Decumulation Beat

By Editor Test *Wed, Sep 23, 2009*

The Insured Retirement Institute held the first annual conference under its new name in Boston this week, and the difference between IRI and NAVA was striking.

I arrived late at the Insured Retirement Institute's annual meeting in Boston Monday and slipped into a darkened ballroom at the Westin Copley just in time to catch the end of the afternoon's last general session.

For this particular session, consultant Michael Maslansky had impaneled two dozen or so random investors jury-style in rows of chairs on the ballroom stage. I heard him ask them how they'd prefer to pay for financial advice:

a. On a sales commission basis.

b. As a percent of assets under management.

c. By the hour.

d. As a flat fee for service.

By the number of raised hands, "by the hour" and "flat fee" were significantly more popular among consumers. Clearly, insurers will either have to re-engineer their compensation practices or re-educate American investors.

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This focus group-like presentation, called "It's Not What You Say, It's What They Hear: How to Talk to Consumers in a Post-Crisi World," appeared to reflect the new focus at IRI, which has undergone a complete makeover in its staff, its mission and its website since changing its name from NAVA.

NAVA—the original National Association of Variable Annuities—had been an inward-looking and somewhat dour trade group of annuity manufacturers. IRI has much broader and more public ambitions.

At the conference, I asked IRI president and CEO Cathy Weatherford, the former Oklahoma insurance commissioner who has been driving the transition since October 2008, whether IRI was focused on lobbying, consumer education, or financial advisors, she said, "All three. We're doing all of them."

IRI's mission to lobby "insured retirement solutions" is evidenced by the addition of experienced Washington lobbyists to the staff in the past year. Its focus on building stronger ties to the distribution community can be seen in its plan to put regular inserts in *Financial Planning*, *Bank Investment Consultant* and *On Wall Street* magazines.

(In fact, as a reflection of the new parity between advisors and manufacturers at IRI, the organization has raised distributor annual dues sharply to the same $40,000 that insurance companies pay, according to Rick Heil, IRI's Director of Standards.)

Maslansky's presentation seemed to indicate that IRI is serious about reaching out to consumers—although it's hard to tell if IRI's emphasis will be on learning from consumers or shaping their opinions or both.

In any case, the conference, which ended yesterday, was markedly different from NAVA conferences of the past. There were fewer people. There was a higher male to female ratio—perhaps because companies sent fewer mid-level annuity department staffers. Instead of a three-aisle carnival of exhibitors, as in past years, there were only 13 booths this year.

Remarkably little was said about new annuity products or about the product flaws that led to the catastrophic failure of variable annuity lifetime riders over the past year. One attendee said he was "incredulous" at that.

And yet few attendees said they missed much about the old parochial, preaching-to-the-choir NAVA conferences aside from the fact that some of them necessitated mid-winter excursions to golf havens like Tucson and Palm Springs.

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Judging merely by the difference in the intensity of audience engagement in two conference events yesterday, IRI members are deeply interested in learning how to market to registered investment advisors (RIAs) and less interested in the Obama administration's efforts toward automatic IRA enrollment for workers who don't currently have access to a workplace retirement plan.

For instance, the audience's attention faltered during Cathy Weatherford's one-on-one onstage armchair interview of J. Mark Iwry, the Obama administration's point man on the automatic IRA program and the $500 Savers Credit. By contrast, a standing-room-only crowd squeezed into a small meeting room for a breakout session called "RIAs and the Annuity World: The New Paradigm."

RIAs are fee-based intermediaries who for several reasons typically don't sell the variable annuities that many IRI members market. But RIAs are also the fastest growing type of intermediary in the financial landscape, and the decision-makers for increasing numbers of investors. To survive in the retirement income market, annuity manufacturers must win them over.

That won't be easy. The session's panelists—Lisa Plotnick of Cerulli Associates, Marc Costantini of John Hancock, and Patrick Ferrer of Advisor Distribution Consultants—described RIAs as more thoughtful, less sales-oriented, more fiduciary-minded, more cost-sensitive and more resistant to wholesalers than, for instance, registered reps.

The courtship of RIAs can already been seen in new products like John Hancock's AnnuityNote contract, a stripped-down variable annuity with a built-in 5% lifetime payout for an all-in 1.74% fee. But RIAs still "recoil from annuities," said one panelist. Unless persuaded otherwise, RIAs may continue to generate retirement income the way they know best: by building ladders of municipal bonds.