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## Mutual Satisfaction

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By Editor Test     *Wed, Jul 20, 2011*

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*What "story" helps you sell VAs? Mark Caner of Western & Southern describes his firm's contract as a safe, nimble, fuel-efficient vehicle for cruising through retirement.*

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Western & Southern Financial Group, a Cincinnati-based financial services company, sold only about \$22 million worth of Integrity Life, National Integrity Life and Western-Southern Life Assurance Co. variable annuities in the first quarter of 2011, but it has high hopes for its rollover money-only VAROOM contract, which was announced in 2010 but didn't receive final SEC approval until this year.

When we asked Mark Caner, president of W&S Financial Group Distributors, what the VAROOM "story" was, he used a metaphor that compared the VA to a vehicle that carries people on a journey through retirement. The vehicle, he said, should be strong, it should allow the driver to change course nimbly, and it should be inexpensive to own.

"If you think about the retirement journey in terms of driving through it, our statistics tell us that people may be in retirement for 20 to 25 years and will hit three dominant risks," Caner said. "First, there are vehicle risks—can the vehicle survive a crash, is it solid and stable? Then there are detour risks—events people will need to pivot on—and fuel risks—the costs of the investments. In our marketing department, we thought about retirement as a journey, similar in some ways to driving in traffic."

Vehicle risk, of course, refers to financial strength. "That's arguably the greatest risk," Caner said. "Western and Southern has been referenced by A.M. Best and Standard & Poor's as one of the eight strongest life insurers. Couple that with the strength of a Fortune 500 company and a 100-year legacy of meeting commitments.

"Of companies in our space, we have the highest capital to asset ratio. That speaks to vehicle risk. If you took the top 15 publicly traded companies, their average capital to asset ratio is about half ours. The average for the top 15 is 7.6%. Ours is over 15.5%. We are a mutual company. We looked at conversion [to public ownership] in the 1990s, but when people look back on the 2008 crisis, they see that the ones who came through in the best shape were the mutuals."

Then there's detour risk, which refers to withdrawal flexibility. "Given that the VAROOM product is tailored for rollover money, it's more likely that clients will have to tap into it. Many products create a punitive effect for withdrawals, and we established a mantra not to do that. When you take an unscheduled withdrawal from our contract, you forgo your deferral credit for that year only. That detour is very important, because it's very likely that they will need access," Caner said.

Fuel risk is the last piece, and refers to expenses. With lower plain-vanilla hedging costs, VAROOM can afford to offer a few unusual benefits: a 10-basis point increase in the withdrawal rate for every year of deferral 10% penalty-free withdrawals and a living benefit rider fee that's levied on the account value

instead of the often-higher benefit base.

“We made a deliberate decision to keep costs down,” Caner told RIJ. “Because we offer ETFs, our expenses are significantly lower. The average expense ratio is about 20 points, compared with 100 basis points for the average VA. The all-in expense on this product is 255 basis points, versus 332 basis points on average.

“Another feature that is tied to fuel risk is that our fees are on the account value. Others assess their fees on the benefit base, which is generally higher than the account value. When living benefits first came out, some companies charged on the account value and some on the benefit base. When people started increasing fees and benefits, most switched to the benefit base, and that doesn’t help the client,” he added.

“Comparing [the hypothetical performance of] VAROOM to the average of the top-selling VA contracts, if you put \$200,000 into each, after 15 years, the VAROOM account value would be \$443,000 and the average for the top VAs would be \$393,000. The annual withdrawal rate would be about \$28,000 for VAROOM versus \$23,000 for the other.

“The reps who find us most appealing would be those who concentrate on rollovers and who have used ETFs or like ETFs, and the ones who like variable annuities with a distribution strategy. By having individual ETFs in VA subaccounts, we think that’s significantly more transparent, and it allows us to hedge the benefit a lot more easily,” Caner said. (Note: VAROOM is set up as a rollover IRA, allowing rollover assets to remain tax-deferred. Otherwise, because VAROOM assets are invested directly in retail ETFs, in violation of Section 817(h) of the IRS Code, the assets wouldn’t qualify for tax-deferral.)

In short, Western & Southern is one of the companies betting on the cheaper, simpler sort of VA—not a surprising approach for a mutual company that doesn’t have to satisfy earnings-hungry shareholders—and focusing on marketing to a cost-conscious, consumer-oriented niche rather than to the widest possible audience.

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