Reflections of a VA-Selling Advisor

By Editor Test *Tue, Jun 22, 2010*

Jay Hauenstein, a dually-licensed advisor in Mississippi who manages about $10 million in VA assets, looks for contracts with strong roll-ups and death benefits.

For insurers who market variable annuities through independent advisors, G. Jacob “Jay” Hauenstein III, a 43-year-old financial advisor in Laurel, Mississippi—the nearest large town is Hattiesburg, to the south—would be a good example of their target intermediary.

About $10 million of the $35 million that he manages for individual clients is in variable annuities with guaranteed lifetime withdrawal benefits. In 2009, he did no VA business at all, because his high-benefit product of choice was taken off the market. But this year his clients have added about $1 million to a new set of products. He spoke with RIJ recently about the role of VAs in his practice.

“Last year I just about totally got out of that product,” said Hauenstein, who has been a member of the Million Dollar Roundtable Annuity Advisory Board. “I didn’t sell one variable annuity the whole of last year and put no additional money into the ones that I had on the books. I focused on the insurance side for a while and that kept me busy. With the downturn most people were not doing any additional investing. People want guarantees when times are scary.

“But this year I’m back in the game in a pretty big way. When the market seemed to bottom out and level off I did my homework again and came up with a couple of players who still have a solid product. MetLife has a good product, the Investors Series L. I’m doing most of my business with Prudential, the L-series. Guardian’s product’s OK. Their benefits aren’t quite as lavish but they still have a solid product and there’s backing there. Some clients just like that ‘old line’ type of mutual insurance company.

“Throughout the downturn, all of my clients have been extremely happy with the variable annuity products I’d put them in. In the case of my largest client, she has depleted a lot of her initial investment between the downturn and what she has spent. But thanks to the rollup, which matures this coming year, she is actually slightly ahead of what she’s put into it. And she’s put in a fortune.

“I’ve looked at VAs harder and harder over the years. By the time you put all the fees and hidden expenses into it, you’re going to need market performance of pre-2000 levels to make the things really gain. In the future, you probably won’t have the kind of gain they talk about in the sales literature, so your true gain is in your rollup.

“The strength has got to be that rollup. I can’t put somebody into something where they get to retirement age and their investment may be worth half of what they put into it, or if we get them up t $2 million and it goes to half of that. [The rollup] is a huge factor for me, along with the investments and the death benefit.

“Some guys hit it lucky and have exactly the right combo of timing and investments. One of my previous clients doubled his money in four years and actually got into the step-up as opposed to the 7% guarantee.

He took a beating when the market turned upside down like everybody else, but he made more than his guarantee.

"I work with a lot of clients where the only money they put into the variable annuity is their 'reserve' fund. We don't expect to touch it if we don't need to. The product I used in the past solved that problem beautifully, because the living benefit and the death benefit were identical. If the client died, he passed on the maximum.

"It frustrated when my bread and butter [product was eliminated by the issuer during the financial crisis]. I found good replacements with MetLife and Prudential. In MetLife's benefit, the continuity for the spouse is better, while with Prudential the primary investors will do the best of the two."

[Hauenstein and his clients at one time chose mainly A-share variable annuities, because many high net worth clients seemed to prefer to pay distribution charge all at once. But he realized that he was not being paid to service the A-share clients that he'd inherited from his father and partner. So he switched to L-share contracts, which pay a trail commission.]

"The L-share gives you smaller upfront and a trail going forward," he said. "That was much more appealing than taking an extra point up front. In my experience, guys who take the A-share usually push the clients they'd already sold toward the back burner.

"I don't swing for the fences anymore in my investments. Too many advisors are overly aggressive, and overly optimistic. It depends on where you're going. With the person who's 40 years old, you can be aggressive. But you can't do that with a 55-year-old. I've gone more to value-growth as opposed to aggressive-growth. I can serve my clients best by not being greedy. I don't try to get that one last dollar by exposing five dollars. It seems to have paid off."