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## Channel Surfing for Low-Cost SPIAs

By Kerry Pechter    *Tue, May 10, 2011*

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*Where can you find lowest SPIA prices on the web? RIJ compared prices at Immediateannuities, Income Solutions, Fidelity and (as a benchmark) Cannex. And the winner was...*

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Neither investors nor advisors are exactly jonesing for income annuities these days. But as Boomers' hair fades to white and they begin to grasp the value of mortality credits—and as interest rates rise—SPIA sales might eventually spike.

If or when that happens, frugal retirees will scour the web for the best retail SPIA prices. And as they do, they're likely to demand the same transparency, wide choice, and competitive pricing from SPIA sellers that they get today from an Amazon.com or a cars.com.

Actually, SPIAs are already well entangled in the Web. You can buy them through literally hundreds of sites. When I went online to clock SPIA prices recently, however, I narrowed my search to just four venues: Immediateannuities.com, Fidelity.com, IncomeSolutions.com, and Cannex.com.

Why those four? Immediateannuities.com, where each sale involves a commissioned agent, was a proxy for all sites that charge the manufacturers "standard" price. As with fixed deferred annuities, any commission—perhaps 3% or 4%—that the issuer pays the distributor is already embedded in the quote.

By contrast, IncomeSolutions.com and Fidelity.com both represent the direct sales channel. Income Solutions was set up by the Minneapolis-based Hueler Companies to provide "institutional" prices to plan participants; all Vanguard investors and certain fee-only advisors can access it. Fidelity.com offers quotes from five carriers, along with tons of online educational and planning tools, to retail investors.

Cannex.com, which collects and sells subscriptions to data on SPIAs and other financial products from companies in the U.S. and Canada, provided the prices—the standard prices quoted by the carriers for the commission channel—against which I compared the prices on the other channels.

Full disclosure: I had an agenda. I wanted to see a) if prices were actually cheaper in the direct channel than in the commissioned channel and b) if claims by the Hueler Companies that its prices were the lowest of all were true. The answers to both "a" and "b" turned out to be yes. But the customer may have to give up something in terms of broad selection and personal advice in order to get those lower prices.

### Hunting for cheap SPIAs

I went looking for quotes on a single premium life annuity with these specs: a \$100,000 premium, a joint-and-survivor contract for a 65-year-old male and a 59-year-old female, a 100% continuation of payment to the surviving spouse, and at least 10 years of payments. I based my specifications on the type of contract

that my wife and I might purchase in a few years.

**IncomeSolutions.com.** First I went to Income Solutions. Plan participants of certain participating plans (potentially including all six million participants in plans whose sponsors belong to the Profit Sharing Council of America) can use the platform. Retail and institutional Vanguard clients can use it, and so can fee-only advisors belonging to NAPFA (National Association of Personal Financial Advisors). I was able to access the platform because I have an account at Vanguard.

Coming from Vanguard, for reasons not readily apparent, I received only four quotes—from Pacific Life, American General Life, Principal Life, and Integrity Life. On its co-branded webpage with Vanguard, Hueler listed three additional participating companies: Western National Life, Mutual of Omaha, and Lincoln National Life. Hueler says that it doesn't use Cannex as a source for its data.

Income Solutions describes its pricing as “institutional.” On the website, that is defined as follows: “Institutional pricing gives individuals the same type of buying power that large organizations have. The Income Solutions program was designed to take advantage of this cost effective pricing method to provide generally more favorable pricing possible and pass that on to each individual purchasing an annuity.”

In the past, Income Solutions founder Kelli Hueler has said that she negotiates with each participating carrier to get payout rates that are stripped of the standard distribution charge. She promises that the rate that the customer sees (and gets) will never be more than 2% higher than the rate she gets from the carriers. Not all carriers agree to meet her demand for a “special” low price, and many do not participate on her platform.

Why does Hueler do this? Over the past ten years, she has developed her low-cost channel specifically to meet the needs of plan sponsors. Many of them want to offer their participants a lifetime income rollover option. But, as fiduciaries, they can't simply send retiring participants into the commercial market, where the fee structures are not transparent to the end customer.

