
Anatomy of a Success: Elite Access

By Kerry Pechter *Fri, Aug 1, 2014*

Jackson National Life's Elite Access variable annuity zoomed from zero to a \$1 billion in quarterly sales in less than two years. Using the craze for 'liquid alts' as a hook, it revived the concept of the "investment-only" VA and sparked the creation of a whole new category.

The story behind Jackson National Life's success with the Elite Access variable annuity contract is an interesting one. It's a business strategy story in which a quiet, foreign-owned life insurer created not just a top-selling new product but also a new product category, and injected much-needed new energy into a flagging industry.

Launched in March 2012, [Elite Access B](#) was ranked fifth in sales among all VA contracts in the U.S. at the end of the first quarter of this year. Now attracting over \$1 billion in premia every quarter, it's the dominant contract in the so-called "investment only" segment of the VA market.

The contract started out as a way to leverage the growing interest in "liquid alts," to give retail investors a convenient, tax-efficient way to get exposure to institutional-style assets like commodities, hedge funds and long/short strategies through actively managed mutual funds. Since then, Elite Access has been repositioned as a versatile, one-stop platform for investing in a volatile market where alts, not bonds, are expected to be the best diversifiers of equity risk.

We were curious about the effort and the strategy behind this successful launch. So we started calling broker-dealers and advisers who have and haven't sold Elite Access, including a few who were flown to Jackson's Denver headquarters for all-day immersions in the benefits of Elite Access. We also talked to the heads of annuity sales and of overall marketing at Jackson, which is a unit of UK insurance giant Prudential plc.

Jackson evidently put everything it could into making Elite Access a blockbuster. To differentiate the product and broaden its appeal to VA-hating advisers, it created a dedicated new web portal for hired actor/economist Ben Stein to make droll, disarming videos about the product, and brought in an artist from Disney to illustrate them. It created the usual tools and white papers and webinars, but at a new, intensified level.

The company even inflected its corporate culture. It hired client portfolio managers from asset management firms. It required hundreds of internal and external wholesalers to get

Certified Fund Manager designations. On the one hand, it was still supporting and selling billions of dollars a quarter of its lifetime income-oriented VAs. But it wanted to look and sound less like a life insurance company and more like an asset manager.

Alts to the people

For those not familiar with Elite Access, it's an accumulation-oriented (as opposed to income-oriented) variable annuity contract that makes it easy for retail investors to dabble in so-called liquid alts—mutual funds that hold investments in alternative assets like commodities and real estate or those that use alternative strategies like managed futures or merger arbitrage.

The name Elite Access refers to the fact that alternative investments—which investors prize as portfolio diversifiers because their returns aren't correlated with the returns of stocks or bonds—are directly accessible only to investors with millions or dollars or to institutional investors like Ivy League universities with multi-billion dollar endowments. By contrast, anyone could invest as little as \$5,000 in Elite Access and allocate small amounts of money to actively managed mutual funds whose managers invest in alts.

A variable annuity like Elite Access makes sense for people who want to invest some of their after-tax money in liquid alts. These funds are as a rule actively managed, and their high turnover rates generate potentially taxable gains. If you own liquid alts in a VA, you can defer those tax liabilities into the future, when you take withdrawals from the contract. Also, when a life insurer offers liquid alts in a VA wrapper, the insurer has presumably done all of the necessary due diligence on the underlying investments—and liquid alts require a lot of careful due diligence.

Elite Access offers several ways to invest in liquid alts: smorgasbord, full dinners or a la carte (See list below). Advisers and investors who want to go a la carte can choose among eight alt assets, including infrastructure, listed private equity, commodities and natural resources, and eleven different alternatives strategies, such as managed futures, absolute return, covered calls and convertible arbitrage.

