
Morningstar Enters the Indexed Age

By Kerry Pechter Thu, Jun 8, 2017

Just in time for the activation of the DOL fiduciary rule, Morningstar has expanded its Annuity Intelligence resources to include indexed and fixed annuities.



Responding to demand from broker-dealers who intend to sell indexed annuities under the Department of Labor's Best Interest Contract Exemption, Morningstar Inc. has added new data and new functionality to its Annuity Intelligence unit. Morningstar began rolling out the new services in April.

The Chicago-based firm, best known for mutual fund research, is adding information on 284 fixed deferred and fixed indexed contracts from 29 fixed and indexed annuity providers to its existing variable annuity database, once known as VARDS. Advisors can use the data to compare products or screen them for suitability for each client.

The new annuity universes are available now as an option in the Morningstar Annuity Intelligence Tool. The tool spares advisors the chore of combing through dense annuity prospectuses or sketchy marketing materials to glean key product data.

"We describe the products and explain how the benefits operate. We don't just copy and past language from the prospectus," according to Kevin Loffredi, senior manager, Annuity Solutions. "We get rid of jargon. People wanted to see that kind of information on the fixed indexed as well as the variable side. I've wanted to get fixed and indexed contracts into the tool for five or six years. Our clients said they want one source for all their annuity contract information."

In recent years, sales of indexed annuities have grown much faster than sales of variable annuities. Indexed annuities thrive as an alternative to certificates of deposit in a low interest rate environment. As liabilities, they are less risky to issuers than variable annuities. That allows them to offer highly competitive lifetime income benefit riders.

The new service was hastened by the Department of Labor fiduciary rule. The rule, which goes into partial effect this week but may eventually be revised or repealed by the Trump administration, required brokerages to sign a Best Interest Contract Exemption [BICE], pledging that the client's interests, not the advisor's, drove the sale, if they want to sell either indexed or variable annuities to IRA owners and receive insurer-paid commissions on the sales.

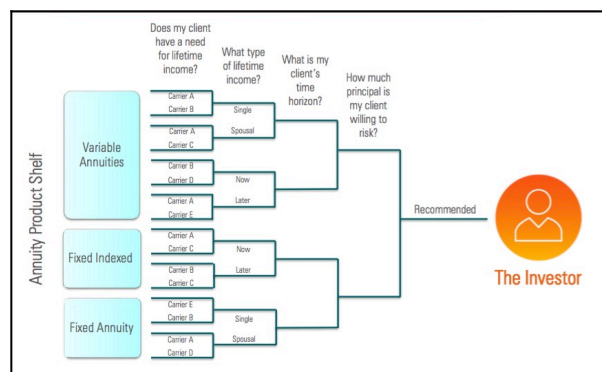
"After the DOL came out with the fiduciary rule, which said that indexed annuities would be subject to the BICE, broker-dealers were knocking on our door, asking, 'How can you help us prove that we've acted in the best interest of the client?' Loffredi said. "We knew we needed to get indexed annuities into our

research tool and our new Best Interest Proposal Tool. We decided to include multi-year guarantee annuities and market-value adjusted annuities as well.”

For brokerages, each step of a variable or indexed annuity sale under the BICE has to be documented. The brokerage firm, if called to account for an advisor’s sales recommendations, needs to be able to show that the selection of a particular contract was based on a client’s specific needs and desires, as opposed to the amount of compensation the sale would bring the advisor or the firm.

In addition to data on contracts and a digital record of client-advisor interactions, the Annuity Intelligence Tool provides data to a separate software application, Morningstar Best Interest Proposal Tool. To a degree, it takes annuity product selection out of a firm’s or an advisor’s hands and turns it over to an algorithm to ensure objectivity.

For the brokerages, the Annuity Intelligence Tool provides a decision tree that allows a firm to filter the entire universe of annuity products by carrier, by range of benefit structures, by fee levels and surrender charge periods, and by variable investment options or index crediting strategies. Contracts that meet the firm’s criteria go on its product shelf for advisors to sell.



The Morningstar Best Interest Proposal Tool provides a decision tree for advisors, allowing them to screen the available variable and indexed annuities for the contract with, for instance, a lifetime income benefit rider that best fulfills a client’s retirement income needs and matches his or her time horizon and premium size.

Morningstar isn’t the only player in this market. Cannex, the Canadian-American firm that many intermediaries rely on for fresh annuity price quotes, introduced a wizard last fall that also helps advisors choose the right annuity and document the process for compliance with the terms of the Best Interest Contract Exemption.

But Cannex and Morningstar both said that their services can peacefully coexist.

“There is very little overlap,” Gary Baker, president of Cannex, told *RIJ*. “CANNEX provides actual quotes and illustrations on the embedded guarantees in various types of annuities based on the profile of the client and their intended use of the contract. Morningstar’s service, including fixed annuities, provides a ‘qualitative’ comparison of products whereas we provide a ‘quantitative’ comparison. We have common clients that will use both services.”

Cannex provides price quotes and contract specifics on single-premium immediate income annuities, deferred income annuities, and qualified longevity annuity contracts (QLACs), while Morningstar's Annuity Intelligence Tool doesn't. Captive agents of mutual life insurers, not brokerage advisors, historically sell most fixed income annuities.

"We look at firms like Cannex and eMoney as our partners in meeting the needs of advisors," Loffredi said. "We're not a financial planning firm, and we're increasingly building out our integrations with companies like MoneyGuidePro and Salesforce. We have APIs and integrations where they, or us, can link in seamlessly. We're not trying to disrupt the marketplace that's out there now. We're not looking to replace anyone. We can't do it on our own."

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