I presented this predatory annuity sales case to the SEC during a lobbying visit with the Institute for the Fiduciary Standard. We never got a universal fiduciary standard. There's too much money on the other side….

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April 5, 2018

SEC Office of the Investor Advocate
100 F Street, NE
Washington, DC 20549

Dear SEC Office of the Investor Advocate:

Attached are excerpts from a case involving the transfer of a client's total savings into four variable annuities. The clients had no investment experience and believed that the advisor was working in their best interest. They were misled by the sales presentation. They signed a disclosure form which stated the product fees. With nothing to compare them to, these fees meant little to them. They did not understand how these contracts worked. Once I explained the workings to them, they wanted to get out of the contracts and were forced to pay a hefty surrender charge. In the end, these contracts cost them 10% of their life savings. It's unlikely that these contracts would have been recommended if the law required the adviser to put the client's best interest first.

Sincerely,

Charles Ryan, CFP®

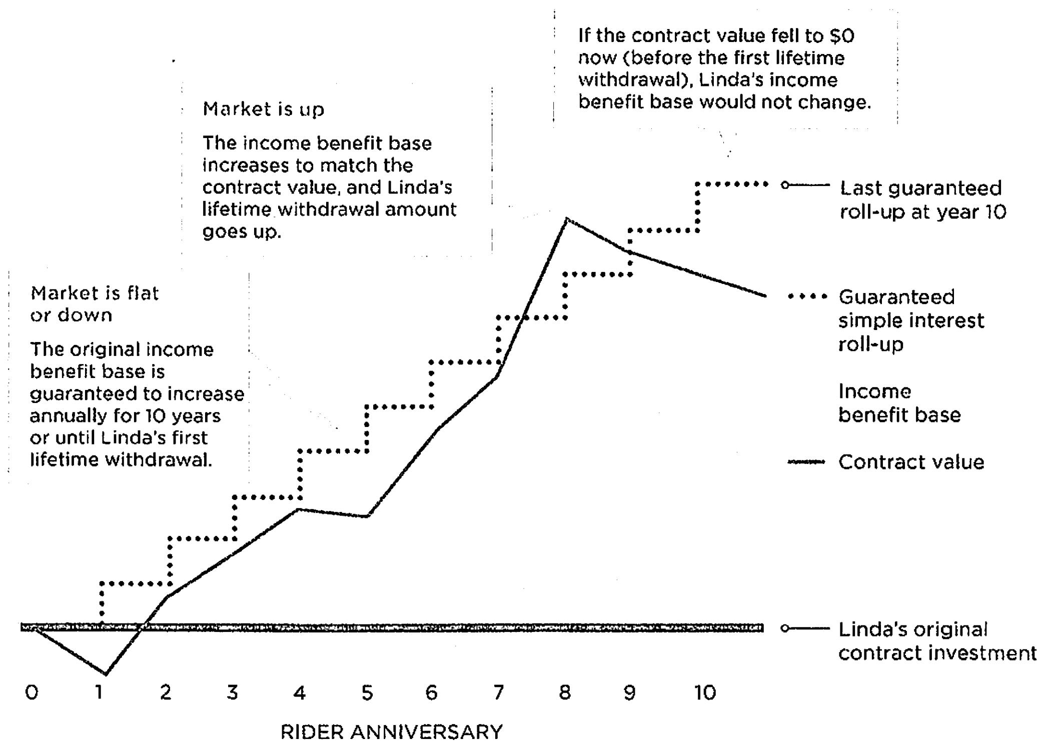
Summary

- Wells Fargo convinced clients to put all savings including active 401ks into four variable annuities. The average weighted annual expense was 3.6%.
- Clients believed that the annuities guaranteed 5%, etc., annual bonus or roll up which increases the income base (not the account they own) accrued to them on a dollar for dollar basis. In fact, the income base is only used to calculate an annual guaranteed payment beginning at some later date (page 1).
- They signed disclosures showing the contract fees (page 2). However, they had no investment experience, little education (husband never completed high school) and had no idea what fee was reasonable or what the alternatives were.
- The IRR of these payments where in the range of 1.4% to 3% if they lived to age 95 (pages 3 and 4).
- Husband stated that he thought Wells Fargo was acting in his best interest.
- Once they fully understood what they had, they faced the option of continuing to pay $1000/month for a minimal guarantee or pay $20,000 in surrender fees.
- One meeting with a Wells Fargo wealth advisor cost them 10% of their $370,000 in lifetime savings (18 months of contract fees plus the surrender charge).
- This is one of many examples that I've come across.

A 7% simple interest roll-up rate

To help you potentially stay ahead of inflation, Nationwide L.inc offers a guaranteed 7% simple interest roll-up rate on your original income benefit base each year for the first 10 years, or until your first lifetime withdrawal, whichever comes first. Each **rider anniversary,** the income benefit base becomes the greater of the contract value on that rider anniversary or the roll-up value.[9]

Using the chart below, let's take a look at a hypothetical example to see how a 7% simple interest roll-up rate works. If Linda invests in a variable annuity with Nationwide L.inc, the original income benefit base will increase by 7% each year on the rider anniversary for 10 years — even if the underlying investments performed poorly and the contract value fell to less than the original amount invested. The income benefit base has the potential for greater increases if the contract value outperforms the value of the 7% simple interest roll-up rate on any rider anniversary.



