Talking Annuities with Voya’s Carolyn Johnson

By Kerry Pechter *Thu, May 11, 2017*

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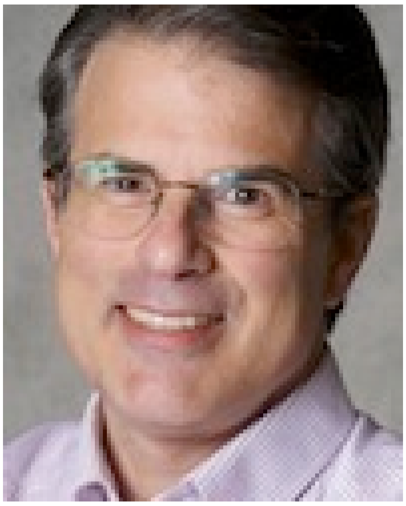

At Voya Financial’s first-quarter earnings call last week, Wall Street analysts asked about the firm’s handling of the risks of its closed block of variable annuity business. Voya, like other life insurers who sold a lot of VAs with living benefits during the 2000s, still holds thousands of contracts that are in-the-money for policyholders but under-water for Voya.

Voya, of course, isn’t in the living benefit business anymore; since separating from Dutch giant ING, going public in 2013 and rebranding as Voya—you may have seen its origami-animal TV commercials—its individual annuity business now focuses on indexed annuities and investment-only VAs. During the call, however, CFO Mike Smith assured analysts that the remaining living benefit exposure is under control.

Smith said that Voya has accelerated the run-off of the portion of the VA block whose contracts carry a guaranteed minimum income benefit (GMIB) rider. Two billion dollars worth of those assets have flowed out of Voya, he said, with $1.2 billion of that leaving because of the firm’s offer to buy out policyholders with GMIBs .

“We offered this to half the GMIB policyholders. The take-up rate was 25%, which included about 13,000 policyholders with contracts worth about $1.2 billion,” Smith said. “Under our enhanced surrender offer, we had to make the offer to all of the [GMIB] policyholders. We can’t distinguish between their level of ‘moneyness.’ But we know that the vast majority of our GMIB contracts are in-the-money. So there’s been a meaningful reduction in risk, of about $300 million.”

Since the end of 2013, the value of all living benefit riders at Voya has fallen to $24 billion in 199,000 policies from $33 billion in 296,000 policies, according to a hand-out at the earnings call. As it was before it spun off from ING, Voya is primarily a retirement plan provider in the U.S. About 41% of its operating earnings comes from the retirement business, which serves 47,000 institutional clients and 4.5 million plan participants.

Annuities count for about 28% of Voya’s operating earnings. Its annuity net flows have been up-and-down, with positive flows from indexed and investment-only VA products and negative flows from annual reset and multi-year guaranteed fixed-rate annuities and single-premium immediate annuities.

Partly because of industry-wide uncertainty over the future of the DOL fiduciary rule, Voya’s indexed sales were down 15% (to $458 million from $540 million) and net flows were down more than 50% year-over-year in the first quarter of this year, to $80 million from $172 million in the first quarter of 2016. In January 2017, Voya introduced its Journey FIA, which offers "**performance bonuses**" during crediting intervals.

A chat with Voya's CEO of Annuities and Individual Life

After the earnings call, Voya CEO of Annuities and Individual Life Carolyn Johnson spoke briefly with *RIJ*. We asked her about the fluctuations in Voya's share price, which fell by almost half between July 2015 and July 2016, to about $24, then rebounded to almost $42 last March 3. Since then, it has slipped by about 14% to about $37.

"Our stock correlates closely with the interest rate environment," Johnson (right) said. "If you map 10-year Treasury rates with our stock price, you'll see a close correlation. That's not unusual for financial services firms. We saw a dip after 'Brexit.' But our stock is up right now, and we feel pretty good about that." Voya's share price opened at $36.38 yesterday on the New York Stock Exchange.

"As far as our annuity business goes," Johnson said, "sales in the first quarter have been roughly in line with fourth quarter 2016. FIA sales for the industry were down a bit in fourth quarter, but we had an 'up' first quarter of 2017. There's been some disruption from the DOL rule. Our investors look at net flows, and there has been more money coming in than flowing out. There's been a 24% increase in sales of our investment-only VA contract. It offers over 100 funds to invest in." [The VA product had a $51 million net flow in 1Q2017.]

"In our product sales, we sell a little more accumulation-related business than income-related business," she added. "Our Wealthbuilder Plus FIA has an income benefit embedded in it, but the guarantee is small. It's sold as an accumulation product, but it has an optional withdrawal benefit. That's selling really well."

RIJ asked Johnson about her views on the DOL fiduciary rule, which, though currently delayed and facing a threat of revision or repeal from the newly-confirmed Trump Labor Secretary Alexander Acosta, has already forced indexed annuity issuers to think more about distributing their products through fee-based advisors and less through commissioned insurance agents.

“Ultimately [the rule] will be a good thing,” she said. “You have three different types of reps—the transaction-oriented ones, the hybrids, and those that are entirely advisory. On the annuity side, we haven’t been attractive to the advisory group. That would be a whole new market for us. If you look at the upside of the Best Interest contract, it can take the customer though a process where you’re asking, What’s the best solution?”

To reach that new market, “we’re issuing a fee-based [version of our Journey] FIA in early summer,” Johnson added. “We’re watching and monitoring what others are doing on the fee-based side. With the delay in the rule, [the fee-based Journey] is less urgent, but it will launch at about the same time as we expected.” Johnson added.

RIJ asked her what’s she has heard about changes in compensation on annuity sales at broker-dealers.

“I’m on the LIMRA Secure Retirement Institute board of directors, and we met before the [LIMRA-SOA] conference two weeks ago in Orlando. People from Raymond James, Edward Jones, the asset managers and insurers were there. You’re hearing from the manufacturers, pretty consistently, that they have not heard from many broker-dealers about their final determinations on compensation,” she said.

“There’s a cat-and-mouse game going on. They’re all trying to be competitive. Nobody wants to have a level comp on all seven-year products, for instance, that’s significantly lower than their peers’. Some of the bigger broker-dealers came out with initial ideas. Then they came back with revisions. They know that if they go public with their rates, the news will spread like wildfire. If advisors don’t like it, it will cause attrition.”

Certain themes are emerging, however. “There is going to be a consistency of compensation within types of products. It may vary from broker-dealer to broker-dealer, but every seven-year B share contract, for example, will have the same commission. Manufacturers have to have flexibility within their systems to handle these differences. We have a handle on that,” Johnson told *RIJ*.

“Taking away the variability on the compensation—that’s generally a good thing. Voya hasn’t played the ‘highest commission’ game. For those companies who use that approach, where the products weren’t as consumer-friendly, they won’t have that lever to promote sales anymore. This will put consumer value back in the product. For the industry as a whole, it will take some noise off the table,” she said.

“But I don’t see the commission business going away. There will still be transactional sales. The advisory model isn’t right for every customer. A lot of reps have not gone advisory, and that situation will be relatively slow to change. But they will have to deal with levelized commissions. That’s where I see the market going.”