Investors and advisers who prefer a packaged solution can get exposure to alts by investing in one of the portfolios managed by Jackson National's asset management arm, Curian Capital. These one-stop portfolios combine traditional investments with alts and/or with dynamic or tactical risk management overlays. Active management and packaged solutions are never cheap, of course. Investors can expect to pay about 1% in mortality and expense

risk fees and administration fees, and perhaps another 1.5% in investment fees, but many regard the total package as worth it.

“To go into alts on a direct basis and to diversify across the alts, one would need millions of dollars of investable assets. But the Elite Access portfolios provide a diversified approach to alts at a low entry price,” said an annuity specialist at a major distributor, who said that his company’s younger producers like packaged solutions.

“It’s a new business category,” he added. “Historically, the VA issuers have focused on selling the guaranteed income solution to the mass affluent. But Elite Access is geared to higher net worth individuals who are looking to manage their money through retirement rather than insure it. In terms of leveraging a full suite of asset classes, it provides unique exposure. It’s a portfolio construction sale.”

Elite Access’ rapid sales growth shook up the VA industry. First offered in March 2012, Elite Access B gathered sales of \$11.4 million, and then accelerated to \$676.2 million in the fourth quarter, according to Morningstar. At the end of the first quarter of 2013, it was ranked tenth in sales, with \$785.5 million. Sales topped \$1 billion in the fourth quarter of 2013, and then again in the first quarter of this year, when it was the fifth best selling VA.

Alternative Investments	
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Alternative Assets	Morningstar® Category Name
JNL/BlackRock Commodity Securities Strategy	Commodities Broad Basket
JNL/Brookfield Global Infrastructure and MLP	World Stock
Curian/CenterSquare International REIT	Global Real Estate
Curian/Franklin Templeton Natural Resources	Natural Resources
JNL/Invesco Global Real Estate	Global Real Estate
Curian/Neuberger Berman Risk Balanced Commodity Strategy	Commodities Broad Basket
JNL/Red Rocks Listed Private Equity	Miscellaneous Sector
Curian/Van Eck International Gold	Equity Precious Metals
Alternative Strategies	Morningstar Category Name
JNL/AQR Managed Futures Strategy	Managed Futures
Curian/AQR Risk Parity	Tactical Allocation
Curian/BlackRock Global Long Short Credit	Nontraditional Bond
Curian/Eaton Vance Global Macro Absolute Return Advantage	Nontraditional Bond
Curian/FAMCO Flex Core Covered Call	Large Blend
Curian Long Short Credit	Nontraditional Bond
JNL/Mellon Capital Global Alpha	Market Neutral
Curian/Neuberger Berman Currency	Multialternative
Curian/Nicholas Convertible Arbitrage	Market Neutral
Curian/PineBridge Merger Arbitrage	Market Neutral
Curian/UBS Global Long Short Fixed Income Opportunities	Nontraditional Bond

These sales have generated industry awards—and imitators. AXA Equitable, Guardian Life, Lincoln Financial, Nationwide, Prudential Financial, Protective Life, Security Benefit and other life insurers have issued their own accumulation-oriented, alt-accented variable annuities. Observers say that Jackson National wasn’t necessarily the first to market an “investment-only VA (IOVA)—indeed, most pre-living benefit VAs could be called IOVAs—but they’re credited with creating a new category.

How and why

Billion dollar products—new drugs, movies or even annuity contracts—don't fall from trees. Starting in 2011, Jackson National took great care to make Elite Access a success, initiating an internal campaign that involved new hiring, new training, new white papers and videos, a new website just for Elite Access, and even, to some extent, a new corporate culture.

To learn more about Jackson's strategy for developing and launching Elite Access, *RIJ* called some of Jackson's key distribution partners. Scott Stolz, the president of Raymond James Insurance Group and a former Jackson executive, cited three factors that contributed to its sales growth.

Wholesaling prowess was definitely one factor, Stolz said. "They have an army of wholesalers. I'd be surprised if they don't have 20% of all the wholesalers in the annuity business. They spent a ton of money marketing this product. No other annuity company can supply this much marketing muscle and money."

