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Thursday, August 14, 2008

Don't fall for insurance annuity scams

By Donna Skeels Cygan

A front-page article from The New York Times last summer titled "For Elderly Investors, Instant Experts Abound," discussed an insurance agent who used deceptive tactics to sell insurance products (mostly annuities) to unsuspecting senior citizens. In 2003 alone, he earned commissions of \$720,000, and he is currently being sued by Massachusetts regulators.

On the same day the NYT article appeared, an anonymous ad in a local publication stated:

"Insurance Agents — No Prospecting — See Our Clients! No Cold Calling Ever Again! Exceptional income from seeing the clients we provide. Must have track record in Life or Annuity sales. We provide a steady flow of clients for you to see."

On April 13, 2008, "Dateline NBC" aired an hourlong program on the sales tactics being used to convince senior citizens to buy annuities.

The transcript is available online at www.msnbc.msn.com/id/24095230. The program focused on the fact that insurance salespeople often do not mention to potential buyers that the products have high surrender penalties that last for many years.

For example, the program mentions an equity-indexed annuity with a 20 percent surrender penalty if the buyer decides he/she needs the money back in the first year after buying the annuity. The surrender penalty gradually declines from 20 percent to zero, but not until 16 years after buying the annuity. Therefore, if the buyer wants to withdraw more than 10 percent per year during the first 16 years, there is a substantial penalty that is deducted from the original amount invested.

In early May of 2008, I received an e-mail inviting me to a luncheon in Albuquerque sponsored by a national insurance company. Because I am a fee-only financial planner and do not sell insurance, I would not consider attending. However, the section in the e-mail titled "Reward Yourself" caught my attention. It mentioned "We have incentive trips and contests ..." Unfortunately, the high commissions, trips and contests for selling annuities continue to be common in the financial industry. These sales tactics motivate insurance agents, financial advisers, brokers and even salespeople in banks to sell annuities to unsuspecting folks, without thoroughly discussing the pros and cons of the product.

The unsuspecting customer should also know that there are training classes to train the seller how to sell annuities. "Dateline NBC" took hidden cameras into a seminar called Annuity University in which annuity salespeople were taught how to get wealthy by selling annuities.

The instructor emphasized the selling points that are most appealing to senior citizens, such as by saying to the potential buyer "What I sell is peace of mind." The instructor of Annuity University states, "I help my clients to protect their life savings from the nursing home and Medicaid seizure of their assets. See, that's scary, and it should be scary." The instructor states during the class: "I have trained more millionaires in the annuity industry than anybody in America ..."

Never agree to buy a financial product like this at the time it is presented.

Ask them, "Can you please put your recommendations, your commissions, and all of the fees in writing for me?"

Ask them to mail you the written disclosure within one week. Tell the salesperson that you do not



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make important financial decisions such as this on the spur of the moment. Take some time to get a second opinion, and go onto the Internet to search for recent articles about the product, the firm, etc. This will help you make an informed dec

An educated consumer is a wise consumer.

From the Executive's Desk

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