety over risk? Well, again, this was 2006.

Around the same time, it was also revealed that former Fed chairman Alan Greenspan kept his investments safe while heading up the central bank. So, what did these two financial sentinels know that had escaped the rest of us? Hint: How many times did we hear Greenspan fret over an overheated lending market and rising consumer debt?

"The Moment" Before the Crash

As sub-prime mortgage lenders enthusiastically enabled sub-average wage earners to buy $900,000 McMansions, the same home buyers then refinanced their homes to buy shiny new BMWs, and wide-screen TVs, and the loan-to-value gap kept growing.

It may seem incredible now, but consider the moment: The DOW hadn't "gone without a 2% decline for seven months, the longest stretch since 1954," according to Yahoo's online *MarketWatch,* and neither the DOW or the S&P 500 had been hit with a 10 percent correction in nearly four years, another historic "stretch" that had occurred only once, prior to the dawn of financial humankind. In short, we were nestled in a quiet moment of extraordinarily high consumer debt and runaway excess in lending standards – at a time when market volatility was curiously low. Looking back, the situation seems unnerving today, but few at the time saw such conditions as being rife with potential for a perfect storm. Yes, a growing number of investors were flocking to annuities. As for the rest…

Moving now into February, 2007, Yahoo's *MarketWatch* and other publications still followed the status quo, advocating "a diverse allocation," which can hold up under normal market stress. Conventional wisdom thus insisted that broadly invested portfolios lose less in market downturns and recover more quickly. Of course they do, when we're talking mere "downturns," but we all know what happened next.

Don't blame *MarketWatch.* It was merely following traditional wisdoms held dear by so many personal-financial publications from *Worth* to *Money* – all of whom were, at the time, keeping their distance from a rising call to annuities. Such a thing was still out of vogue. After all, placid markets offset by banks bloated with vacuous paper-value had been *de rigeur* for years. In 2007, while his own portfolio was comfortably anchored in annuities, even Bernanke was preoccupied by the looming wave of some 78 million incoming baby boomers - who were ready to demand their well-earned Social Security benefits.

Unfortunately, the time-honored entitlement system had had its surpluses repeatedly stripped by Congressional "borrowing," which had given President George W. Bush a regular gardener's sweat. Bush had been one of the first U.S. presidents calling for Congressional endorsement of private retirement accounts to offset "losses" in Social Security revenues. Since the concept suggested private investment in securities over Social Security contributions, the idea soon withered on the vine after brisk resistance on both sides of the aisle.

But then, Bush had another idea, one favoring the safe, secure preservation of retirement assets. In short, he would suggest that all Americans put at least part of their life savings into annuities. This little known call-to-action was made by executive resolution to Congress. It was a short-lived call quickly stifled by the prevailing political noise of the day. If only we had listened as a nation.

Yet, Bush wouldn't be left alone in his vision. Within a few short years, an incoming president would make the very same call with greater urgency, again

naming annuities, specifically, as the answer to future economic upheaval.

Annuities Rule

Then the perfect financial storm began to bloom into a full-blown typhoon. It was 2008. People were losing the McMansions, the BMWs, the wide-screens – and people were losing entire retirement portfolios as well.

As if an entire era had been swept aside, as if some giant hand had drawn back a curtain to reveal a new playing field, prominent publications like *U.S. News and World Report* were no longer acting like the traditional annuity bashers they had once been.

In June 2008, as the entire global economy glaringly teetered at the edge of the void, *U.S.News* advised people with "million-dollar" nest eggs to pump $800,000 into an "inflation-protected annuity that would pay out $45,000 a year." It advised that the remaining $200,000 be set aside for medical emergencies and the like, and annuities suddenly ruled the day after years of being lambasted for lackluster performance. (Source: *U.S. News and World Report*, "Is $1 million Enough to Retire On?" 6-10-08.)

Lackluster annuities? Hardly. Looking back over a 5-year period spanning the tail-end of the bear market in 2003 and ending in September 30, 2008, industry studies show that "the average index annuity credited 5.42 percent annually for the five-year period" while the "annualized return for an S&P 500 index fund returned only 5.05 percent. (Source: *Insurancenewsnet.com,* "Are Index Annuities Investments? No, Thank goodness!" 11-7-08).

During the same study period, annuities allowed investors to enjoy one of the annuity's most endearing traits: Annuities never lost a thin dime or a cost their owners a good night's sleep. Investors enduring the unending white-knuckle ride on the S&P could hardly say the same. As previously stated in this report, by October 27, 2008 - a month after the end of the study period - the S&P lost yet another *27 percent* of its value as the rest of the financial world began to burn.

According to the study, consumers who placed $100,000 into an average index annuity in September, 2003, would have had $130,000 on October 27, 2008. Those riding the S&P would have been down to $93,237. Yet some continued to fiddle as the citadel went up in flames.

A popular warning favored by securities brokers held that annuity carriers were insurance companies, and because they were companies, insurance companies can go bust like any other company. Yet, as *Time/CNN* revealed in a 10-10-08 report titled "How Safe is Your Insurance Company," at the very moment Bear Sterns, Lehman, Wachovia and Washington Mutual were slipping into oblivion, most major insurance companies were "in little danger."

In the midst of the most frightening financial debacle in modern history, Insurance Information Institute president Robert Hartwig assured the nation that lives, homes and properties were still covered. "We have the cash to pay claims,"

Hartwig said with benign calm, while *Time/CNN* endeavored to explain that, unlike banks, insurance companies are tightly regulated and required to carry vast cash reserves in order to pay off policies, should any one company ever fail. The *Time/CNN* report also noted that insolvency among insurance carriers is "quite rare" and most common among small companies overwhelmed by natural disasters - not annuity payouts.

