
Fee-Based FIAs Are Customer-Friendly. But Will They Sell?

By Kerry Pechter Thu, Mar 2, 2017

'While the education process is taking longer than we'd like, the bucket of money is so large that it's worthwhile,' said Joe Maringer, national sales vice president at Great American, speaking about his firm's no-commission fixed indexed annuity.



Let's consider the relatively new phenomenon of no-commission fixed indexed annuities (FIAs). These products potentially create significantly more value for investors than traditional FIAs. But it's not clear if they will prove popular with the people who sell them.

How much more customer value can they deliver? Joe Maringer (below right), national sales vice president at Great American Life, told *RIJ*, "A good rule of thumb is that there's approximately a 40% to 50% higher cap [on the no-commission product]. "So if the cap were 4% on our commission product, it would be 6% on our advisory product. Today we have caps on the S&P 500 Index of 7.25% and on REIT Index, 8.25%" on the firm's no-commission Index Protector 7.



If investment advisor representatives (IARs) affiliated with registered investment advisor firms (RIAs) charge less than their usual one percent fee on money placed in an FIA, then fee-based FIAs should become a relative bargain for investors who are looking for both safety and upside potential at a time when stocks and bonds are precariously priced at historic highs.

"Since we're not paying the advisor compensation, we have a larger budget to buy equity options," Maringer said. "The advisors have the flexibility to charge whatever they believe is appropriate to charge on the contract. If you're adding an income rider [and the contract will be held for life], one-time commission might be less expensive."

But if commissions are eliminated, will distributors still want to sell FIAs, which have

traditionally offered bigger sales incentives than almost any other widely sold retirement product?

One broker-dealer executive, Scott Stolz of Raymond James, told *RIJ* this week, “DOL or no DOL, this whole process is pushing more and more advisors to a fee-based-only model. We have told our insurance companies that they will need a fee-based alternative for those advisors. Even firms that are planning to use the BICE [Best Interest Contract Exemption] and continue to offer commission-based products will find that the advisors will make their own choices.”

Aside from deciding how much to charge on money in an FIA, there are other issues to be resolved before fee-based advisors can start selling no-commission FIAs. If clients buy FIAs with tax-deferred money, RIAs can arrange to take their ongoing fees out of the account without a taxable event for the client. This may require systems changes.

“Our independent RIA customers want the flexibility to take the fee directly out of the contract. With qualified contracts, there’s no taxable distribution because the client isn’t receiving the benefit,” Maringer told *RIJ*. “With non-qualified contracts, a Form 1099 will be issued on that distribution. You’ll need to use other assets to pay the fees. There’s more to this than people think. We think it’s comical when some [other FIA issuers] say they can just remove the commission from their product, raise the cap and put it out on the market.”

The topic of no-commission FIAs came up this week when Great American Life announced that Commonwealth Financial Network has approved the sale of Index Protector 7 by its advisors. The product, which offers an optional lifetime income benefit rider, was launched in August 2016. Lincoln Financial and Allianz Life have also introduced no-commission versions of their FIAs.

Commonwealth is the nation’s largest privately held independent broker-dealer/Registered Investment Advisor, with about 1,700 producing advisors managing a collective \$114 billion or so. Last October, Commonwealth announced that its advisors would no longer accept third-party commissions on the sale of annuities to their clients.

That announcement was a response to the passage of the Department of Labor’s fiduciary rule in June 2016. The rule, now under review (for possible repeal) by the Trump administration, stopped intermediaries from selling commission-paying variable annuities or FIAs to retirement savers—such as rollover IRA owners—without signing a Best Interest Contract and incurring new legal liabilities.

Going forward, any VA or FIA on Commonwealth's shelf would have to be no-commission. While commissioned Commonwealth advisors sold a large volume of FIAs in the past, it remains to be seen whether they will sell as much in the future if they do not have the incentive of a commission, or if fee-based advisors who have never sold FIAs will choose to sell them.

"Sales have been slower because it's a whole new educational environment," Maringer told *RIJ*. "We're back to 'Annuities 101.' But some firms have sold hundreds of millions of dollars worth of commissioned FIAs. As they move to a fee-based model, that money has to go somewhere. So, while the education process is taking longer than we'd like, the bucket of money is so large that it's worthwhile."

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