No Fluke: Income Annuity Sales are for Real

By Kerry Pechter *Tue, May 29, 2012*

Sales of income annuities may soon breach the $10 billion-a-year barrier. We talked to the Numbers 2 through 5 SPIA sellers in the U.S.: MetLife, MassMutual, Pacific Life (whose symbol is the humpback whale), and Nationwide.

Despite persistent low interest rates, life insurance companies sold a record $8.48 billion worth of income annuities last year, and conversations with four of the top five marketers of such products suggest that that record may not last a full year.

From interviews with executives at MetLife, MassMutual, Pacific Life and Nationwide (which ranked second through fifth in SPIA sales last year after leader New York Life, which *RIJ* wrote about two weeks ago), certain themes emerge:

- People buy their income annuities at about age 70, on average, or several years later than they buy variable annuities with guaranteed lifetime withdrawal benefits.
- The average SPIA premium is over $100,000.
- Life with cash refund is a popular contract structure; companies that haven't had a cash refund option are adding one.
- Marketers are positioning income annuities as a complement to mutual funds, and saying that the combination can produce more income over a long lifetime than systematic withdrawal plans or variable annuities with lifetime income riders would.

Here are comments from Kevin McGarry of Nationwide, Phil Michalowski of MassMutual, Bennett Kleinberg of MetLife, and Chris van Mierlo and Christine Tucker of Pacific Life, about the state of income annuity sales and marketing at their respective firms.

Nationwide

Nationwide was the fifth largest seller of fixed income annuities in 2011, and in April 2012 the company spruced up its Income Promise SPIA by adding a cash refund death benefit and a wider choice of inflation adjustment options. The new produce is called Income Promise Select. "The potential is enormous," said Kevin McGarry, who became the director of Nationwide's Institute of Retirement Income about 18 months ago.

"We've seen tremendous growth in the immediate annuity space," McGarry told *RIJ*. "Last year, we were fifth in overall sales, with $330 million. In the first quarter of 2012, we are up 90% from the first quarter of 2011. The average premium is about $130,000 and the average purchaser is 70 years old."

In a low-yielding bond environment, annuity payouts look comparatively generous. "People are looking for six or seven percent withdrawals and an immediate annuity is the only way to provide that," McGarry said. As for distribution, "We're working with Wells Fargo on their Envision plan," he added. "Sales through our career force are less than 10% of the total."

Nationwide’s value proposition for SPIAs is a familiar one—people should buy enough annuity income to cover necessary expenses that aren’t filled by Social Security or pension income, and use the rest of their money for discretionary purchases or growth. It’s a proposition that all SPIA marketers can use, McGarry said.

“Industry-wide, we need to look at the idea that an income annuity should be a component of a larger retirement income plan,” he told *RIJ*. “[At Nationwide], we tend to say that a client has both essential and discretionary needs, and that if he or she has a gap of $5,000 or greater in covering discretionary needs, the income annuity allows them to fund that gap with the fewest dollars. They can confidently use other investments for growth, knowing that market volatility won’t affect their ability to cover basic expenses.”

The Columbus, Ohio-based company, which converted back to a mutual ownership structure in 2008, is using an updated version of the hallowed “Give ‘em the razor, Sell ‘em the blades” strategy. Advisors can get free access to Nationwide’s bucketing/product-allocation tool, RetireSense, which was introduced in 2009, and are encouraged to sell Nationwide SPIAs, among other products, to fill some of the buckets.

Nationwide has also begun offering advisors an illustration software tool that lets advisors and clients compare income generation strategies. In addition, the company maintains an income planning desk that advisors can call when they need help. “Most advisors want handholding from the income planning desk,” McGarry said. “Decumulation takes more time and effort than accumulation.”

It was no accident that Nationwide put a cash refund in its new Income Promise Select contract. It’s a direct response to industry trends. “For the [SPIA] industry as a whole, about 24% of all sales had a cash refund last year,” he added. “We had no cash refund. You *can* sell without a cash refund, but it’s a feature a lot of folks have asked for.” The new SPIA also offers the option to increase payouts each year by four percent or five percent, thus broadening the previous offerings of one, two or three percent.

MassMutual

MassMutual was the number three seller of SPIAs in 2011 with $436 million in premiums, behind New York Life and MetLife. MassMutual was second only to New York Life in 2010. In the first quarter of 2012, the Boston firm says it sold $120 million worth of income annuities.

About half of the sales came through its career force and half through the Fidelity SPIA platform and other channels. (MassMutual said it doesn’t sell through the independent advisor channel.) Last February, TDAmeritrade announced that it planned to begin offering MassMutual SPIAs through its direct sales annuity platform.

Not unlike Nationwide’s customers, MassMutual’s average SPIA customer is about 70 years old and has an average purchase premium of about $126,000. A slight majority of the purchasers are women (54% to 46%) and non-qualified contracts slightly outnumber qualified contracts (52% to 48%).

Two years ago, MassMutual published a SPIA Synergy Study, which subsequently guided the company’s SPIA marketing strategy. “’Sound Retirement Solutions’ came out of that study, and the core piece is identifying three critical components, Growth, Access and Predictable Income," said Phil Michalowski, MassMutual's assistant vice president, annuity business development. "Those are the 'buckets.'"