Where other large annuity issuers might have 40 to 80 wholesalers, Jackson, which specializes in annuities, has some 210 external wholesalers and another 300 internal wholesalers supporting relationships with some 10,000 financial advisers.

"They could do it because they had one of the largest wholesaling teams on the Street, with proven distribution prowess," said an annuity manager at one broker-dealer. "No insurer other than Jackson National, or possibly Lincoln Financial, could have executed at that level. It was the quantity and the quality of their distribution."

Elite Access' cost structure also played a role in its success, he said. "They were smart enough to set a lower fee and a shorter surrender period than the typical B-share VA," Stolz told *RIJ*, referring to the contract's five-year surrender period instead of the usual seven, and its combined mortality and expense risk and administrative fee of 100 basis points instead of the usual 130 basis points or so.

Finally, he said, Jackson made a deft course correction after the product launch. "They initially positioned it as an alternatives play: 'Everybody needs to add alternatives to his portfolio; it's hard to do, but we'll make it easy for the adviser and client,'" Stolz said.

"But a year or 15 months into it they had an 'ah-ha' moment. They decided that it's not really an alternatives play. It's an entire portfolio management system, in which they can fill the alt slots. The presentations were geared at first toward putting alts in the portfolio, but

now it's more about portfolio construction with a heavy accent on alts."

It turned out that advisers were using Elite Access as an investment platform for a big chunk of their clients' assets, not merely for exposure to alts. "The appetite is more around tax efficiency than about access to alts," said a wirehouse annuity manager who expects his advisers to sell a lot of Elite Access. "And a tax efficient portfolio should include not only traditional long-only investments but also alternatives—although exposure to those should be limited in scope."

Marc Socol, director of sales for Elite Access, and Dan Starishevsky, senior vice president of marketing for Jackson National, confirmed Stolz' observations. "Alternatives were the start," Socol told *RIJ*. "We had seen the meteoric success that liquid alts had had, and we'd already had success selling liquid alts in the Perspective VA contract.

"But we listened to the wholesalers and advisers, and we started integrating their feedback into the product. We launched Elite Access with 50 investment options. Now we're up to 120. It evolved into a platform of unique investments that work in rising or falling markets and increasing or decreasing periods of volatility. It was just a matter of listening to what people wanted, and broadening the options."

The presence of two videos starring Ben Stein on the Elite Access site is one manifestation of that strategic inflection. The most recent video, called Ben Stein's Storytime, shows Ben Stein himself in an armchair with a large book in his lap and a cup of tea close at hand, a la Alistair Cooke, the long-time host of PBS' Masterpiece Theater. (Jean-Joseph Mouret's "Rondeau" plays in the background of the Elite Access video, as it did in Masterpiece Theater.)

In this video, liquid alts aren't even mentioned by name. Instead, Stein talks about diversification and tax deferral and staying invested in all markets with Elite Access' 120 investment options. By contrast, an earlier video, entitled "Ben Stein explains Elite Access" (it also can be seen on the Elite Access homepage) features a cartoon version of Ben Stein and explains the importance of adding alternatives to a traditional portfolio as a volatility hedge. This video is all about alts—futures, commodities, arbitrage strategies—and the fact that big institutions have long used them to beat the S&P 500.

Part of the rationale for the videos—which involved an illustrator from Disney as well as Stein—and for the new site on which they appeared was to differentiate Elite Access from annuities and make it more palatable to advisers who had never sold annuities before.

“We wanted to tell a completely different story,” Starishevsky said. “We wanted to change the look and feel of Elite Access, to make it different from anything that had come from an insurance company, because we wanted to extend our reach new advisers. We have healthy relationships with about 10,000 advisers but we wanted to reach a new kind of [non-VA selling] adviser.”