Media, Experts, Consumers – Turn to Annuities

By late September, 2009, the tide began to turn in favor of annuities. National financial commentators like Clark Howard were now careful to note the difference between variable annuities and other annuities. Howard stated that "index funds blow away variable annuities over 80 percent of the time" and consumer-leveraged annuities were finally all over the news.

Jim Cramer, host of CNBC's popular "Real Money" segment was by then plainly stating, "If you want to retire at sixty, I would put more than half of your retirement money into fixed income *in your forties*. In your sixties, unless you keep working, fixed income should dominate. Only as you get closer to needing the money," Cramer continued, "your caution should take hold so that you don't let a lifetime's worth of savings be wiped out by a swift downturn in the market, right before you need the money."

One time asset-allocation advocate Suze Orman seems to favor certain index strategies, although modified from other eras to incorporate annuities. In her book, *The Road to Wealth,* she said, "If you don't want to take a risk but still want to play the stock market, a good index annuity might be right for you." FYI: A reader told Orman that a financial advisor was recommending a *variable* annuity for retirement accounts and asked Orman what to do. Orman replied, "Get yourself another financial advisor, pronto."

As the recession ground into even more unsteady turf through 2010 into the entirety of 2011, it was a new day for what the *New York Times* called the "Unloved Annuity." Citing a pending initiative by of U.S. President Barack Obama, *The Times* announced that the annuity would get "a hug from Obama" in the form of promotion by his administration. Stating that an annuity allows consumer income "to pick up where Social Security leaves off," *The Times* reported that "the (Obama) administration was looking to promote 'annuities and other forms of guaranteed lifetime income,'" noting a "stunning turn of events" for a previously unloved product. (Source: *the New York Times,* The Unloved Annuity Gets a Hug From Obama, 1-30-2010.)

Investors everywhere began to wake up and love annuities.

Former annuity critic *Investment News* chimed in circa January, 2010, touting the "widespread use of immediate annuities" while predicting an increase in sales for immediate annuities and whole-life insurance policies. Quoting a one-time unlikely source in the guise of Edward D. Jones, Jones' spokesperson Merry Mossbacker said immediate annuities provide "an amount you can count on, and

a way to look at necessary expenses and fund them with a predictable income stream." In the same report, *Investment News* noted a mass exodus from variable annuities "at the darkest point of the financial crisis in 2008." The report also noted a downward slide in traditional fixed annuity sales through 2009, predicting a continued drop through 2010, which occurred because the ever-changing modern annuity was changing once again. Industry observers were expecting "a wave of new developments," said Investment News, "including hybrid products… new ways to pay for living benefits…pairing qualified long-term care insurance riders with fixed annuities" and more. Word about the modern annuity's flexibility was finally rising in mainstream media.

The Annuity Reborn – Beyond 2010

In February, 2010, *Businessweek* announced a burgeoning new trend among mutual fund companies. Mutual funds were suddenly adding annuities to their equity driven retirement accounts while President Obama called for new rules allowing annuities to be added to 401(k) plans – which had once been dominated by securities.

Insurance companies like MetLife and Prudential were clamoring to get into the $1 trillion target-date 401(k) market by adding annuities to the mix. The motive was obvious: More than $6.8 trillion sat in American 401(k) retirement accounts. If annuities carriers could claim just 15 percent of those assets, they stood to gain a $1 trillion market share. (Source: *Businessweek,* "Insurers Test Market as Obama Opens Door for 401(k)s," 2-9-10.)

Soon after, *Forbes.com* quoted mutual fund planner Christine Fahlund, then at T. Rowe Price, who said that for retirees without a great deal of assets, immediate annuities "…have a real place in a retirement portfolio." Coming from T. Rowe, which did not sell annuities at the time, the statement signaled a change of heart in the equity camp. The *Forbes* article even went on to draw a line in the sand between the new generation of modern annuities and, at last, "the bad kind," being what *Forbes* called "a high-fee variable deferred annuity." At long last, competing industry spokesmen and key media outlets were beginning to publicize the distinction between variables and the new generation of immediate annuities and the rest. (Source: *Forbes.com*, "Annuities Aren't All the Same," 3-29-10).

After decades of reporting about the advantages of equity-based financial planning – avoiding mention of annuities altogether – a 2010 *Money Magazine* article favored annuities as an optional component of 401(k)s "since they would allow more workers to turn some of their nest egg into guaranteed income for life." The article went on to say, "We should encourage people to focus on the (401(k) income…rather than their balances." (*Money/CNN,* 3-9-10)

Talk about a change in perspective. American investors had been trained from birth to obsess about the size of their retirement savings, as opposed to the guaranteed income their savings would provide. While the latter had always been a cornerstone of presentations by the best annuity reps, until 2008 the concept had been a hard sell, tempting some annuity presenters to avoid mention of the word "annuity" altogether until the end of their presentations. Such tactics have since been abandoned by prudent producers, given the way people now embrace annuities. After all, annuity presenters and their customers now have a solid

legacy of expert opinion behind them, and historic precedence to back the true virtue of annuities.

Annuities have indeed proven themselves to be the only real protection against financial annihilation in the worst of times. This has become an undeniable truth in the wake of the great recession.

Even long-time annuity adversary *The Wall Street Journal* would join the cheering section with a series of annuity articles published around the same time period, one calling for retirees to convert "retirement assets into an immediate annuity." At that moment in history, on March 12, 2010, the *Journal* reported disturbing facts that remain fairly well-established today: 29 percent of retired Americans had saved nothing to support themselves; another one-third had saved $50,000 or more – but hardly enough to provide a sustainable lifetime income in retirement; nor were some 40 percent of working Americans saving for retirement at the time.

In the wake of a major bull market that essentially ran from 1982 through the 1990s, American retirees should have been wealthy by then. But, from 2000 to 2010, a period of unforeseeable corrections and market implosions would lead to financial devastation for seniors across the board. By late 2009 into 2010, annuities had improved to the point of becoming the preferred retirement tool for many retirees. Consumer complaints about indexed annuities, in particular, had dropped nearly in half during a two-year period between 2007 and 2009, which industry observers now attribute to improved disclosure, better agent training and carriers energetically getting "rid of bad agents" while making their products easier to understand.

