SPIA Flow at Fidelity: $70M-a-Month

By Editor Test *Tue, Jun 21, 2011*

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Fidelity Investments is on track to sell about $1 billion worth of single-premium immediate annuities this year—all of them issued by non-Fidelity insurance companies.

The Boston-based no-load mutual fund giant sells SPIAs issued by New York Life, Principal Financial, John Hancock, MassMutual and MetLife direct to the public through an online platform and (more often) through its walk-in branch offices around the U.S.

"We're averaging over $70 million a month. In 2006 our overall [SPIA] sales were just over $100 million for the year, so that is real growth," said Brett Wollam, senior vice president of marketing for Fidelity Investments Life Insurance Company. "We're on pace for record year in annuities."

Sales began going up after Fidelity incorporated SPIAs into its online retirement planning tools: the Income Strategy Evaluator and the Guaranteed Income Estimator. The tools, introduced early this year, lead investors through a decision-tree that, based on their own answers to a series of questions, produces a customized product allocation.

The list of income products, which gradually narrows down as the client answers recorded spoken questions, includes bond ladders, CD ladders, fixed income annuities, variable income annuities, VAs with lifetime income benefits, income replacement funds, period certain annuities, and mutual fund portfolios set up with systematic withdrawal plans.

"[Our success with SPIAs] is the result of a broader integration of annuities within our financial planning process," Wollam said. "Organizationally, Fidelity Investments Life Insurance (FILI) is part of our retail investing business. One of the areas of focus in the retail investing business is financial planning; we try not to sell products [in isolation]."

"The Income Strategy Evaluator is the starting point. It can be used in a self-directed way or with a representative. You put in your preferences. You indicate, for instance, if a guarantee is more important to you than growth potential or vice versa, or if you want to leave assets to your heirs," Wollam said.

"Based on that, along with your assets and your financial situation, the tool will recommend a multi-product solution. It might combine fixed or variable annuities with a systematic withdrawal plan. It can compare similar solutions with and without annuities. Increasingly, multiproduct solutions are recommended and are appealing to investors," he added.

The process tries to help make sure "you're covered in a negative situation. Our approach is to ask, 'What is the gap between your essential expenses and the income you expect to receive in retirement?' As for the amount of money you should put it in an annuity, our rule of thumb is that it should definitely less than half and more like a quarter," Wollam said.

Fidelity's average SPIA premium is "well over $100,000," he said. Most contract purchasers are between the ages of 65 and 70. A lot of the purchasers have rolled money over to a Fidelity IRA, either from a Fidelity retirement plan or from outside Fidelity. Some people use an immediate annuity as an income bridge from the time they stop earning a paycheck to the time they're eligible for higher payouts from Social Security.

By embedding the annuity in the context of a broader strategy, Fidelity is able to disarm a potential client's prejudices toward annuities. "The term 'annuity' carries baggage," Wollam said. "There are perceptions of high cost and complexity. But you can overcome a lot of that resistance by demonstrating to people that an annuity can help them meet their income needs with fewer assets and a higher degree of certainty."

But the SPIAs do not sell themselves. "Virtually all of our [SPIA] sales require a representative and about 90% come through one of our branches. One of the big differences in our distribution model is that reps generally get a salary and performance bonuses [rather than commissions], and the emphasis is on financial planning and customer satisfaction. We're there to act as the agent. The difference between our model and the Hueler Income Solutions model, is that we're more involved in closing the business."

Income Solutions is a SPIA platform designed to offer competing, institutionally-priced bids from several annuity issuers to defined contribution plan participants who want to roll over part of their assets into an income annuity at retirement. Vanguard sends its retail and institutional clients to the Income Solutions platform in lieu of selling annuities direct. Charles Schwab hosts a SPIA platform where it offers contracts issued by Symetra, MetLife, New York Life, and Nationwide.

Fidelity created its own insurance company, Fidelity Investments Life Insurance, years ago in the expectation of high demand for annuities when the Baby Boomers began retiring. In the 1990s, decided to host a platform where it could offer a variety of best-in-class issuers.

"We've had SPIA partners since the 1990s. What we've learned in the income space is that there's value in having a choice. We have high quality providers and you know you'll get quality and competitive rates," Wollam said.

Fidelity used to have an income annuity of its own that sat side by side with the other products on its platform. But then it thought better of it. "Our proprietary brand didn't add value," Wollam told RIJ.

"We had strong brands on the platform and if at a given moment one of them offered a better payout, clients usually went with the better offer. Our value-added is financial planning. We realized that offering our own annuity wasn't necessary," he said.

"We didn't want to muddy the water with our brand," he added. "We didn't have the scale to do it as efficiently as the other companies on the platform. Why give people an opportunity to see us as neutral or not the best? But we'll always be there."

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