

FINRA Review Letter FR2007-1010-0199/H

The following was added to the article "Use Annuities in IRAs Wisely:"

Do keep in mind that variable annuities are subject to insurance related costs (mortality and expenses) and investment management fees associated with the underlying investments.



October 16, 2007

Lisa Mays
 FINANCIAL TELESIS INC
 4340 Redwood Highway Suite #A23
 San Rafael CA 94903

Reference: **FR2007-1010-0199/H**

Org Id :00031012

REVIEW LETTER

1. Newsletter

Articles:

- Roll your IRA into your qualified plan and save money
- Should your life insurance beneficiaries be revocable or irrevocable?
- Favorable times to withdraw money from your fixed annuity
- Try brokered CDs for higher rates
- Use annuities in IRAs wisely

Rules: 2210, VARIABLE

5 pages

Fee: \$100

Total Fee: \$100

Attention: Lisa Mays

It is our understanding based on your October 8, 2007 E-mail to Brian L. Finnell, of the Advertising Regulation Department, that the filing cover sheet included in this submission consists of 5 articles that will be presented in the above-referenced Newsletter.

In addition, please be advised that we have reviewed the Newsletter with the assumption that the final version of the material will prominently identify the member firm name, Financial Telesis, Inc., in accordance with Rule 2210(d)(2)(C)(i). If our assumption is inaccurate, please advise us, as additional comments will be necessary.

Revisions are necessary for the article "Use annuities in IRAs wisely" to be consistent with applicable standards. We offer the following specific comments:

In order to provide a fair and balanced presentation, pursuant to Rule 2210(d)(1)(A), a *clear and prominent* disclosure must remind readers that variable annuities are subject to insurance related costs in conjunction with the investment management fees associated with the underlying investments. Thus, the article must be revised accordingly.



Remaining Articles

We take this opportunity to remind the firm of its responsibility to ensure the accuracy of the information contained in the Newsletter including, but not limited to, the Economic Growth and Tax Relief Reconciliation Act provisions for IRA rollovers and beneficiary designation options associated with life insurance policies.

If you have any questions regarding these comments, please contact me at (240) 386-4500.

Sincerely,

A handwritten signature in cursive script that reads "Derek Ashworth".

Derek A. Ashworth
Associate Supervisor

nms

NOTE: *As a FINRA member, you are responsible for determining whether any communication with the public, including material filed with the Department, complies with all applicable requirements. The views expressed herein are solely advisory and do not constitute findings of compliance with, or violations of FINRA or SEC rules. It is assumed that the material does not omit material facts, contain statements that are not factual, or offer opinions that do not have a reasonable basis.*

Use annuities in IRAs wisely

Ever since their inception back in 1982, IRAs have been offered by virtually every type of financial institution, from banks to brokerage firms to insurance companies. They are, in fact, the only possible avenue available for many retirement savers who do not have access to corporate or self-employed plans. Virtually any type of investment can be used inside an IRA, with the exception of life insurance, commodities futures, collectibles and some kinds of coins.

However, just because an investment is permissible within an IRA doesn't necessarily mean that it's beneficial. There has been much debate over whether annuities are appropriate investment vehicles inside IRAs or any other type of tax-deferred retirement plan, for that matter. The main argument against doing this is obvious: why put an investment that is already inherently tax-deferred inside of an account or plan that is also tax-deferred? Because, of course, there is no such thing as "double" tax-deferral; money that has been deferred from taxation once cannot be deferred again! Yet a great many insurance companies and agents enthusiastically promote annuities within IRA accounts.

The insurance industry would be quick to respond that investors seeking guaranteed rates of return will get higher yields from fixed annuities than other vehicles offering similar risk. The industry might also point out features such as the ability to annuitize or a 10% annual withdrawal feature that does not exist in other fixed income alternatives. In the case of variable annuities, they offer a range of insurance and money-management features that are not included in other investments. Options such as periodic portfolio rebalancing, systematic investment plans, and living and death benefits are standard features in all modern variable annuity contracts. The asset allocation features normally found in these contracts can generally only be matched by professional money management firms, which can be inaccessible for most IRA or other retirement plan participants.

In other words, there is more to an annuity than tax deferral. Consider the entire range of benefits that any opportunity offers and do not judge it on one single feature. **Do keep in mind that variable annuities are subject to insurance related costs (mortality and expenses) and investment management fees associated with the underlying investments.**

If you are unsure about whether annuities belong in your IRA or other retirement plan, call and we can isolate the pros and cons for your situation.

Income from deferred annuities is taxed as ordinary income and withdrawals prior to age 59 ½ are subject to a 10% penalty. Income from annuitization is taxed part as ordinary income and part as return of capital. Any guarantees are based on the claims paying ability of the insurance company. Annuities should be considered long term investments.