Not surprisingly, a new world of opinion had formed around the annuity.

"Guaranteed, Guaranteed, Guaranteed Retirement Income," screamed a September, 2011, headline in *Fox Business* News. The opening statement simply read: "If you are retired or soon may retire, the preservation and protection of your retirement savings is critical." The article went on to outline the attributes of a contemporary fixed indexed annuity.

Within the same month, *Money* suggested that retirees might be able to get more from their portfolios with annuities, pointing to key attributes of immediate-fixed and immediate inflation-adjusted annuities.

And the kudos kept coming from experts finally speaking out in favor of annuities through all of the major media outlets, from Tribune Newspapers to MarketWatch – which ran a 6-11-11 article titled "Retirees need fewer stocks, more annuities," pure and simple. Then an endorsement for annuities finally came down from Dow Jones' very own *Barron's* financial weekly newspaper.

To sum up the raging onslaught of criticism that had been volleyed at annuities for more than a decade before the crash, *Barron's* simply said, "Annuities, maligned for years as expensive gimmicks, are now shining in a big way."

Coming from the DOW, the statement was historic. After the securities industry had waged an all-out subversion campaign against annuities since the turn of the century, *Barron's* put all speculation to rest when it added, "The basic features that critics used to blast as too costly – downside protection and guaranteed payouts – have paid off spectacularly for folks…through the stock market collapse and the subsequent volatility." Addressing the fact that "we've come from thinking that stocks and bonds were the answer to everything, to worrying about how to arrange for monthly income to age 80 and beyond," a Barron's source

put it bluntly: “Annuities can take away that worry.” (Source: *Barron’s* financial weekly, “Best Annuities,” 6-10-11.)

Vindication for Annuities

As if those of us in the know haven’t known all along. We pointed to historic cycles, we tried to plead with investors, we sounded gongs and made dire predictions based on fact. But that was then.

We now have a host of new advocates who would hopefully carry the torch of experience into the next fragile moment on the financial world stage, when markets will inevitably tumble into yet another chasm.

This time around, we will have an arsenal of solid experience, expert testimony and common sense to keep the rest of us from taking another fall.

We will have the History of Annuities to guide us.

The History Of Annuities - Part III

The Age of the Annuity

Historic New Beginnings

Having taken the history of annuities from Ancient Rome through Victorian England and onward through time, including the tumultuous pre-recessionary years leading up to the great crash of 2008, we have finally moved into what I call the Age of the Annuity.

This is going to be an outstanding era for annuities, one that has been a long time in coming due to a number of factors, First and probably foremost, we finally have a newly "educated" investor, one who has taken an incredible beating - not only from sheer market losses but from the gut-wrenching up and down roller coaster ride of market volatility – both in the pre-recession decade leading up to the crash and in the post-crash, recession-wracked era from 2008 until today.

At this writing, we're finally beginning to see some positive signs on the horizon related to potential economic growth, but let's face facts: Investors have been worn down to a state of extreme caution, feeling like veteran boxers in a boxing ring who have suffered the punch-and-jab, punch-and-jab effects of a seemingly unending beating on Wall Street. During the latest and most punishing ride, beginning in 2008, we have all become painfully aware of the effects of economies beyond our own shores and how they can affect our own domestic economy in the U.S.

Investors have accordingly become suspicious of taking on any kind of market involvement, and rightfully so. They now realize that they live in an uncertain world, and they also realize that traditional financial planning concepts are not necessarily holding their own: The weather-beaten "buy and hold" concept, for example, is now seen as "buy and hope." Meanwhile, the still very erratic up-and-down volatility on Wall Street has a new spin, if you will. Now they call this erratic volatility "The New Normal."

I call it the "New Nervous."

Due to the financial beating many of us have taken during the past few years, and because of the emotional turmoil we have been forced to endure – both well before, during and after the Crash of '08 and '09 – and because the traditional financial belief systems are essentially off the table, the New Nervous has taken hold among an increasingly significant group of investors world-wide. Even if American markets maintain a steady path of improvement, we cannot deny the looming specter of global economic markets we cannot control.

Taking a frank look at our own, massive national debt *and* a deeply unsettling level of debt world-wide, today's consumer understandably looks for a new level of certainty, guarantees and predictability in his or her financial plan.

This is why the annuity has come of age. You can hardly open a respected financial magazine or tune into a major financial television news network without seeing an onslaught of advertisers touting their new array of annuity products. This would not have been the case in 2007, when the latest, hot-stock pick ruled the consumer mindset.

As for media coverage, right now, *today*, almost every financial industry magazine now features some kind of article about annuities on the front cover. Now, we are also seeing a fresh explosion of web sites containing all sorts of information about annuities. All sectors of financial services industries have meanwhile begun to embrace annuities, adding this important tool as a critical cornerstone – if not a dominating feature – of retirement planning strategies for the coming century. This is what is happening. This is the Era of the Annuity.

When you have had government agencies, like the General Accounting Office, and executive administrations of both the Bush and Obama years recommending and endorsing annuities for retirement, we're obviously in a new era of *perception* about the annuity – as compared to years past when high flying stocks and their promoters downplayed the value of annuities, even though annuities were there all along to protect assets, provide modest growth and guaranteed income for, at least, a portion of retirement portfolios. Back then, it was all about risk and we learned a hard lesson during the transition from a runaway day-trader environment to one of bank failures and a global economic crisis: The latter *still* impacts market activity at this writing and, in my opinion, it has an ominous potential to continue to keep investors on edge for years to come.

