# A Guide that Perplexes

By Kerry Pechter *Thu, Jan 2, 2014*

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The National Association of Insurance Commissioners has just e-mailed me a copy of its new "Buyer's Guide for Deferred Annuities: Fixed and Variable." I read it through. Like many explanations of annuities, it was fairly awful.

If consumer-friendliness was one of NAIC's objectives in publishing this guide, it fell short. It is a study in defense, not hospitality. I understand that years of attacks have *put* annuities on the defensive, but that's all the more reason to try and change the tone of the conversation.

There were at least three points at which the average reader would surely have bailed out, if he or she even got that far. The first was right up front.

"An annuity is a contract with an insurance company." Sadly, many texts about annuities begin exactly this way. You might as well describe marriage to teenagers as "a legal contract between two people of the same or opposite genders."

How would *I* define annuities? As financial tools that people use to protect themselves and their savings against certain risks, including interest rate risk, stock market risk, the risk of retiring during a market slump, and/or the risk of outliving their savings, also known as longevity risk.

Next, I would have stopped reading when the author urged me to read the prospectus carefully. Everyone knows that prospectuses are written by lawyers for lawyers. The most complex annuities, fixed indexed annuities, don't even come with prospectuses.

Finally, if still reading, I'd have stopped near the end of the document, where it says, "Don't buy an annuity you don't understand or that doesn't seem right for you." Who besides an actuary really understands annuities?

The "Questions You Should Ask" section reminded me of the suitability questionnaires that I used to be assigned to edit, but usually ended up rewriting completely out of sheer pity for the reader. On some level the reader looks at these questions and realizes he's being asked to waive his rights to something.

But the main reason for my admittedly peevish reaction to this probably well-intended document is the way it is organized. It's a recipe for confusion. It makes a mistake that people frequently make when writing about annuities.

As I learned when writing the outline for *Annuities for Dummies*, you only create a massive fog around annuities by trying to define a single product called "Annuities" and then compare and contrast the different "types."

Annuities can be so unalike in their designs and purposes that putting them in a single box isn't helpful. The differences are so numerous that they overwhelm the number of similarities. Pretty soon MEGO sets in.

It's better, when trying to help people understand these odd-duck products, to handle each type separately—within the same document, but separately. Start with the readers' own potential financial problems, and then show how each annuity can or can't help solve that problem.

The explanations must begin and end with the consumer's concerns, not with the compliance department's. Otherwise you mystify more than you de-mystify. You leave people confused and mistrustful. As an industry, we've been describing annuities in the same cautious, legalistic, industry-centric way for years. To keep doing so doesn't make much sense.