Starishevsky also orchestrated a thought leadership campaign. “We wrote articles and white papers, we sent speakers to the right conferences. Clifford Jack, our head of retail products, made videos,” he said. Last September, there was an online symposium for advisers on the use of alts. While almost every insurer supports an important new product with white papers and videos, Jackson took the process a step farther than most. Starishevsky even acted as the “anchorman” in a series of news-like videos and “interviews” Ben Stein about diversification.

“We introduced a suite of investment-related tools for advisers and investors. The first was a portfolio construction tool that showed people how to build a portfolio using alternative assets. You don’t see a lot of that happening in the traditional insurance space. The micro-site for Elite Access was totally different from our primary website. It had calculators and a video library. Finally we introduced an iPad app that our wholesalers could use to share marketing collateral with advisers. That set us apart from others in that space,” Starishevsky said.

Cultural change

One of Socol’s challenges was to retrain wholesalers who’d been touting living benefits for several years and show them how to talk about investment options. He responded by having all of the wholesalers get their Certified Fund Specialist designation, which armed them with the basics of mutual funds. Portfolio managers from Jackson’s Curian Capital asset management arm helped train the wholesalers.

As part of the effort to refocus on investments rather than insurance, Jackson also hired client portfolio managers from asset management firms and teamed them with wholesalers. As one of Jackson’s strategic distribution partners put it, “They took individuals who had experience in portfolio construction and created separate positions for them in the firm. They traveled with the wholesalers and helped them out.”

Soon the annuity wholesalers weren’t the only ones learning to think with the asset management side of their brains; the whole company was. It was somewhat surprising to

hear Starishevsky explain that the launch of Elite Access was the occasion for a top-to-bottom change of culture at Jackson—away from insurance and its language and toward asset management and its unique language.

“We identified asset managers as our competitors,” Starishevsky told *RIJ*. “We wanted to talk about what the market was talking about. We needed national awareness, so we introduced a comprehensive campaign. Our fear was that any message they’d hear about variable annuities, they would associate with a living benefit product.”

“One of the difference-makers here, part of the recipe, was the change in our culture. It’s really been a metamorphosis of the company. We didn’t stamp out the old culture. We’re still committed to the living benefit space and to the Perspective variable annuity. But we’ve changed from being a life insurance company to being more of an asset manager, at every level of the organization. We changed the way we present ourselves. That change in culture made Elite Access possible.”

The magnitude of the change suggests that something fundamental was at stake in the launch of Elite Access, and Stolz suggested that there probably was. “MetLife or Prudential would never make as big a marketing bet on a new product,” he told *RIJ*. “Part of the reason Jackson National would is that they had the most to lose from a cutback in living benefit sales.

“MetLife dropped from \$28 billion a year in VA sales a year to \$7 billion, but in the overall scheme of things that’s not a big deal for MetLife. But if Jackson National went from \$28 billion to \$7 billion, what would be left? That’s what they do. When it came to variable annuity sales, they had more on the line. If Prudential plc said, ‘We want Perspective II sales at \$10 billion,’ Jackson National would be laying people off right and left.

“So they had a greater sense of urgency to make this work. They were smart enough to know that that if you make a major change like this, it has to happen quickly. They’ve seen other companies take years to get traction with a new product. But with Elite Access, Jackson got there in 15 months.”

Not without critics

Not everybody who spoke to *RIJ* about Elite Access praised it. One of the critics was Jim Moore, an adviser with Citizens National Bank of Paintsville, Kentucky. Moore was the type of adviser that Elite Access was designed to reach. He didn’t like variable annuities, but he wanted to give his clients exposure to alts. He stopped selling Elite Access, ironically, when

Jackson repositioned the product as one-stop shopping for an all-weather portfolio.

“I put two of my higher income clients into the alts,” Moore told *RIJ*. “It allowed them to use managed futures without requiring huge amounts of money. That was very appealing. But then it morphed into your typical VA and I’ve been moving away from it. It still had alts, but now they started pushing your regular moderate-to-aggressive allocation. That’s not why I was there.