"People who are at or in retirement can use the SPIA to fill the 'predictable' income bucket. We've spent a lot of time pushing education around that and providing additional tools, promoting a process to distinguish their necessary expenses from their discretionary expenses, and drawing a sharp line between those two," he added.

"We've created a workbook to help folks with that process, and helps them identify if they have a gap [between their guaranteed income and their necessary expenses]". "If they do, the workbook shows the size of it. We have recently automated that workbook, and built into our education system," Michalowski said.

"The sale is easier when it's not just a product push. The SPIA is provided in a larger context. We hear from the field that when the product is described to clients as a solution in a larger context, the customer feels more comfortable. The portion of the client's assets that is used to buy the SPIA is customized to each situation. It's not just a product push.

"We're having a decent sales year. The majority of our contracts are fixed-payment as opposed to inflation-adjusted. We're selling a lot of life with cash refund and 10-year period certain. We think it's better to default to life with cash refund [when first presenting the product to clients]. The agent and customer can decide to move to something else if they want to."

MetLife

MetLife, the second largest seller of SPIAs last year, intends to unveil a new SPIA offering in the third quarter of 2012 and has engaged a consultant who specializes in messaging and marketing language to help fine-tune the strategy. (In its most recent earnings call, MetLife CEO Steve Kandarian announced that the company would intentionally de-emphasize variable annuities in 2012, after selling a record volume in 2011.)

"We're focusing on SPIAs this year," said Bennett Kleinberg, a vice president and senior actuary at MetLife. "In 2011 we sold about $625 million worth of SPIAs, and we're up 8% to $165 million in the first quarter of 2012. We're rethinking about how to position SPIAs, thinking about whom we need to educate, and paying close attention to what words we use to describe the product.

"We're also working on product enhancements," he added. "Our current SPIA product doesn't have cost of living adjustments or liquidity features. We're also talking about introducing a means of accessing money early. The new features will look like other companies' liquidity features—nothing brand new but in line with the market expects. That will be coming out in the third quarter.

"The other thing were focusing on is wholesaling and training. We're helping wholesalers learn more about SPIA, we're focusing on training more. "We have a tool called Income Selector that shows a continuum between two extremes—solutions that are fully liquid but don't have guarantees and solutions that aren't liquid but have strong guarantees. A VA with a GMIB, for instance, would fit somewhere in the middle of that continuum," Kleinberg told *RIJ*.

"As we look at where [SPIA] sales are coming from, we're seeing more volume from a greater number of firms. Sales are not as concentrated. We think this will be a growing market," he said. "LIMRA expects $12 billion in annual SPIA sales by 2014 and 15% annual growth thereafter. We expect something similar."

Like Nationwide and MassMutual, MetLife has found that the life-with-cash-refund is a popular contract structure, even though it can be more expensive than a life-only contract. "People are willing to give up a little bit of income to get back the [balance of the] premium," Kleinberg said. "People are averse to losing money. A SPIA is still the least expensive way to get guaranteed income you can't outlive. Life-only achieves the most income, but life with period certain or life with cash refund is more acceptable to people."

Pacific Life

Pacific Life is a fairly recent entrant in the SPIA market, but it has come on quickly, emerging in 2011 as the fourth highest SPIA seller. Unlike other big mutual insurers, Pacific Life doesn't have a captive agent force. It felt that it needed a SPIA in its product lineup so that its wholesalers would have everything an advisor might need.

"We needed a SPIA in order to tell a well-rounded story," said Christine Tucker, vice president, marketing, Retirement Solutions Division. Pacific Life now offers the retirement market a variable annuity, a fixed indexed annuity, a SPIA, a single premium deferred annuity, and long-term care insurance.

"It used to be that VAs were 94% of our business; now they're only about 60% of our business, said Chris van Mierlo, chief marketing officer and senior vice president, sales, Retirement Solutions Division. "The SPIA has gone from a dead stop to selling at an annualized pace of $500 million this year." Like the other top SPIA marketers, Pacific Life has found cash refund contracts to be "something that clients can wrap their minds around" better than life-only contracts," he noted.

More than 40% of Pacific Life's annuity sales come through the bank channel. About 38% come from independent financial planners. The other 20% comes through wirehouses and regional broker-dealers. These channels are served by 84 wholesalers—a team that van Mierlo said might need to be expanded because its members are at the upper limit of productivity.

To create a marketing story around its retirement products, Pacific Life decided to license the Retirement Security Quotient method developed by Moshe Milevsky, the York University (Toronto) finance professor and prolific author whom *Research* magazine recently described as a "rock star" among retirement income consultants. ManuLife and John Hancock have also employed Milevsky's method. As Milevsky explains in online videos he made for ManuLife, a person nearing or in retirement can increase his or her RSQ by owning SPIAs (as protection against longevity risk), variable annuities with lifetime income guarantees (as a hedge against sequence of returns risk) and mutual funds (to mitigate inflation risk).