**Immediateannuities.com.** This website, along with a number of sister sites, represents a business that insurance veteran Hersh Stern has been running for about 25 years in Englishtown, New Jersey. His sales literature includes the statement: “Shop Directly—Without Commissions and Without Hidden Fees.” But that disclaimer means there are no fees *in addition* to the manufacturers' prices, which already incorporate the fees.

You get a much larger selection of quotes from Immediateannuities.com because it's a supermarket, not a boutique. I submitted a request for my SPIA online and got a packet in the mail a few days later with 18 quotes, some provided by Cannex.com and some that Stern acquired from other sources, along with a lot of charts and other collateral.

I saw quotes from the following carriers: Allianz Life, American Equity, American General, American National, EquiTrust, Genworth, Integrity, Lafayette Life, MetLife, Midland National, Minnesota Life, Nationwide Life, New York Life, North American, Penn Mutual, Symetra Financial, United of Omaha, and West Coast Life.

**Fidelity.com.** From Englishtown, NJ, I surfed to Boston, where Fidelity’s SPIA platform offers contracts from five participating blue-chip issuers, including New York Life, Mass Mutual, MetLife, Principal and John Hancock.

The products are supported by some impressive online planning resources, including a decision-tree that helps people decide whether they would rather get their retirement income from SPIAs, variable annuities with guaranteed lifetime withdrawal benefits, a ladder of bonds or CDs or merely a systematic withdrawal program from a mutual fund portfolio—any and all of which Fidelity can provide.

**Cannex.com** To benchmark the prices from these vendors, I got quotes at Cannex, a Toronto-based company led by Lowell Aronoff that also has offices in the U.S. Cannex provided me with a set of standard quotes for the annuity structure I requested. Cannex has perhaps the widest available range of quotes from the most providers. Its quotes, unlike the quotes on the other platforms, aren’t visible to consumers. They’re visible only to the companies or broker-dealers or advisors who purchase access to the Cannex databases.

**Compare and contrast**

Long story short: Income Solutions did, as promised, offer higher payouts from the same company for the same contract than the other platforms. Fidelity was next, followed by Immediateannuities.com. Principal was the only company that offered a full across-the-row comparison, and its prices followed that pattern. (For simplicity, carriers that were not represented on at least two of the three platforms were left out.)

<b>SPIA price comparison, May 9, 2011.</b>				
	<b>Income Solutions</b>	<b>Fidelity</b>	<b>Immediate annuities.com</b>	<b>Cannex</b>
Pacific Life (A+)	\$520.83		\$499.09	\$499.09
Integrity Life (A+)	491.97		481.67	481.67
American General (A+)	483.42		472.9	472.95
Principal (A+)	466.05	456.53	449.20	449.20
New York Life (A++)		476.87	476.87	476.87
John Hancock (A+)		449.93	447.59	447.59
MassMutual (A++)		481.21		
MetLife (A+)		489.00	489.00	489.00
All prices for \$100,000 premium, M65, F59, 100% continuation,10-year period certain.				

The most striking price differences do not appear across the rows, but down the columns. On any given platform, quotes from different companies ranged by as much as \$50 or more per month, or about 10%. For this annuity, that’s a difference of about \$18,000 over a 30-year retirement or as much as \$10,000 in the initial purchase price. For the mass-affluent retirees who arguably need SPIAs most, that’s a significant

difference.

Price-shopping for a SPIA did not turn out to be as simple as it first appeared—even when all the specs were the same. Different channels are designed for a different type of customer. Income Solutions is built for plan participants and fee-only advisors, Fidelity for do-it-yourselfers and Immediateannuities for people who don't mind paying for the services of an agent. So it's hard to say if the prices differences are justified by the level of selection and service.

But, during my search, it gradually became clear that divining price variations between platforms may not be the most important aspect of the SPIA purchase process. The simple question, How much will it cost? isn't as important as questions like: Do I need a SPIA? If I do, how much of my assets should I annuitize? How many lives should I cover? Should I add an automatic inflation-adjustment? Where does the SPIA fit into my overall retirement income strategy? Finding the right SPIA is more important than finding the cheapest SPIA.

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