What's different about markets today? The difference is a better understanding of how annuities work and what their role can be in retirement planning from here on. In only the recent past, various financial service industry distribution channels – Wall Street and the media, for example – did not seem to understand annuities. While disregarding the intrinsic value of annuities (asset preservation, guaranteed income, etc.), they simply were not knowledgeable about the way annuities truly work. They didn't like the image of so-called stodgy old annuities. After all, went the conventional thinking of market promoters, how could products being offered by institutions – by these mere *insurance companies* – how could they offer anything even remotely dynamic? How could an insurance carrier create something innovative, something solution-oriented for the inevitable effects of an oncoming tsunami in the global economy?

How, indeed, could these stodgy old insurance companies come up with a sensational retirement solution? So went a conventional line of thinking among some in the securities trade.

Even today, the conservative insurance industry is not thought of as the ultimately sexy, investment product manufacturer. Yet, insurance companies <u>have</u> become innovative and creative in addressing the plight of the consumer. They have been, perhaps, the most successful group in financial services when it comes to recognizing the sheer magnitude of the number of people coming into retirement. Yet the hidden problem lurks within the issue of longevity. People will be living longer than ever before in world history, which will pose yet unseen

hurdles for governments faced with providing for an exploding senior population.

In 1850, life expectancy was 39. In the Year 1900, life expectancy was 47. As recently as 2006, life expectancy was 77. That said, a 65-year-old man today can expect to live until 83. A woman turning 65 today can expect to live to an average age of 85. In fact, *one out of every four* 65-year-olds today will live past 90.

Let's face facts: We're living longer and longer, far longer than governments and even the most astutely specialized financial expertise can adequately prepare for. I say that because advances in medical science have obviously had an impact on longevity: People are living beyond 90 into their 100s with startling regularity – a good thing if you don't out live your income.

In the year 2015, there will be approximately 105,000 people living beyond the age of 100.In the Year 2030, it is expected that more than 208,000 people will live beyond 100. By 2050, more than 600,000 will be alive and kicking in the 100-plus age category.

If 2050 sounds like a distant place in time, consider that today's 60-year-old may very well be around by then, trying to blow out 100 candles on her birthday cake!

Back to present, if one in four 65-year-olds live to age 90 – one in four! - how will we come up with the cash to sustain them when their retirement plans fall flat – when they run out of money? The absolute necessity to head off this looming dilemma can be found today, in my opinion, in the form of various types of annuities providing lifetime income. Yet, another more pressing issue concerns more and more retirees today:

As they enter retirement into what some consider the largest single group of retirees in U.S. history, they now want something in greater abundance than ever before: They. Want. Lifestyle Security. "Lifestyle security" is going to become a major catch-phrase in the coming years, mark my words. Not surprisingly, the new, and most significant, category in financial services will become "Lifestyle Security Planning," which may sound like a simple concept, but it took a cataclysmic failure among world banks, annihilation of stock portfolios across the board and the enduring years of what we now call The Great Recession to shake the financial industry to its timbers. It is therefore no small wonder that consumers have steadily fled, in droves, from the traditional risk-based equity environment to one of security.

The Defining Difference Between "Then" and Now

Here's the fundamental difference between then and now: Back then, only a small minority of visionary investors saw the writing on the wall; they demanded security, no matter what might happen to the economy. Back then, during some of those years, it seemed as if outrageously overvalued stocks and real estate-related securities would never cease to grow in value. Given the temptations of the time to dive back into risk, it took vision and commitment to stay the course with guaranteed safety of principal and future income. But it paid off for those

visionaries, did it not?

Today, vast numbers – in fact, a growing majority – of investors accordingly want lifestyle security to be the cornerstone of their overall retirement plan. Yet, here's a rather amazing new development in the world of annuities: With some annuities today, we can have our cake and eat it too. While lifestyle security planning allows for a foundation of lifestyle certainties and guarantees, it also allows for a degree of growth. First, it allows for a guaranteed income that you cannot outlive - a guaranteed income impervious to global economic swings. Yet now, you can even get competitive returns with some annuities, without having to risk your money. Let me explain:

As investors and their advisors continue to discover the powerful emotional advantage of guaranteed income, another interesting phenomenon is unfolding and this is really important: Consumers for years had been weaned and conditioned into thinking that they had to risk their money in order to receive returns. In the Age of the Annuity, they are now discovering, through different types of annuity products, that they can get competitive returns through index participation, but, again, without market risk.

In my humble opinion, these products should still be looked upon as the conservative foundational approach to your retirement planning, not as a high-performance vehicle. That's also very important. While existing and emerging annuity products are offering fairly decent returns, the growing annuity culture looks for *conservative* returns simply as a fundamental foundation for retirement planning. A newer generation of annuities has been doing just that.

Age of Annuities Powered by Information

This is reason we are in the Age of the Annuity, and I predict that we will see a strengthening Age of the Consumer as well, because consumers can now instantly access an avalanche of information about the pros and cons of any investment. The ever-growing number of web sites and blogs, and the sea of information coming out about annuities, expose every kind of imaginable detail, fact and question about annuities, on virtually every front. *The Hidden Truth About Annuities* is just one example

The entire financial media including TV, radio, newspapers and magazines are now compelled to talk about annuities. The *Wall Street Journal, New York Times, Money Magazine, Worth Magazine* and all manner of trade and consumer financial magazines now cover the value of annuities on a routine basis. Only a short five years ago, during an age of risk, annuities were largely ignored! How differently we have begun to think about retirement planning since the crash.

Popular financial celebrities and personalities must, by popular demand, discuss and provide information about annuities in their books and talk shows. During the past couple of years, financial expert Suze Orman noted that if your advisor should advise against looking at certain types of annuities, she suggested that you might consider getting another advisor. Since the crash, the turnaround

in professional and public opinion has become just that pointed regarding annuities, and the change has come since a collapse of financial advice centered on ways to capitalize on the market, through all of its ups and downs.

Well-meaning advisors sought to 'stay the course' in risk, not knowing how far down the market term "down" could really mean. To be fair, who knew?

