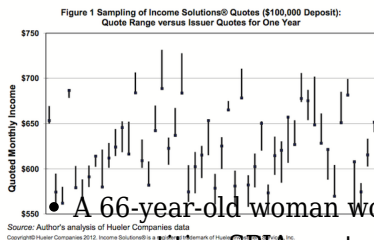


Is This Any Way to Sell SPIAs? You Bet.

By Kerry Pechter Wed, May 9, 2012

Kelli Hueler, creator of the Income Solutions online income annuity sales platform, delivered an academic paper at the Pension Research Council's annual conference at the Wharton School last week, and provided insight into her "out of plan" income option for rollovers from 401(k) plans.



Here are a few examples of the transactions consummated at Income Solutions, the online, institutionally priced, multi-carrier, auction-style single premium income annuity sales platform established by Minneapolis businesswoman Kelli Hueler:

- A 66-year-old woman working with an advisor logs on and, over a period of three years, requests 22 competitive SPIA quotes and pays \$10,000 each from her IRA for a dozen single-life annuity contracts, four at a time. She uses several different insurers and buys mainly inflation-indexed contracts. Monthly income: \$575.
- An 85-year-old man assisted by a facilitator working for his 401(k) plan provider gets four SPIA quotes and rolls over \$250,000 into a joint-and-survivor, 100% continuation life annuity with a term certain. Four months later, he logs on by himself and rolls over \$175,000 for a single life, term-certain contract from a different carrier. Total monthly income: \$2,997.
- A 61-year-old man logs on, gets nine quotes and, four months after receiving the first quote, uses \$70,000 in qualified money to buy a five-year term certain annuity contract—as a bridge to delayed Social Security claiming or to cover the last five years of his mortgage. Monthly income: \$1,200.

An “out-of-plan” income solution

If these real-life sales scenarios defy your image of a typical brokered SPIA purchase, that’s no accident. Ten years ago, Hueler, a successful purveyor of stable value fund data to the pension industry, set out to alter the way SPIAs are distributed and sold.

The SPIA distribution system, she believed, wasn’t ready for the oncoming tide of Boomers (of which Hueler, 52, is one). To her, SPIA prices, aside from being high, were opaque to the consumer, who never knew what the agent or broker charged or which carriers offered the best prices at any given moment. She also saw that many 401(k) plan sponsors had no apparent conflict-free mechanism for furnishing retirees with a strategy for converting their DC savings to pension-like income.

So Hueler created Income Solutions (www.incomesolutions.com), which leverages the Internet to bring SPIA shoppers and manufacturers together in a no-pressure, commission-free setting where plan participants—the term “prospect” is obsolete here—can solicit simultaneous bids from between six and twelve insurance companies. A modest number of fee-only advisors also use the platform on behalf of individual clients.

Today, for example, a Vanguard 401(k) participant or shareholder (Vanguard, which unlike rival Fidelity

Investments doesn't have its own online SPIA sales platform, has formally partnered with Hueler since 2010) can go through the Vanguard website, (either alone or more often with handholding from a salaried Vanguard phone rep or a salaried Hueler phone rep in Eden Prairie, Minn.), and request instant, real-time SPIA quotes, or read about SPIAs, or watch a video about SPIAs.

Currently, shoppers can get quotes from Allstate, Integrity Life, MetLife, Mutual of Omaha, Pacific Life, Principal Life and Prudential. New York Life, the largest SPIA seller by far, and MassMutual don't participate because Hueler's demand for wholesale pricing would conflict with the prices their career agents and others (New York Life markets SPIAs through AARP) charge.

To be sure, Income Solutions isn't unique. For years, SPIAs have been sold direct at the above-mentioned Fidelity direct-sales platform and at websites like immediateannuities.com. But, at a time when plan sponsors are beginning to recognize a fiduciary responsibility to provide income strategies for near-retirees, Hueler has built a liability-free, out-of-plan, rollover-driven, transparently priced (there's a flat 2% sales cost) solution for them, as well as for fee-only advisors who want to include SPIAs in their clients' retirement income plans.

A look at SPIAs sales behavior

At the Pension Research Council's annual conference at Penn's Wharton School last week, Hueler and co-author Anna Rappaport, a former president of the Society of Actuaries, presented an [academic paper](#) that opened a window onto the characteristics of SPIA sales at Income Solutions. The data they revealed is illuminating, and may even be unprecedented.

The paper makes clear that people can and will shop for annuities online the same way they've grown accustomed to shopping for motor vehicles at cars.com or autotrader.com—by weighing the options, comparing prices and deliberating at their own pace before deciding to buy or not.

