



Misleading *Money* Math (or how to spin numbers)

When Lisa Gibbs, the author of “The Safety Trap” article called me in May 2010 her very first comment was “your complaint numbers are wrong because the NAIC complaint numbers are wrong and actual complaints are much higher”. And it was that tone that resulted in the stridently biased anti-annuity *Money* magazine article that appeared in January 2011.

The NAIC closed complaint numbers are not an inclusive list of complaints. Participation by states is voluntary and one states coding of which category a complaint falls into may differ from another. I couldn't agree more that, for example, the 80 closed index annuity complaints I report are not the exact number of index annuity complaints for 2010. As I've said before, some index annuity carriers that do not offer variable annuities had variable annuity complaints – these may well have been index annuity complaints miscoded. In addition, there are complaints simply coded “annuity” that may well have been index annuity complaints. By the same token this year and past year totals included index annuity complaints from variable annuity carriers that do not offer index annuities. I also agree that not all states contribute all data, but this does little to diminish the data's true value.

The real story is index annuity complaints have fallen dramatically since carriers and insurance regulators have ramped up suitability efforts, but Money refused to acknowledge this

All of the data year after year is from the same NAIC data pool. This should mean any biases or data quirks will continue to be the same, thus the results should convey the same correlations. I tallied 80 complaints for 2010 and 152 complaints for 2009. Even if the actual complaints were, respectively, 160 and 300 the real story is that index annuity complaints sharply fell. The reality is on a sale-by-sale basis the number of index annuity complaints has fallen by 75% since 2007, and even if we had available the correctly coded data it would still show a tremendous drop in the number of complaints.

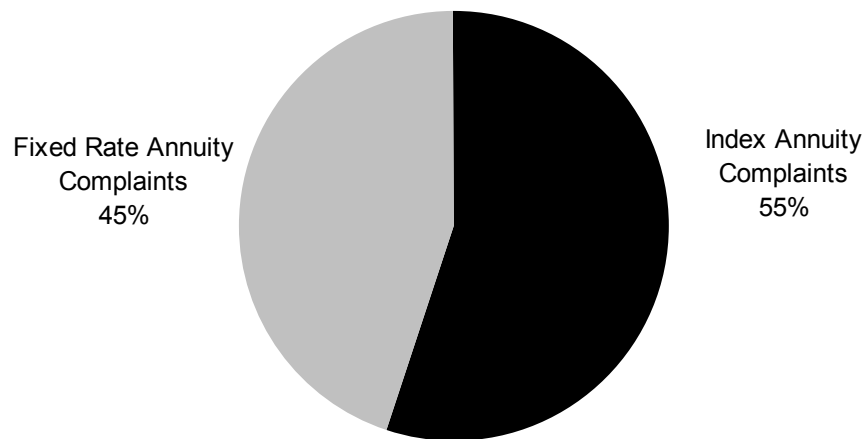
Lisa Gibbs wrote “According to data that 16 states provided to MONEY, index annuities accounted for 30% of annuity-related complaints to regulators in 2009.” That would make sense because index annuities were 30% of fixed annuity sales in 2009. Other fixed annuities were 70% of sales and accounted for 70% of annuity complaints. The statement really says based on the evidence they've gathered the percentage of complaints against index annuities in these states is no worse than the complaints received on other fixed annuities. However, *Money* highlighted this data to try to imply index annuities have a worse complaint rate.

More Spinning

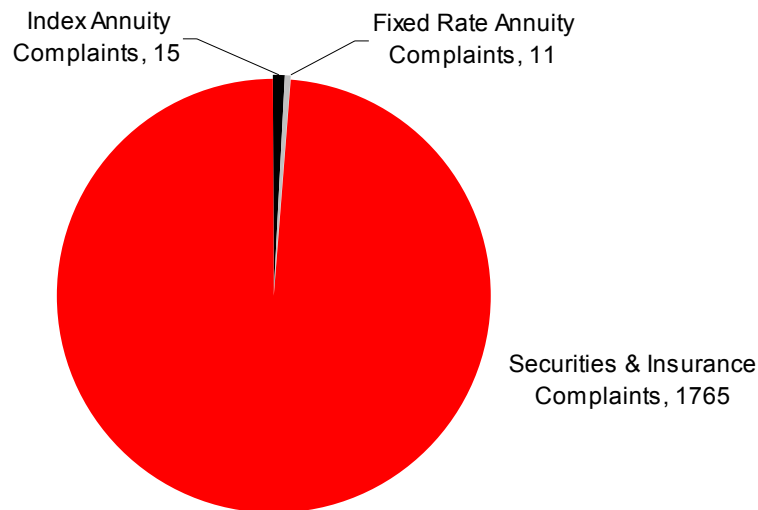
A reality of math is changes in little numbers mean big percentage changes even though the number is still small – if the murders in a city of 10 million people increased from 2 to 3 in a year that would be a 50% increase, but the overall murder rate would be insignificant. Gibbs is using percentages, rather than actual numbers, to make things appear larger than they are.

Using the NAIC numbers, if we look at complaints only coded as fixed annuity and index annuity, index annuities make up 47% of those complaints. However, if we look at all annuity complaints index annuities are only 14% of that total. If we look at all 2010 life and annuity complaints index annuities represented 1% of the total. And if we look at all of the 78,101 complaints reported against all insurance carriers and agents, index annuity complaints are 0.1% of all complaints.

As an example of mathematical spinning Gibbs says index annuity complaints are 55% of Florida annuity complaints. Here's the mental picture *Money* is trying to create about index annuities:



I went through the files of the 1791 actions taken against insurance and securities registered people in Florida from 2009 through the summer of 2010. Only 26 involved annuities at all. Although it appears 15 of these complaints did involve index annuities, we're talking about 15 complaints out of 1791, or less than 1%. But instead, Gibbs reports it as 55% of 26 simply to make a non-event look sensational.



Here's the reality. There are far fewer index annuity complaints than there were a few years ago. Of the roughly 469,000 consumers that purchased an annuity last year only 80 complained. This is a complaint ratio of 0.02%. I bet *Money* has more customers than this complaining about inaccuracies in their reporting.