One thing is certain: We now know that annuities are back in vogue and here to stay with a growing clientele. There are, amazingly, hundreds of thousands of inquiries per month on the internet regarding annuities, and the numbers of inquiries are growing every day - this according to specialists in search engine optimization, who provide these figures on a routine basis. And while that number is expected to grow in the coming years, the increasing accessibility of readily available of information about annuities is enabling the consumer to make more intelligent decisions and judgments regarding annuities – especially about all of the different types of annuities. Today, in advance of making more formal inquiries, consumers can get a fair idea of which annuities are best molded to their individual situations.

In addition, the new avalanche of information can now address all sorts of available features in annuities, their different levels of surrender fees and other factors, for example, much of which had once been left to disclosure by representatives in the field, reps who had variable levels of consumer teaching abilities and understanding of individual products themselves. So, I think the new avalanche of freely accessible information, coming from a widely available number of objective sources, will be a boon, not only to the consumer but to the annuity industry itself – which stands to benefit from a better informed consumer, and a better informed representative.

A "Symphony" of Benefits for a New Era

The innovative "symphony" of annuity features now includes something called "living benefits," which can partially pay for long-term care costs, among other things.

The first company to create a long-term care benefit for a fixed annuity was Guarantee Income or AnnuiCare, and that was only eight to 10 years ago. AnnuiCare's innovation would be one among many to come down the pike.

I've have always advocated that annuities should be a multi-faceted financial planning tool, which can be utilized to solve a variety of financial problems. As I have watched and mentored this industry through the years, I have seen the annuity gather strength as a capital preservation planning tool, an income planning tool, a tax reduction planning tool, a capital appreciation planning tool, a protection from market volatility, and a beneficiary planning tool.

That said, it is no small wonder that the annuity is essentially becoming the top, longevity risk-management planning tool in the financial world today.

The New Emphasis: Distribution vs. Accumulation

Not so long ago, millions of investors emphasized the need to accumulate wealth, basically how to put money away every month to have a retirement nest egg. Therefore, many of the financial planning products were set up to accommodate retirement *accumulation* planning.

Now, we're on the other side of that equation for a huge number of investors. Now, we have those who had been in accumulation funds – especially in IRAs and 401(k)s – who are now leaving the accumulation phase to start a sort of 'de-accumulation' phase, which some of us call an 'income-distribution' phase. With or without the crash, I think this moment would have inevitably come along in the history of the financial services industry.

The shift from accumulation to distribution is simply a reflection of our aging society, meaning: More and more boomers are coming of retirement age by the hour. They are being forced to make new and decisive moves regarding their income planning.

If you are an experienced financial advisor today and you're sitting down with people who might have been in their 30s and 40s when you first met with them, they are now in their 50s and 60s, and you, the advisor, may be in your 50s and 60s, like your customers. And now they're asking new questions about planning for income rather than accumulation, aren't they? Of course they are! Now they have to take into consideration the economy, the world environment, the sovereign debt crisis – all factors that have additionally put the annuity at the forefront of retirement planning.

The Annuity Solution to Historic Debt

Pundits call it the "sovereign debt crisis."

The sovereign debt crisis is simply the $15 trillion of debt and the $70 trillion of unfunded liabilities we now face in America, alone. While the American debt clock is ticking away at $15 trillion-plus – fueled in part by liabilities including Social Security, pensions and Medicare – our American debt-clock is ticking and attached to an economic time bomb. Just this sort of time bomb has already exploded in Greece, after years and years of irresponsible government spending and expansion in that country. Yet, we Americans somehow tend to consider ourselves immune to the same phenomenon. More troubling are overseas economies approaching the same level of economic hardship seen in Greece - the same sort of thing is about to explode in those countries.

Like it or not, economic meltdowns in other nations will pose a variety of ramifications that will impact every individual of every age in America because in the United States, we have several ticking time bombs of a similar nature. We also have a society becoming more and more dependent on our state and federal governments. With fewer people stepping into the work force, more people are going on Social Security and runaway spending is in effect. We have a time bomb

in hand and no cohesive plan to defuse it – which is all the more disturbing to me.

On top of all present realities, we have a dysfunctional Congress enmeshed in persistent gridlock. This situation may continue indefinitely as a disturbingly indifferent political culture continues to attend to personal/individual agendas - agendas driven by lobbyists and special interest groups, which all too often seem to have little interest in the needs of American voters.

Due to all of the above, and more, consumers want assurances. They want guarantees. At the same time they want accessibility to their money, AND if the markets rebound, they want to capture good returns as well. So, by a process of sheer natural selection, we have a new Age of Annuities, and a new age of consumers. On the consumer side, it's a wonderful time to have instant access to the pros and cons of any financial decision they need to make. This type of information is now widely available for annuity issues and concerns.

There is absolutely no doubt that investment advisors and investment brokers are embracing annuities. We know that they, too, are adding annuities to their overall recommendations.

All of the above are part of a prediction I made years ago: I knew that one day, given the inevitable historic truths about market cycles, many of the traditionally hardened investment/risk advisors would be compelled to look at fixed index annuities as a missing asset class. This prediction has come to pass. In fact, a book now in book stores called *The Missing Asset Class*, by J.R. Thacker, is an excellent guide for both consumers and advisors; it talks about understanding what really happens when it comes to losses.

One issue, highlighted in the book and not often discussed, is the utter devastation that can happen to one's retirement if you take income while suffering losses. While this is somewhat self-explanatory, the equations are more complex and are rarely explained at a consumer level. At the same time, the book explains in very simple terms how an insurance company can provide 100 percent protection from this phenomenon, while providing a guarantee of principle while enabling participation in market gains – market *gains* without worrying about market losses!

Yet, again, I always downplay the performance side of annuities for retirement planning. I look at the foundational aspect of the annuity because the annuity is essentially a vehicle for investors interested in security, which takes us back to secure lifestyle planning, as opposed to high-performance investment.