This illustration is hypothetical and not intended to serve as a projection or prediction.

[9] The original income benefit base will increase by an additional 7% each year on the rider anniversary to determine the roll-up value.

Rider anniversary
Each recurring one-year anniversary beginning with the issue date of the rider.

Variable Annuity Point of Sale Disclosure

WELLS FARGO ADVISORS

Owner/Participant/Insured*			
[redacted]		AN005883645	
Name of Product Transamerica Axiom II B Share		WFA Account # [redacted]	Purchase Amount $ 100000.00
From (Name of Insurance Company) Transamerica Life Insurance Company		1035 Exchange or IRA/Qualified Transfer Estimated Amount $0	

Wells Fargo Advisors ("WFA") and your Financial Advisor (FA) want to help you achieve your long-term financial objectives. We value our relationship with our clients and want to help you make informed decisions about your financial future. Before you purchase an annuity, we want to make sure you understand the following:

1. **LONG-TERM** - Variable annuities are designed to be long-term investments. You should consider another investment if you anticipate a need to access a substantial amount of these funds in the near term.
2. **NOT A LIQUID INVESTMENT** - Variable annuities have limitations on the amount of funds that may be withdrawn without a charge. You should consider the limits on amounts that may be withdrawn free of surrender charges (typically 10% of your initial investment per year) before you invest and you should have other liquid sources of funds.
3. **SURRENDER CHARGES** - Variable annuities have surrender charges for a specified period of time. **The surrender charge means that you may not get all your money back if you surrender your contract.** In the case of a full or partial surrender (defined as withdrawals in excess of the allowable amount specified by the issuing insurance company), you will incur the following penalties during the surrender charge period, as set forth in the prospectus, and summarized below:

Year	1	2	3	4	5	6	7	8	9	10	Thereafter
Penalty	5 %	4 %	3 %	2 %	1 %	0 %	%	%	%	%	**Check Prospectus**

4. **FEES AND EXPENSES –** For a variable annuity, consider any charges and fees, including mortality and expense charges, administrative charges, and investment management fees and applicable 12b-1 fees for the portfolio options. These charges and fees will reduce the value of your account and return on your investment. If you have selected a rider, or optional feature, there may be an additional cost. Variable annuity contracts are available in several structures at WFA..
   - Standard - has a typical surrender charge of 7 years and has the lowest cost.

     Some products may offer additional options:
     - Shortened surrender charge period - for an additional cost, the surrender charge may be reduced to 4 years. This additional cost will only be charged during the surrender charge period. You should consider whether or not the benefit of a shortened surrender charge outweighs the additional cost of this feature.
     - Premium Bonus - for an additional cost, a premium bonus ranging from 4-6% will be credited to the contract value at issue. The additional cost will only be charged during the surrender charge period. You should consider whether or not the bonus received outweighs the additional cost of this feature.
   - No Surrender Charge - this structure has no surrender charge and has higher fees than the standard structure. You should consider whether or not the benefit of having no surrender charge outweighs the additional cost of this share class. When purchasing an optional income rider, you should consider the long-term nature of the rider when deciding whether or not to pay an additional cost for a shortened or no surrender charge option.

Total annual expenses for this annuity:

M/E/A/D[1]	1.00 %
Optional Features	2.10 %
Total	3.10 %

Totals do not reflect sub-account costs or annual contract fee (if applicable). This information represents the contract specific total cost calculation (including the optional features that have been chosen) for your transaction. Please refer to the prospectus for more information.

[1] M/E/A/D is a total of the Mortality and Expense Fee, Administration Fee and Distribution Fee. Expenses are subject to change. Optional feature expenses may be impacted by investment selection.

5. **MARKET RISK** - You can lose money investing in variable annuities. Investing in variable annuities involve risks, including the potential loss of principal. The market value of variable subaccounts will fluctuate in value.
6. **GUARANTEES** - A variable annuity is a long-term financial product offered by insurance companies. Any guarantees offered in this annuity are backed by the claims-paying ability of the issuing insurance company. The features that are guaranteed do not mean you cannot lose money and in fact there is no guarantee that you will earn any return on your investment. In some

Excerpt from analysis

These contracts are expensive. You are currently paying a total of $12,659 annually in fees (shown below). The same $377,228 could be invested at Vanguard for 0.15% or $500 annually. The Vanguard investments would not come with any form of guarantees.

