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What To Do When Asked 'Is my money safe?'

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One of the most frequent questions my clients ask me is, "Is my money safe?" Assuming they are talking about a fixed annuity that I have sold them, my answer is a strong "Yes!"

Many of them go on to ask; "Is it FDIC insured?"

My answer is something like this, "No sir. However, in Texas your money is protected by state insurance laws up to $100,000 per owner designation per company.

"As you may recall, when you received your annuity contract, a copy of the Guaranty Law was included, and we talked about how it protects the money."

In most cases, that simple review calms their fears. But it's frustrating all the same. My estimate is that 95% of people with money know about, understand, and trust FDIC. On the other hand, only about 5%, including agents, know there is such a thing as Guaranty Laws.

Another safe-money issue agents face has to do with matching product offerings to the client's situation.

Investors generally fall into one of the three categories shown in the following chart:

THREE TYPES OF INVESTORS
1) Those who want absolute guaranteed safety without any hint of risk.
2) Those willing to gamble with their money in the equity markets and put everything at risk.
3) Those who invest with a combination of risk and safety by placing a portion of their funds in equities and the balance in fixed assets, according to their tolerance for risk.

As you can see, each one has a "relationship" with risk. Even the "I want no risk" people have a relationship to risk (aversion!).

One definition of "risk tolerance" is the emotional mixture of greed and fear. My belief is that those emotions lie at the core of every investment, no matter what category the client falls into.

Simply put, most investors have the heart of a lion when the market is going up, but when their values start dropping; they scurry to serene pastures like meek little lambs.

As an example, here is a story that shows how dramatic such swings can be. About 15 years ago, a client invested $1 million of IRA funds with me in fixed annuities. As the annuities reached the end of their penalty period, he moved the money to a self-directed brokerage account.

This week, this same man came back to my office and said, "I'm a great surgeon, but I've learned the hard way that I'm a lousy investor. I'm moving all that money back to you. The only problem is, I have less today than when I left here. I would have been much better off if I had just left my money in safe annuities."

He was so fearful of losing any more of his money, that he will now only put the funds in "CD-type" annuities, not to exceed $60,000 per company. Therefore, we ended up completing applications for 16 different companies.

In reflecting on this, I've concluded that one way to help dispel fear is to make certain clients fully understand where the money is invested and the degree of risk involved.

Of course, a fact of life we must all live with is the older the client and/or agent, the less is understood or remembered about where the money is and why it was put it there in the first place. That means we have to work extra hard to be sure the client understands.

Keep that in mind as you read this example about a client seeking a safe-money place.

An 83-year-old friend of mine went to his bank where he has banked for fifty years, to renew a Certificate of Deposit. The clerk showed him the CD rates but stated he could also put his money in a fixed annuity that would pay him a higher rate than a CD.

The clerk/agent told him he may also want to consider a variable annuity or mutual fund, where it would be possible to earn 20% or higher, however he could also lose money.

Another option the clerk/agent offered my friend was to put his money in an equity index annuity (EIA), where it would be possible to earn a higher return than in a CD or fixed annuity, but unlike a variable annuity or mutual fund, he would be guaranteed to get back at least what he put in.

The clerk/agent then handed him a stack of papers about an inch thick and told him to read it all. After he read it, he could sign a disclosure statement that he understood what he was buying.

My friend said to the clerk/agent: "Look, all I really want is to put my money somewhere safe and draw a $500 check each month."

"Oh, you're talking about a split annuity, where we put 65% of your money in an SPDA and 35% in an SPIA. Most of each check is tax free and a small part is taxable," she responded.

At that point, my friend got up, left, and called me. That clerk/agent razzled and dazzled him right out the door!

Imagine. My friend was told about a CD, fixed annuity, variable annuity, EIA, split annuity, SPDA, and a SPIA – acronyms included – in one brief visit.

Whether an investor is 83 or 53, does anyone seriously believe a customer would fully understand all those options thrust at them at one time?

There is absolutely a place for fixed, equity, and combination type investments and we financial advisors shouldn't hesitate to offer them.

But, remember there are three types of investors. What may be right for one person could be entirely wrong for someone else.

In too many cases that I know of, the agent only offers advice based upon personal beliefs as opposed to the client's beliefs and preferences, and without proper client education, too.

My experience has taught me that people don't want to worry, "Is my money safe?' Instead, they want to feel, "My money is safe!"

If you want to sell more annuities, remember the KISS method: Keep it Simple and Safe!

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