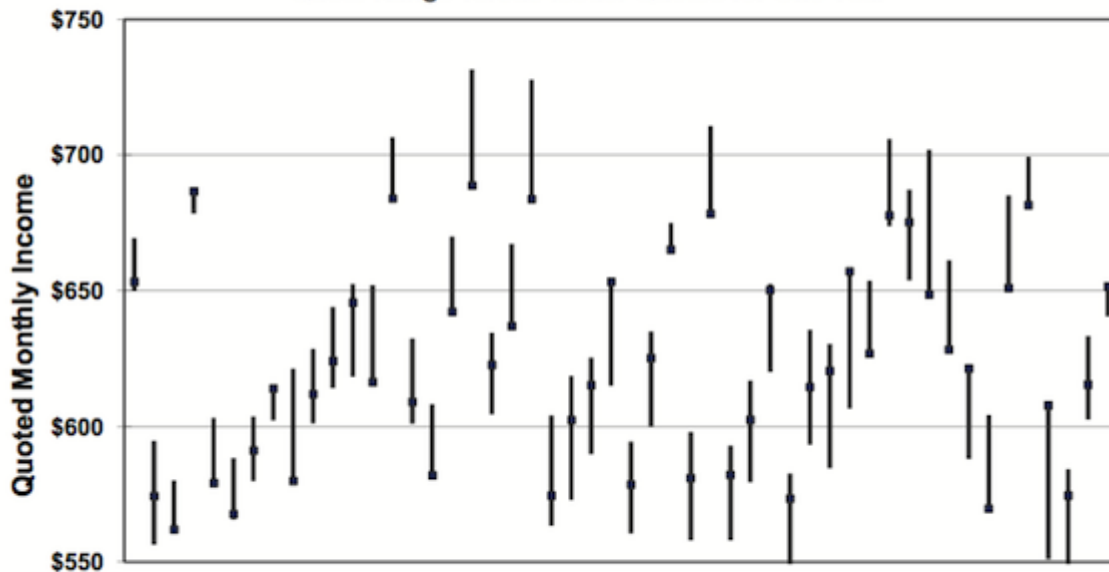
Takeaways from Hueler and Rappaport's paper, which was entitled, "The Role of Guidance in the Annuity Decision-Making Process," include:

- **Structural and active advice are critical.** In the retirement plan setting, two kinds of advice are involved in determining what plan participants decide to do with their qualified assets when they retire—structural advice and active advice. *Structural* advice is embedded advice; i.e., guidance that's implicit in plan design and in a plan sponsor's decisions, for instance, to mention annuities as a distribution option or not, to provide a mechanism like Income Solutions, to promote the mechanism, to make a help-line available, or to furnish competitive annuity quotes. *Active* advice is typically provided by a live person, and the sales outcomes may depend on whether that person works for the plan provider, or how that person frames the annuity purchase, or whether that person is salaried or commissioned. The paper identifies forms of structural and active advice that can encourage or discourage the consideration or purchase of a SPIA.
- **Annuities are often purchased after retirement.** "The decision to purchase an annuity typically occurs after an individual has retired... 70% of the purchases [at Income Solutions] were made by individuals who described themselves as retired," the paper said. Instead of happening at precisely at the time of retirement, "the purchase process often takes place over a longer time period,

sometimes in steps... Retirement is a time of transition and adjustment, so it makes sense to annuitize later for a number of reasons.”

- **People like to diversify their risk among several carriers.** The paper shows that many people prefer to spread their interest rate risk by buying multiple SPIAs at different times and to spread their carrier risk by buying contracts from multiple providers.
- **Men and women exhibit different SPIA behavior.** Two-thirds of the purchasers at Income Solutions are men. Purchases range in age from 50 to 85, with 56% in their 60s, 32% are age 70 or older, and 8% are 80 years old or older. Seven percent of purchasers had net worth of less than \$100,000, while 27% indicated net worth of \$500,000 to \$1 million, 21% had net worth of \$1 million to \$2 million, and 14% were worth over \$2 million, excluding home equity. About two-thirds of the purchases were made with qualified funds; 28% came from non-qualified funds and 4% from 1035 exchanges.
- **Contracts vary in structure.** Half of the annuity purchasers bought single life annuities, 37% bought joint life annuities and 13% bought period certain annuities. Increases to protect against inflation were included in 14% of the purchases. Eighty-one percent of the joint life annuities were purchased by men; by contrast, only 50% of the single life annuities were purchased by men.
- **Contracts vary in size.** “While the average amount of income purchased is over \$850 per month... 11% [of buyers] purchased under \$200 a month, 18% purchased between \$200 and \$399 per month and 22% between \$400 and \$599. Fifty percent purchased less than \$600 a month, 22% purchased between \$600 and \$999, and 28% over \$1000 a month... The average purchase amount was \$156,000 for males and \$110,000 for females.”
- **Live phone reps are essential.** “The vast majority of purchases occur after a conversation. Seventy-two percent of the purchases... were through facilitators and advisors, where multiple conversations typically take place. The remaining 28% purchased independently online, but some of them also ask questions after contacting [the 401(k) provider’s] help center. Very few people will make a purchase without a conversation... Many people get multiple bids over time. While purchases can occur immediately, timing varies, and in a few cases it takes more than two years from first contact to purchase.”
- **To get the most value, SPIA purchasers need to see a range of quotes.** Hueler’s discovery that SPIA manufacturers change their prices frequently, and that the SPIA price leader can change from month to month, motivated her to start Income Solutions in the first place. A chart in the paper (reprinted below) shows that the range of SPIA prices changes monthly, and that over a multi-year period, any given company sometimes offered the best price, sometimes the worst price, and other times fell between the best and worst.

**Figure 1 Sampling of Income Solutions® Quotes (\$100,000 Deposit):
Quote Range versus Issuer Quotes for One Year**



Source: Author's analysis of Hueler Companies data

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It's difficult to say how big an impact Income Solutions is making, because Hueler doesn't release sales figures other than to say that thousands of plans administered by Vanguard, Hewitt and Wells Fargo have access to her platform. She also has ties to the Plan Sponsor Council of America (formerly the Profit-Sharing Council of America) and the National Association of Personal Financial Advisors (NAPFA).

From all accounts, however, she's shaken up the income annuity industry. Little wonder, since she insists that carriers compete on price rather than brand and because she makes a point of eliminating the commissioned agents and brokers who still account for most SPIA sales.

But with so much money in 401(k) plans and IRAs, with many plan sponsors searching for an "out-of-plan" income distribution strategy other than systematic withdrawals to offer older participants, with growing interest among fee-based advisors in income annuities, and with the growth of federal government encouragement of low-cost lifetime income solutions, the volume on Hueler's platform seems likely to grow.

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