	Amount	Expense	Annual expense
Allianz	$ 111,711	3.30%	$ 3,686
AXA	$ 54,650	3.51%	$ 1,918
Transamerica	$ 109,346	4.10%	$ 4,483
Lincoln	$ 51,159	3.55%	$ 1,816
Fund Source	$ 50,362	1.50%	$ 755
Total	$ 377,228		$ 12,659

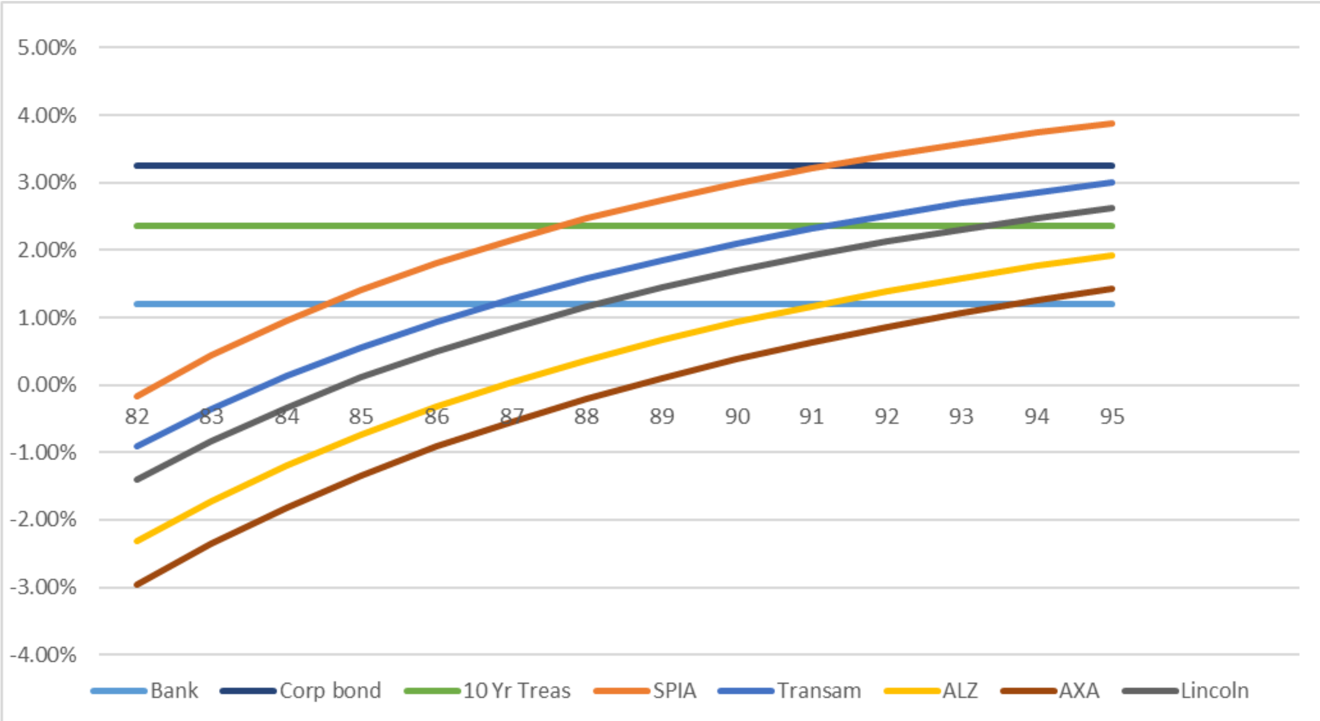
It's important to keep the following in mind: in all of these contracts there are effectively two accounts: one that you own and can cash out and another that you do not own. The account that you own is invested in mutual funds that follow the ups and downs of the market. These accounts can lose value. All of the contract expenses are deducted from this account. So, even if the market is flat, your account value will decline by the expense charge.

The account that you do not own is the account that increases annually by the guaranteed rates. For example, the Lincoln "income base" increases at 5% annually. Note on your contract that there are future projections for this income base. You can't cash this amount out. You can only take annual withdrawals equal to 4% of that amount now or 4.5% if you begin withdrawals in ten years. These percentages can be deceiving. For example, the actual rate of return that these guaranteed withdrawals represent is only 2.6% if you were to start them at 71 and died at 95. The 5% guaranteed return during the accumulation phase is effectively nullified by the low lifetime payment amounts.

The majority of these fees are paying for guaranteed lifetime payments that you can begin at any time. To determine whether these guaranteed payments have value we first need to measure the rate of return needed to generate them. These rates of return are shown in the graph below. If you could find an investment yielding a higher return, that investment would create greater income than the contract provides.

Think of the account value as your investment and the payments as your return on that investment. For example, the Transamerica return line below intersects 0% at age 84. At that point, the insurer has repaid your $100,000 premium. At age 87, the rate of return is 1.2%. You could have created the same payment stream by placing the premium in an FDIC insured online bank which is currently paying 1.2% interest. At age 91, the return is equal to the 2.35% interest currently paid on ten year US Treasury bonds which you could buy from Treasury Direct without any fees, commissions or surrender charges.

If you did want guaranteed income, you get more by purchasing a single premium immediate annuity (SPIA). For example, a $100,000 premium paid today would buy you $9744 in annual income beginning in ten years. Note that the SPIA return line is the highest in the graph.



The problem we have now have is that the surrender charges total $19,500 as shown below.

Allianz	$8,500
AXA	$3,500
Transamerica	$4,000
Lincoln	$3,500
Total	$19,500