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Seeking ‘An Index that Moves’

By Kerry Pechter *Fri, Jun 4, 2021*

'I didn’t like the blended or hybrid indexes in annuities at first because I thought they were too complex,' said Bryan Anderson, founder of Annuity Straight Talk. 'But over the past few years I’ve changed my mind.'

Bryan Anderson owns **Annuity Straight Talk** in northwest Montana. He’s a licensed insurance agent who sells fixed annuities to people all over the US. Lately he’s been podcasting and training other advisers in how to communicate the indexed annuity value proposition to their clients. He manages the indexes in fixed indexed annuities (FIAs) much the same way that he might manage direct investments in index funds or exchange-traded funds (ETFs).

His clients are just looking for safe, modest returns. “The people who buy FIAs are people who haven’t been able to time the market well. They’re not happy. They don’t have the emotional fortitude to deal with a 20% downward bump in the equity market, and they’re perfectly happy with an average return of 4.5%. I want to get them there.” Anderson told *RIJ* in a recent interview.

“I didn’t like the blended or hybrid indexes at first because I thought they were too complex. I had every skepticism that anybody could come up with. But over the past few years I’ve changed my mind. My clients tend to look at the participation rates. They like the idea of getting all of the returns.”

Clients are naturally drawn to a crediting method that will give them 100% of the index gain, even if they know that it’s 100% of performance that is more or less restrained by a volatility control mechanism. Such a mechanism might automatically reallocate the index holdings to safe assets when market volatility exceeds a 5%, 6% or 7% target, depending on the contract.

Volatility control at the index level can also prevent an unexpected change in pricing, he said. “The life insurers explained to us that they can better project pricing with a volatility-controlled contract. They don’t get stuck in the position of suddenly having to reduce a 6% cap down to 3.5%,” he said.

Like many advisers, Anderson welcomes lots of choices in an annuity, even if it adds complexity to the contract. "I like to see 15 different indexes. I know that at least one of them is going to grow. It's just a matter of figuring out which one it will be," he said. "Most of all I like to see an index that *moves*." That is, he doesn't want to use an index so volatility-controlled that it becomes inert. If it doesn't respond to trends, he can't get a feel for how it might behave in the future.

How do clients generally divide their money among multiple indexes? "If there are six indexes, some people won't want to over-think the decision. So they split their money among all six. Others will chase one or two," he said. "We might be optimistic about one index in particular and put 60% of the money in that and then put 10% into four different ones. The worst situation is to not be in an index and then realize that you'd have gotten a much bigger gain there." He also likes the flexibility of newer contracts. "In the old contracts you might be stuck with three index options. There was no way to go elsewhere until the contract was free of the surrender penalty."

Some clients invest all of their money in a contract at once. Others split up their money across contracts. It depends in part on how much money they want to invest. "Some people go all in at one time. I've had people who bought a single contract for $500,000. Another who bought eight contracts that totaled $800,000," he said.

To diversify across time, "I like to sell half at a time, to offset the crediting dates," Anderson said. In one case, where we used the Bloomberg US Dynamic Balance Index, I put half of the money in a one-year contract and half in a two-year contract. That index had a second-year return of 15%." He tries to deliver an average annual return of 5% to his clients, and keeps looking for it. "I know that there's a 5% gain somewhere in there," he said.

Sometimes Anderson chooses the index, and sometimes his clients do. "A client might say to me, 'You know best,' or 'We did OK last year, just keep it the same.' But some people really get into it. One of my clients spends an hour a day after work looking at the charts. Then he tells me, 'I want 20% of the money here and 40% there.' He's an intelligent guy who enjoys it. I like to see him having fun. It takes pressure off me; I'd say that about 25% of my clients are like that," he said.

Anderson sees real value for the client, and not just the appearance of value, in the higher crediting rates that come with volatility control. For him, even those indexes have the potential to deliver the best of both worlds—higher returns than bonds with less risk.

“Yes, there’s value there,” he said. But he knows better than to tell clients to expect the upper limits on returns. “It’s a matter of adjusting your sales tactics. If I know that a product *could* do 10%, then I know I have an opportunity to do 5%. I want a product that has the upside potential, but I won’t pitch them on it. I sell them on a 3.5% gain and tell them to look at the rest as gravy.”