The New Essential: Income Planning, Annuities and Life Insurance

I'll say it again: The annuity is not meant for the consumer driven to high performance.

However, the innovation of what is being called the "income planning annuity" is now hitting the marketplace, and it is astonishing even to me, a veteran of the

annuity industry. Income planning annuities can have escalating interest-rate outlay. They can enable the consumer to pick a retirement date and a retirement amount and have guarantees to hit that target. These are guarantees established 10 years ahead of a specific retirement date.

No wonder annuities are becoming recognized as a fundamental recommendation for retirement. On the other side, as is the case with all investments, the greatest concern is always the impact of taxation and the impact of inflation. These are still the two greatest factors to be considered in retirement planning.

Annuities accordingly enable one to "annuitize" and convert the annuity to a guaranteed pension. In so doing, the annuity's tax treatment changes to something called "the Exclusion Ratio," a relatively complex equation we'll leave to financial advisors. For now, people simply need to know that the Exclusion Ratio can reduce one's taxes upon income because taxes are spread out after annuitization.

Given the rampant demand for income planning and security, there are, understandably, more and more companies beginning to offer annuities. Yet, as annuities are fast becoming the foundation product for income planning, life insurance is now being recognized as the supreme retirement planning tool, over and above annuities. This is because you can structure a life insurance policy to provide tax advantaged growth, tax advantaged distribution, tax advantages upon death and, at the same time, a policy can provide living benefits such as long-term care.

No matter which way you choose to go, when you take into consideration the combined benefits of annuities and life insurance, it is obvious that private commercial solutions coming from our nation's free-enterprise institutions – i.e., the insurance companies – are destined to come to the rescue of the American retirement crisis.

Yet, it is still remarkably possible to find someone stubbornly negative about annuities and life insurance policies. I think this is because such people lack even basic knowledge about the array of available annuity products. As such, they are loathe to admit their lacking knowledge about the products, thus the bias remains, based on ignorance about a large and growing segment of financial planning tools. With that bias firmly affixed, they remain highly vulnerable without the many alternatives annuities and life policies offer to excessive exposure to market activity. It's a shame that such a bias still exists in certain quarters, because consumers have excellent alternatives to the investment world at a time when economic conditions demand stability and certainty.

A New Era of Industry Reform

Conversely, that kind of bias was born for a reason and it can be partially defined by a prolonged period of lacking disclosure in the insurance industry. Despite all the innovations in recent years, the need for disclosure has never been more essential. It is critical that everyone in the industry disclose all aspects of any products including risks, fees, loads and charges – the good, the bad and

the ugly. In the old days, people lacking adequate regulation set annuities back. Left alone in the field, they felt they could represent whatever aspect of annuities they chose to present, leaving vital information out of the picture, which led to consumer complaints. As a result, the good, honest annuity was painted with a broad brush. Along with such abuse, the annuity was unfairly exposed to undue criticism. Yet, if the facts inherent in all annuity contracts had been driven to the fore, as they should have been, no controversy would have arisen over an obviously secure, practical retirement tool.

But things have been changing, fast. As a result of past abuses by a few bad apples, insurance companies today have made – and are continuing to make - great strides to significantly improve the disclosure of product suitability standards, the disclosure of procedural requirements and oversights of advisor marketing conduct, as well as a new level of customer care procedures.

The industry is accordingly engaged in providing an onslaught of information to create a new public awareness about annuities and life insurance, along with the implementation of higher levels of consumer protection and consumer care. And now we see a new level of due diligence being required of insurance representatives by their carriers, which requires increased levels of product education among agents, which has been a fast growing force in the industry itself. Consumer care and relationship requirements also have become greatly enhanced and are becoming stronger by the day because insurance companies want happy customers. They do not want to be blamed for inadequate product representation and face lawsuits as a result.

All of the above is being implemented and self-imposed by the industry due, in a sense, to a form of natural selection based on the increasingly abundant flow of information about annuities and life insurance products on the web. People are becoming more product-savvy by the day. They look for companies leveraged toward consumer education and disclosure, in order to be able to find the best products to suit their needs in the shortest amount of time

The Age of the “Digital Relationship”

As a result, we in the industry are entering what many call the “Age of the Digital Relationship.” This is where the consumer has instant access via cell phone to anything from questions about their annuity account balances to questions about policy features as related to their ongoing financial strategies. In days gone by, a consumer would have to endure the presentation of an annuity by a representative without having immediate electronic access to every type of detail related to the annuity policy being discussed. Consider today’s scenario in comparison: As the annuity rep outlines details of the product, the consumer sitting on the other side of the desk can have intricate details at her fingertips – via Smart Phone – about surrender fees and other issues, whether or not the rep may have them at hand himself.

The consumer is now empowered with so much information, the annuity representative must be adequately prepared – more so than ever before – to

completely and properly present whatever products they may have at hand.

In this sense, the "Digital Relationship" has virtually revolutionized the insurance industry from top to bottom. And don't think this movement has been limited to the younger consumer: More than 71 percent of people aged 55 to 59 now capture great amounts of information via the internets. Even as early as 2005, 62 percent of people aged 60 to 64 routinely cruised the web, and those numbers have grown exponentially since then. Numbers are growing among the advanced elderly as well: only 25 percent of people aged 70 to 75 used the internet before the crash; now 60 percent use the web. Even people over 76 use the web in growing numbers: 27 percent researched via the web in 2005 while 38 percent use internet savvy today - and if they don't use it themselves, they probably know someone who does. The Digital Relationship is no longer reserved for the young.

