Guardian Weathers the Storm

By Kerry Pechter *Wed, Nov 28, 2012*

Guardian Life VP Douglas Dubitsky talks about the mutual insurer's variable annuity sales growth and how guaranteed income can "free an advisor to be an advisor again."

Superstorm Sandy flooded the basement of Guardian Life's headquarters at the southern tip of Manhattan in late October, and a month later many of the mutual insurer's employees are still working from ad hoc offices in far-flung locations.

No one at Guardian Life—or anyone in New York or New Jersey—looks forward to seeing the Atlantic Ocean establish another high water mark. But the $5.5 billion (capital) insurer has no qualms about setting its own new high water marks for variable annuity sales.

Relative to where it had been, Guardian has enjoyed a breakout decade in VA sales. Through September 30, the company had sold $1.155 billion worth of VAs this year and ranked 17th in sales, up from 20th in 2011 ($1.127 billion) and 25th in 2010 ($767.3 million).

Driving those sales is Investor II, a contract whose Target living benefit riders include a 7% annual deferral bonus (with an optional 100% bonus after 10 years or 150% after 15 years) on the benefit base and a 4.5% annual payout (4% spousal) for ages 65 through 79.

The contract can cost up to 4% a year, all-in. But at a time when many traditional VA issuers are cutting capacity, "de-risking" their contracts, or exiting the business entirely, such aggressive roll-ups have gotten increasingly difficult for prospective retirees to find.

Guardian Life seemed to mobilize in 2011, when Deanna Mulligan was appointed president and CEO. A native Nebraskan with a Stanford MBA, she joined Guardian in 2008 after high-level stints at McKinsey & Co., AXA Financial, and New York Life.

RIJ recently spoke with Douglas Dubitsky (at right below), vice president of product management and development in Guardian's Retirement Solutions group. Like Mulligan, he came to Guardian in 2008 after stops at New York Life, McKinsey & Co. and AXA Financial.

RIJ: Guardian Life is a relative newcomer to variable annuities. That must give you certain advantages over companies that sold a lot of product shortly before the financial crisis.

Dubitsky: Guardian offered living benefits products before 2008, but it was a weak product, and not an area of focus for us. There was no formal product development or training. Our first competitive living benefit product was rolled out in late 2008. So, even though the hedging costs have continued to deteriorate, we didn't have the legacy issues that some of our competitors had. They had billions in legacy products designed for a previous market. We also have many different levers to pull, including the annual bonus, quarterly step-ups, the bonus in 10 and 15 years and various other features.

RIJ: Volatility-controlled investment options are perhaps the hottest new tool for controlling risk and reducing hedging costs in variable annuities. One of your competitors, Ohio National, uses them in its OnCore contracts. Are you using them or considering using them?

Dubitsky: In our current models we don't have the volatility-controlled funds. I agree that it's a big new direction for the industry. Volatility, in both interest rates and market performance, is driving the shape of the industry. But volatility isn't the only issue. Low interest rates are equally important. Longevity and consumer behavior are issues. The damage from the financial crisis was not a scraped knee where you put a little Neosporin on it and everything is fine. There's no single answer.

RIJ: What are some of the things you've done to control product risk?

Dubitsky: We have raised fees over time, and we have tight controls over the investments. We are very carefully matched in terms of our hedging. We're controlling distribution. Two months ago, we did away with outside [non career-agent] sales. We believe there's a point where we don't want too much on our books. As a mutual, we're not the fastest or the sexiest company. We like to see gradual and consistent growth. I've seen other companies control their sales. Jackson National? said 'no transfers,' or they put a hard dollar cap on outside broker-dealer sales. You're trying to keep control.

RIJ: There seems to be only so much capacity in the system.

Dubitsky: You can make these products good for a limited number of people or you can de-risk them drastically and make it available to a huge number of people.

RIJ: It was recently said, however, that the wirehouses are clamoring for VAs from highly rated issuers, but are being turned away by the top issuers. But that's not your channel, is it?

Dubitsky: The wirehouses can game you instantly. They can drive tremendous volume into your product. These are not mutual funds. They're highly regulated. You can't change them on an hour's notice. You need to file changes with the SEC. So, having uncontrolled distribution can leave you hanging out there with a product that was attractive in September but ugly in October. If they have hundreds of thousands of desktops, and if they take advantage of that kind of mismatch, you're setting yourself up for a dangerous scenario.

RIJ: To change the subject a bit, do you have plans for any other types of income products? I know that you introduced an inflation-adjusted single premium immediate annuity in 2010.

Dubitsky: We have a deferred income annuity product that we'll be launching at the beginning of the year. We're also starting to get significant traction on the income annuity. The advisors don't understand that story. All anybody wants is calmness and peace, whether from financial turmoil or from hurricanes. There's constant turmoil, and people want calmness and stability.

RIJ: What do you mean, 'Advisors don't understand that story'?

Dubitsky: Advisors see the annuity as handcuffs, not as something that frees them up. It's the greatest misunderstanding advisors have. They talk about 'annuicide.' But an annuity frees them up to be advisors again.

RIJ: How so?

Dubitsky: If the clients are not secure about their income, they'll be too afraid to make other decisions. They'll be too afraid to do anything. Fear has gripped this market among general consumers. I talk to a lot of advisors. Their biggest problem is clients who are paralyzed by fear. The clients know they need to take action, and they know what their options are. But they're too afraid to do anything. If we can cap that fear, and provide guarantees they can't outlive, they can make those other decisions. Once you've covered your basic needs, for instance, you can engage in discretionary investing. That's why this product is so important.

RIJ: And yet both advisors and clients put a high value on staying fully liquid.

Dubitsky: People don't understand what liquidity actually is. They think it means they can go to the bank and get all their money anytime they want to. That's impulsiveness, not liquidity. Liquidity means access to money for the rest of your life. It means having a continual stream of income. It means not worrying about playing catch-up after you have to withdraw too much in one year. It means not watching 'financial porn' on television.

RIJ: So, which product would you rather sell, the VA or the SPIA?

Dubitsky: The client's assets won't necessarily all go to one product. You'll see some going to the GLWB, some to the immediate annuity, some to the deferred annuity product, depending on the client's situation. Then there are ways to ladder these products. People don't need the same amount of income every year of their lives. We talk a lot about the concept of laddering products and tailoring the income to the advisor's overall plan.

RIJ: Where do you see the VA industry headed in 2013?

Dubitsky: The variable annuity industry is not spiraling out of control. If you are not greedy in terms of sales goals or product designs you'll be OK. You've seen jagged movements by certain players. But if you step back from the day-to-day movements, TIAA-CREF is still here. MetLife and Prudential are still there. Everybody is approaching the problem in a different way, but they're all making smart decisions.

RIJ: Thank you, Doug.