“If I were in the decision-making room at Jackson National, I’d say, Let’s cut the costs on the VA and strictly go for alt investments—maybe it would cost 1.5% instead of 2.5%,” he added. “You’d get a niche of people who wanted [access to liquid alts] without needing a million dollars. That’s what I was using it as. But I’m not a fan of variable annuities. I don’t like explaining all the ‘ifs, ands and buts’ that are involved.”

A loyal Jackson National adviser in New Jersey, who was one of the advisers flown out to Denver for presentations on Elite Access, also hesitates to use the product. “Ultimately what discouraged me was that alts are so new,” said Howard Kaplan. “I don’t like using things that are so completely new.”

Kaplan found it difficult to predict how alts would affect his portfolio, and wondered how time-consuming it might be to track them, even if he used one of Curian Capital’s model portfolios. “There’s a question of how much will I have having to manage this? They have models but there’s an overlay cost to the models,” he said. “How much help can I really get from a wholesaler with questions like, ‘When should I be shifting things around? What if I pick the wrong stuff within the platform?’”

Both of these advisers touched on a problem related more to the nature of liquid alts than to Elite Access per se. Contrary to the ads that say liquid alts offer “more return with less risk,” investors may not like getting lower returns during bull markets and may not appreciate the value of losing less in bear markets.

“I know that the argument for using alts is about reducing risk and volatility, but is it really OK to have an investment that gets you two percent?” Kaplan said. Moore told *RIJ*, “Alts are not supposed to do well. When my regular portfolio is returning 14% or 15%, I don’t expect alts to hit it out of the park.” In short—as Jackson National itself may have discovered—liquid alts may be novel and important, but their appeal, in terms of performance enhancement, is indirect and limited.

One distributor finds Elite Access too expensive for what it offers, and too narrow in appeal,

because it is only suitable for non-qualified money.

“We don’t think that the value is there for the client in how these are priced. I’ll grant you that Jackson has done a wonderful job with the marketing machine, and they have more wholesalers than any other firm out there,” he told RIJ. “They pay their wholesalers more to distribute this product than to distribute their guaranteed products. They were very aggressive with this and that’s why they got traction. It helped last year when tax rates went up. But they missed the boat by pricing this high.

“There are other products that clients can buy that use the same funds, at a cheaper price. With the Elite Access contract, for instance, the subaccount fees are higher than they are for Perspective II. While they have lowered the M&E on Elite Access to 100 basis points compared to 130 basis points on the Perspective II, the average fund fees in Elite Access are 22 basis points higher. So it’s almost a wash in fees.”

The distributor also questioned the liquid alt strategy itself. “They’ve loaded up the product with 20 or 25 alt portfolios. But clients don’t understand these investments, and there’s no protection in these products. I don’t care if they’re in alts or managed-vol funds or what; they’re not going to understand why they lose money. People will say, ‘I thought I was in a protected fund.’ At least with the guaranteed product, there’s some protection there. It’s a risky road to go down.”

There are limits to how cheap the product can be. A product’s charges had to be high enough to provide a compelling incentive for the distributors and the advisers, especially for a product that involves such a potentially steep learning curve. Broker-dealer reps don’t sell VAs without competitive incentives, and those incentives are financed in part by the M&E fee and in part by the fees attached to the investment options.

But another broker-dealer thinks Elite Access’ pricing is justifiable and that its value proposition is valid. For the client, “If the alts succeed in managing portfolio volatility and if you’re looking to take income from the portfolio, that has extreme value and it’s worth a price,” he said.

Volatility management also has value for the distributor, he added, and that value makes up for the fact that Elite Access doesn’t pay the broker-dealer as much as earlier VAs did. “From a distribution standpoint, the transactional revenue from the guaranteed product [the VA with living benefits] is higher. But the portfolios in that product were so correlated to the market that when the market went down, our asset-based revenue went down. The

managed strategies, to the extent that they protect the client's asset base from volatility, also protects our revenues from volatility."

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