



BY TINA OREM

# Today's Annuities— and How to Sell Them

**TODAY'S ANNUITIES ARE ALL GROWN UP. GET UP-TO-SPEED ON THE NEW GENERATION OF ANNUITIES AND HOW TO SELL THEM.**

**R**egardless of where you stand on the asset class, it's hard to ignore the annuities markets lately. Last year, Americans spent \$129 billion on individual annuities—down more than 38 percent from 2008, according to the American Council of Life Insurers. The reasons for the drop aren't a surprise: Products got more complex, interest rates fell, benefits and costs were volatile and the stock market put insurance carriers through nauseating ups and downs.

Yet, with a retirement boom on the horizon and millions of market-ravaged consumers seeking financial products that make them feel more secure, some of your clients are probably asking about annuities again.

In fact, year-over-year total annuity sales were up 0.5 percent in the third quarter of 2010, much of that from a 9.7 percent surge in variable annuity sales, according to the Insured Retirement Institute. These increases are the latest in a string of upticks for the business, and they mark a significant change from the seemingly endless sales declines for the asset class since 2007.

But today's annuities are not the same as those in years past. Here are some important highlights of the new generation of annuities and a few tips and techniques on how to sell them.



### Go paperless or go home

Though it may be unfair to characterize the advanced age of many producers in the industry and technology as mortal enemies, the recent advent of paperless processing in the annuities market has been disruptive for many producers. After all, the average age of a professional in the insurance industry is 54 and 60 percent of them are older than 45.

"I know this is going to be a major shift to get these guys running around with laptops," says John Douglass,

president of Annuities Exchange Financial Products in Milwaukee, Wis. "At this point it's voluntary," he adds, "but...more and more companies are going to start to mandate that the applications come in electronically. And that is going to be a major, major deal."

Douglass hears a lot about producers' frustration with the multiple screens and error messages that have replaced paper applications, but Douglass, who is himself over 50, finds the change exciting.

"The computer's going to wait on [the producer] all day long until he fills in *every screen*," he chuckles. "But the good news is, when he gets it in there, it's going to be in good order. The advantage to him, to be positive, is that he's going to get the quick issue that we've had in the past and he's going to get paid fast. But if he doesn't have it in good order and he goes snail mail, it will be a long road."

Though Annuities Exchange often refers producers to a variety of classes on electronic submission, he's confident computers won't replace everyone. Even though some companies have dismissed the producer model and instead gone straight to the client for business online, technology does have its limits.

"When you're working with the senior market or people over 50, everybody wants that face-to-face contact," he explains. "They still like that agent. If the insurance companies could have gotten rid of the agents, I think they would have done so a long time ago. They need us at that point of sale. They need to have somebody be compassionate and go through the information."

But, he warns, that's no excuse for technophobia in the annuities business. "In the next three to five years, you'd better be on board or you're going to be left behind."

### The tarnish of TARP

Variable annuities and other products that frequently contain embedded stock market correlations choked during the market volatility of 2008 and 2009, leaving some issuers on their knees financially and investors wondering whether their annuity payments were going to keep coming.

This situation, coupled with relatively less attractive annuity products of the past and a crowd of celebrity financial advisors who generally dislike annuities, has made annuity sales challenging for many producers. In fact, according to a 2010 study sponsored by the National Association for Fixed Annuities, 40 percent of agents say their biggest difficulty in selling annuities is dealing with client skepticism because of the negative media coverage of the products. That's why now more than ever, producers who want to succeed at selling annuities need to study them thoroughly and be ready to recite detailed information about issuers' financial conditions, credit ratings and outlook.

"We never



used to be asked anything,” says Amanda Panico, president of Tide-mark Financial Services and Insurance in Sarasota, Fla. Panico was one of NAIFA-Tampa’s “Best of the Best Under 40” winners last year and has been a Prudential Annuities Masters Council member since 2006.

“Nobody really cared when the markets were good and everything was great in the world. But now, yes. Very often, I find myself in competitive situations where I am pulling the strength and ratings of the companies to help the client at least feel at ease or understand what’s behind the scenes.”

NAIFA member Mike Brown, a New York Life agent in Hamilton, Missouri, and winner of New York Life’s 2010 Investment Annuity Product Leader award, agrees that doing this kind of homework pays off. “I think it comes down to what company advisors are looking at. Are they AAA rated? Do they have good surplus? Did they take TARP money in the past? Because if I was a consumer, that’s what I would be looking at along those lines.”

Brown says that the sale that made him New York Life’s biggest annuities producer was influenced significantly by a chance conversation he had with a client on that very topic. “We visited about what was going on in the economy at that time,” Brown recalls. “The financial meltdown had pretty much occurred. I told him New

York Life was very strong, didn’t take any TARP money, had about \$15 billion in surplus at the time, and he was very thankful to hear that.” The client then made a \$35.7 million annuity purchase.

### The allure of riders

These days, everyone is looking for guarantees and peace of mind. Interest rates are at historic lows, so the name of the game in annuities now is features—riders and niche products, in particular.

“When times are great, nobody cares about a rider,” Panico notes. “When times are rough or tough or things are not looking so favorable, or they want surety—maybe they’ve gotten burned before—the rider can offer confidence. After 9/11, when the living benefits actually came out, we had some GMIB [guaranteed minimum income benefit] stuff, which you had to annuitize. But as the riders started coming out without the forced annuitization and a lot more flexibility, those riders, while some have been more competitive or less competitive, they’re all offering a similar thing, which is a guarantee and a safety net. And that’s what people like.”