Along those lines and given the realities of the Digital Relationship," there are far more opportunities for consumers to compare products and features. No longer does the consumer have to sit in someone's office listening to a presentation about a specific product without his or her own instant reference to other products - with potentially more advantageous fees and features. This, of course, has lead, and will continue to lead, to a revolution in disclosure – from disclosure of precise details about individual products to a fair and unbiased assessment of available products within a given class of instruments. Consumers may now see for themselves why an annuity with higher surrender fees may come with a far greater array of features, or, conversely, they can now find annuity products with lower fees and competitive features, and so forth.

I think these strides and improvements are conditioning the consumer to ask better questions about issues concerning, say, the downsides and negatives of particular products. The consumer now has access to blogs that cover the pros and cons of various types of annuities, preparing the consumer to become a more astute – albeit a more challenging – customer during a presentation. Thus, representatives are being driven to greater levels of excellence when it comes to product knowledge and the assessment of a potential client's situation. And while this might seem burdensome to the representative at first, he should consider the incoming customer now armed with a long list of objections already resolved; this type of customer would have already bridged an informational gap, which would pave the way to more timely decisions regarding product selection.

In short, the increase of informational access for the consumer, along with greatly improved education and customer treatment from the representative, has already created a new age for the annuity and life insurance industries.

Better yet, the key advantage of the Digital Relationship is that technology is also enabling the institution to *directly* provide the positives and negatives about specific products, without interference in the field. Putting it another way, the consumer no longer needs to depend upon a single source of information in the guise of a field rep. So, we're really talking about a digital relationship between the consumer and the institution, which removes a major variable from the equa-

tion between the consumer and the product carrier.

In so doing, the carrier is now better able to remove potential problems between itself and its customer. The insurance companies are also becoming more eager to accommodate the consumer's needs. In other words, to avoid problems down the road, carriers are taking proactive steps to essentially create an educated, informed consumer who is as well informed as possible about product plusses and minuses - even before individual product representatives enter the picture.

By increasing access to information readily available to the consumer, the available digital relationship is also gradually diluting the potential for consumer complaints.

Beyond the digital relationship, the phenomenon of blogging also is positioning institutions and manufacturers to find happy and positive customers, and obtain nothing but good results. Today, you can jump from blog to blog and compare various levels of opinion and information, which, of course, makes it incumbent on the consumer to find the best blogs. Yet, at the same time, the insurance carrier must maintain a high level of integrity in its digital relationship with the consumer, given the growing amount of objective informational resources already on the web. Thus, the information provided by the carrier might become some of the best information available as we progress through the age of digital relationships between industry and the consumer.

Yes, the digital relationship still requires the consumer to do his homework, but there is more insight and more information available from the consumer standpoint than ever before. It could even be said that the history of the fast and pervasive improvement of the insurance history as a whole could be correlated to the rising tsunami of information becoming available on the web, through both independent and institutional sources.

Talk about a revolution in disclosure! Compare that to "Grandpa's annuity" back in the 1930s, during the Roosevelt years; not only were specific product details hard to come by, the annuity's annual performance would not be revealed until the end of the performance year! How far we have come via technical advances throughout the digital age - and now we have the great volume of first-hand knowledge investors have gained from the market crash and Great Recession, beginning in 2008.

From the Roman Empire, through the pensioners of Victorian-era England, through the Roosevelt era and beyond, the annuity has progressed dramatically – enough so to establish itself as the premier, foundational tool of the "New Nervous" age of global investment, wherein the so-called "New Normal" on Wall Street continues to pose market risk. This time around, however, brokers and advisors have annuities and insurance products to turn to, in order to provide for their clients an element of asset preservation and retirement lifestyle guarantees to offset risk. In other words, the New Nervous meets the New Normal with a new array of strategic options from either side of the investment aisle.

Historic Perspective

Annuities were purchased and sold for different reasons throughout the ages. When you think about the history of annuities, you can't just think about the commercialization of the products in their early years. They were more of a stream of income and, as such, the annuity connotes the very concept of financial security. Annuities have been the crux of peace of mind for centuries, and they have been misunderstood accordingly because precious little information was provided about the specifics of how they work. The product was, for example, traditionally based on mortality tables. What's important about understanding today's commercial annuity is that it is based on a company's institutional reserves in conjunction with individual consumer mortality – to thereby assure that a consumer cannot outlive his/her money.

Based on that fact, only the life insurance company is truly equipped to assure the consumer that his money will be there for him when he needs it, based on mortality and reserve requirements as mandated by individual state law.

Either way, we're in a moment in history that will demand income guarantees from private sources. Consumers may not be able to depend on the federal government for their retirement dollars much longer. The consumer may not be able to depend on Wall Street to be there when they need it. Add to that the looming phenomenon of longevity.

As previously stated in this chapter, statistics create a clear picture: During the advent of the Age of the Annuity, people are now living longer than ever before.

Instead of griping and fighting for the market position of consumer dollars, from a patriotic stance one should look to annuities and life policies as a tool for the rescue of average Americans in retirement.

Because the number of workers contributing to Social Security will decline dramatically, in contrast to those reaching for Social Security benefits in the coming years, far more emphasis must be made in favor of annuities. This is precisely why U.S. presidents Bush and Obama declared resolutions before Congress, both of them urging the use of annuities among American retirees - for obvious reasons!

Annuity products can provide a guaranteed lifetime of income, consumers can have access to the annuity's cash value, the cash value can continue to accumulate and have income actually step up over the level of the payment option – this is called the "lifetime income benefit rider" – and it comes with outstanding interest rates, anywhere from 4 percent to 8 percent.

All of the above has been a part of the steady progression of the history of the annuity, from ancient Rome and beyond Grandpa's annuity in the 1930s. A popular book, "*This Ain't Your Grandparents' Retirement,*" goes into more detail about the trending history of annuity. But I will tell you this from my own observation: The progression of the annuity has always been about American ingenuity in the free enterprise system, where innovators continue to provide dynamic solutions to the retirement crisis of Americans everywhere.

