
A New Brand of VA Conference

By Kerry Pechter *Wed, Oct 27, 2010*

Under Cathy Weatherford's command, the IRI annual conference has become smaller, more strategic, less tactical, and more Washington-oriented.

"Life is good, but we could always use more volume," said Hal R. Harris, the national sales vice president for individual annuities at Securian, the mutual insurer, as he sipped a cup of Starbucks at the Insured Retirement Institute's conference in Chicago Monday morning.

The affable Mr. Harris, clad in a sport jacket instead of the more prevalent charcoal suit, noted however that his St. Paul-based company puts limits on its exposure to the risks inherent in its rider-rich VA contracts. "We've got a very high rating and we're very protective of it," he said.

Conversations with Harris and others attendees at the IRI annual conference suggested that VA issuers are now roughly divided into those that are fully committed to the product (e.g., Prudential, Jackson Life and MetLife), those purposely scaling back since the financial crisis, and those, like Securian, that quietly continue to till modest patches of the VA landscape.

The VA industry as a whole remains a niche business, to the frustration of its boosters. While the industry has total assets of more than \$1.3 trillion, net cash flows into VAs in the first half of 2010 were just \$9.8 billion, according to Morningstar. The entire VA industry fits into the fund industry's vest pocket.

Cathy Weatherford, IRI's president, has, with a reportedly steel grip, thoroughly made over the 20-year-old trade association formerly known as NAVA, the National Association of Variable Annuities. Over the past two years, she has changed the group's name, relocated its headquarters, replaced its entire staff and refocused IRI as a Washington lobbying force.

Weatherford has not visibly moved the net flow-dial for VAs, however—perhaps because of circumstances beyond her control. The financial crisis, which at one point in 2009 dragged the product's income guarantees an estimated \$250 billion under water and toppled insurance company share prices, unfolded just as she took charge in October 2008.

It's universally agreed that the organization and its conferences have changed markedly. "That's exactly what we're trying to do," said Bill Loehning of Fidelity, the chair of the conference. Lowell Aronoff, CEO of Cannex, the income annuity data provider, said he enjoyed the speakers and the new agenda. "It's strategic rather than tactical," he said.

Topline Flatline

The VA industry's ongoing frustrations are no secret. In his welcoming address, IRI chairman Jamie Shepherdson, president of Retirement Savings at AXA Equitable (the sixth-ranked seller of VAs in the first half of 2010, with sales of \$3.15 billion) gave the industry "fairly terrible grades."

“Every industry can screw up a good idea,” he said, referring to the VA industry’s use of the guaranteed minimum income benefit, invented in the late 1990s. That innovation was the “best thing that happened to us and the worst thing,” he said. The GMIB offered a new, more flexible payout option for VAs. But it also launched the VA “arms race,” which by 2007 had produced an array of complicated lifetime income riders that were simultaneously expensive and underpriced.

Sales “basically flat-lined between 1998 and 2008,” Shepherdson said, even as the sales of mutual funds and ETFs boomed. Despite the industry’s advantages—tax-deferral, great investment options, generous guarantees, and “an army of wholesalers and attractive compensation,” VA business simply churned out exchanges without generating much new business.

Shepherdson’s call for reform was emphatic but short of specifics. “Our industry has to change,” he said. “We need to change our culture and our operating models. We can come up with simple solutions. On the institutional side, we can come up with IRA solution and 401(k) in plan solutions.”

Almost no specific discussion of VA products followed. In a break with tradition, the lightly attended one-and-one-half-day conference didn’t include any breakout sessions. In years past, small groups discussed specific new products or sales challenges. This year, the one-and-a-half day conference consisted entirely of general sessions where participation was limited to question-and-answer periods.

Even the general sessions were not very specific to VAs, and had an inside-the-Beltway flavor. In his address, Anthony W. Ryan, a Fidelity executive who was a Treasury official under George W. Bush, gave an eyewitness account of a pivotal West Wing meeting in 2008 where President Bush, Treasury Secretary Henry Paulsen and Fed Chairman Ben Bernanke decided to ask Congress for \$700 billion to refloat the banks. Ryan’s tale put those officials in a flattering light, but had little to do with annuities.

The next speaker, Prudential Financial’s chairman and CEO, John Strangfeld, was somewhat closer to the point. Of anyone at the conference, he had reason to be optimistic. Prudential Financial is the dominant seller of VAs, with \$10.2 billion in sales in the first half of 2010, a 16% market share, and a unique product design with built-in automatic buffers against equity market risk.

Yet even Prudential sees no reason for complacency. Its senior managers have said they would rather see the whole VA market growing rather than merely see their slice grow, and Strangfeld’s overall outlook was muted. “The financial crisis isn’t really over,” he said. “Market volatility will be with us for some time to come.” The retirement income crisis is likely to get worse, he added, and trust in the financial services industry “is at a low point.”

The mea culpas kept coming during a panel discussion on the distribution end of the VA business. “We’re good at serving the high-end customers, not very good at servicing the middle, and terrible at the low end,” said Paul Hatch, head of Investment Strategy and Solutions, Morgan Stanley Smith Barney.

“I’m embarrassed at the quality of some of the advice our industry is giving. We have inexperienced, undereducated advisors selling complex products. We have got to move from the broker-dealer model to the planning model,” he said.

His fellow panelists, Derek Bruton of LPL Financial and David Carroll of Wells Fargo, several times mentioned the weak financial literacy of most Americans. This was also borne out during a session dedicated to the voice of the consumer, where attendees could hear how little even high-net worth investors know about finance.

Indeed, the absence of bottom-up demand by the wider population for retirement income solutions may help explain many of the frustrations of the VA industry and of the decumulation industry (including income annuities, payout mutual funds, etc.) as a whole.

Despite the potential financial catastrophe that they face in retirement, like boaters unaware of the cataract they're drifting toward, millions of Americans—both as individuals and as plan participants—aren't actively demanding the kinds of solutions they will eventually need in the post DB (and perhaps post-Social Security) future.

That's a big problem. Until more Americans (and their advisors) recognize their predicament, educate themselves, and start initiating the retirement income discussion, the retirement industry may have to keep guessing where to concentrate its efforts, and exactly what products and services it should offer.

© 2010 RIJ Publishing LLC. All rights reserved.