“The living-benefit rider is number one by far,” adds Douglass. “That’s hotter than blazes!” he says, crediting the feature for stoking the growth in the variable annuities market. Living-benefits riders vary by state but generally entitle holders to an early payout of death benefits if they are diagnosed with a terminal illness.

According to LIMRA, the election rate of guaranteed living benefits riders rose in the third quarter of 2010, the second quarterly rise in a row, to 89 percent. Guaranteed lifetime withdrawal benefit riders’ elections also rose to 65 percent and guaranteed minimum income benefit riders rose to 18 percent. Annuity holders elected guaranteed minimum accumulation benefit riders 4 percent of the time.

“The angle there is you can’t lose,” Douglass explains. “If the market

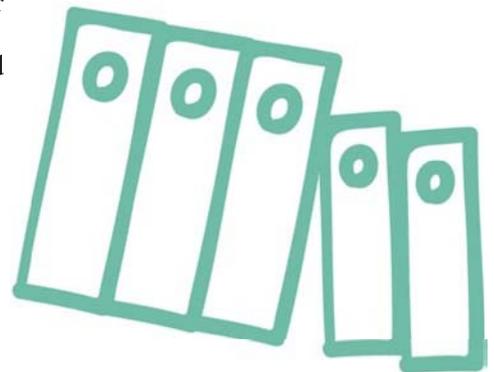
comes back, you’re going to get the gains there. If you don’t, you can always bail out and take your lifetime income. With that concept, the variable brokers are running hot.”

For Brown, enhanced death-benefit riders have gotten a warm welcome. “I can point to the clients that had the guaranteed reset feature in them, that if something were to happen to them, they would be assured that their beneficiaries would receive no less than what they put in,” he says. “If there had been growth before the decline, they would have gotten that growth too. I’ve seen our company pay out a lot of those reset values. A lot of those were written before we had the investment protection plan rider. I can protect them both ways now.”

### More scrutiny from regulators

Producers should also expect more oversight from regulators. Last year the National Association of Insurance Commissioners (NAIC) adopted a new Suitability in Annuity Transactions Model Regulation, which requires that producers take at least four hours of continuing education credits for specialized training in annuities. The one-time requirement must be completed within six months of the regulation becoming law in the producer’s state.

In addition, the regulation requires producers to have “reasonable grounds for believing that the recommendation is suitable for the consumer on the basis of the facts disclosed by the consumer,” the list of which includes, among other things, the client’s financial experience, his



intended use of the annuity, his tax status, and financial situation. The regulation also requires that prior to issuing an annuity contract, an insurer or third party must review the recommendation for suitability. At least 28 states say they'll be adopting these or similar new rules this year, according to the Insured Retirement Institute. For more information about the regulation, visit [naic.org/documents/committees\\_a\\_suitability\\_reg\\_guidance.pdf](http://naic.org/documents/committees_a_suitability_reg_guidance.pdf).

Though Douglass says he appreciates the extra training and scrutiny on clients' behalf, it slows down what used to be a prompt transaction. "In the old days, people liked annuities because they were simple and quick issue," says Douglass. "A lot of guys had come from the life insurance background where we had underwriting, and everything got to be a major obstacle.

"They had all the exams to take care of, the APSs [attending physi-

cians' statements] to obtain. When people started selling annuities, it was like, 'Wow, I don't believe this! I just send in the application and a check, and 72 hours later I get a policy, and my commission is overnighted to me, and life is good!'

"Now it's a whole different ball game," he explains. "It's resulted in this tremendous amount of paper to get an application submitted. We used to have a perforated tear-off application for annuities on the back of a brochure. Today we can literally have 10 to 16 pages of paper that we have to submit on an annuity application. So what happens is, instead of our 72-hour issues, it becomes a long-term process." Douglass adds that the disclosure on some riders, such as long-term-care insurance riders, can add another 50 pages.

The additional regulatory oversight also now involves verification calls from the issuer right to the client. "That really is upsetting a lot of agents because obviously if you get a call like this as a client, you wonder, 'Why are they asking me these questions? Do they suspect something's wrong with what my agent is doing?'" says Douglass.

Clearly the annuities business has changed significantly in the last three years, but fundamentally it's still the same. Investors still want a sense of security, and they still want a stable retirement income. Boomers are still getting older, and generally they haven't saved enough money for their retirement. And annuities still have their enemies. So the appetite for annuities may be bouncing back, but from now on, it's a market that will benefit only producers who understand the new tools, players, options and rules. □



## Top Tips for Selling Today's Annuities

**A**s a producer, you are facing a new generation of annuities. Here's what you need to know to sell them.

- **Catch up with technology.** The annuities business is going paperless, and if you're not comfortable with software, laptops and mobile technology, you're going to get left behind.
- **Know your issuers' creditworthiness in detail.** Customers want more information than ever about the financial condition of the companies they do business with. Not knowing the answers to their questions makes you look uninformed and can cost you the sale.
- **Understand the world of riders.** They are more complex than in years past. Make sure you know about everything that's out there, the costs, conditions and the strings attached.
- **New regulations mean that you need to make sure you've got the right training and are asking the right questions.** Check with NAIC about the rules in your state. □

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