The kind of dynamic product available in America today is simply not available in Europe. Nor is it available in many other countries outside the European bloc. If annuities exist in those regions, the product offerings are very limited and restricted.

Americans should indeed take advantage of the American annuity in order to supplement and stabilize our future in retirement. Yet, only the American consumer can decide whether or not to continue chasing higher returns or face the reality of longevity versus risk management. To ease the decision-making process, we're empowering the consumer with information, tools, quality products and solutions like never before.

The Signs Were Always There

I have always known this age would come. I saw it during the ups and downs of the last 10 to 15 years. I knew that people everywhere would eventually demand guarantees, but I also saw that they would want performance with their guarantees. Now, even though they can have both with the annuity, some people are still weighing risk against the available guarantee of lifetime income. Why?

If we would ever again see a rip-roaring market euphoria, the difference today is that these annuity products enable the client to participate in the best of both worlds – to participate in the upswings while avoiding the crashing downturns. They would be able to preserve not only their principle but their prior gains.

And yet I have to say that nothing is absolutely safe. Sometimes people ask me to scientifically guarantee that the annuity can absolutely eradicate every kind of financial threat. But no one can guarantee that war won't erupt, or that widespread civil unrest wouldn't cast the nation into catastrophic turmoil. And, yes, we could be hit by an asteroid tomorrow. Anything is possible.

However, if you are looking for the best hedge against financial calamity, these products offer a peace-of-mind alternative. While asset diversification and liquidity are still essential, asset allocation in risk was fine until everything declined at the same time. Annuities have meanwhile stepped in to cover the gap. During these uncertain times, industry observers talk about emerging markets like China (which may be a bubble about to burst), also Latin America and India. Did you know that some annuity products even enable consumers to participate in some of these markets, including various global options - while maintaining the same guarantee and protection of principal? Yes, they can!

Yet, even when it comes to the annuity, there is no absolute, perfect investment. You must do your own homework, but as annuity products come of age, the consumer has more options and abilities than ever before. And I still believe, as I always have, that the annuity has an irreplaceable purpose in the well-founded retirement portfolio, which will become increasingly important as we enter the uncertainty of the years ahead, especially as we continue to live longer and longer lives.

Things won't change overnight. We won't see everyone jump on board right away when considering risk tolerance, time horizons and personal goals. Some people will always take the road of risk and some people will never be the right fit for the annuity.

Yet, when it comes to retirement, the annuity will always be part of our history, as it has always been. And as long as I have a voice, I will be here to spread the news: The annuity has the power to keep you in safe, secure income, for the rest of your life…no matter how long you may live.

That is a reality that you may take to the bank.

Parting Comments from an Annuity Veteran

I have wanted to produce a solid, historic perspective about annuities for many years, but I knew back then – as we all know now – that a truly resonant history of annuities would have to wait until the inevitable, cleansing course of historic events would finally come to pass.

Many of us watching equity markets, especially after the late 1990s, knew that something was broken in the way American financial markets were doing business with the domestic consumer. Yet, I have to admit that even I was surprised when the end of financial life as we once knew it would come crashing down the way it did in the fall of 2008.

We knew something was coming in the decade leading up to the crash. You could *feel* it in the way prominent treasury officials were quietly backing their own assets out of securities, while a Republican president very publicly voiced a cry of warning, as he urged Americans to get into annuities. If you have read this book, you know who and what I'm talking about: President George W. Bush and his call for a Congressional resolution to encourage Americans to buy annuities.

Meanwhile, banks were lending like never before and in ways that made no real sense, such as the bygone and notorious sub-prime mortgage programs. At the same time, wildly over-valued public companies continued to increase in value, despite contrasting performance figures, and unwitting investors were accordingly chest-deep in risk with very little in savings. *It was coming.*

Before writing this concise history on annuities, I had to see the end of a free-for-all equities era play out in order to make my case for annuities – a case now solidly entrenched in history from the ancient past to this very day.

During the equities era run wild from the late 1990s until 2008, securities

promoters made a well-orchestrated effort to scoff at annuities, driving their customers away from this historically proven instrument until it was too late. They were able to do it, in part, by ignoring the dominant presence of the annuity throughout the financial history of humankind. Had people known how fundamentally basic the annuity had been - as a cornerstone of retirement planning since ancient Rome - I think more people would have started asking questions. But the equity frenzy was at a fever-pitch, the clanging of the Wall Street bell too loud for history to be heard.

For that reason, this book is long overdue.

If you would like to read more about the history of annuities, you will find immeasurable amounts of valuable information all over the internet and in your local library, including highly detailed, scholarly accounts of annuity transactions during specific periods in the Middle Ages. There is THAT MUCH out there to show the enduring power of the annuity and you will find some fascinating reading as you continue your own research.

After reading this edition of historic highlights, including some rather extensive research of newsworthy events leading up to the crash and beyond, you have been on a journey from the true beginnings of the annuity to recent, dramatically sweeping changes made in public, media and industry opinion – which now favors annuities, hands-down.

For me, the really eerie part of my own historic discovery has been the revelation that, yes, a few powerful people can indeed rewrite history. They can obscure or eradicate the past, as so many in the securities industry did from the late 19990s until 2008. Has it been done before? Absolutely! Certain Egyptian pharaohs actually went through the country destroying stone images of their predecessors, thus rewriting history to empower their own reign. So, if you were unaware of the annuity's past, you are not certainly alone.

I do hope that my *History of Annuities* will be passed along as a reminder of how quickly things change. Ultimately, I hope that you have enjoyed this *History of Annuities*, and that you will see the annuity in its own, true perspective as you make carve out a new financial future for yourself, and for your loved ones.

My Very Best Regards,

Tyrone M. Clark
President and Founder Brokers' Choice of America

HISTORY OF ANNUITIES

The Backbone of Retirement Throughout the History of the World

Annuities' Surprisingly deep, rich heritage and tradition
built on a foundation of strength and longevity.

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