Retirement Income
JOURNAL

'Tell Ken Fisher To Stuff It'

By Kerry Pechter *Wed, Sep 27, 2017*

That's what variable annuity pioneer Bob Saltzman said at the Insured Retirement Institute's 25th anniversary conference in Florida this week. The fiduciary rule, he added, will lower the cost of annuities and make them more competitive.

A highlight reel of the Insured Retirement Institute conference in Palm Beach, Fla., this week would surely feature Julius Caesar "J.C." Watts, the former Oklahoma Sooners quarterback who in 1995 became the first black U.S. congressman elected south of the Mason-Dixon Line since Reconstruction.

Appearing on a panel discussion about politics, Watts recalled how, weeks after he was elected, his car was stopped for no apparent reason in Norman, Okla., and blocked by six police cruisers. After making his point, he deftly ended the story on a note more patriotic than angry and drew an explosion of applause from the audience of annuity industry executives.

Racial themes rarely intrude at annuity conferences, but we live in interesting times. TV journalist Candy Crowley, the panel moderator, had asked Watt to assess the furor over Donald Trump's remarks ("Get the SOBs off the field") about NFL players who kneel for the national anthem. Watts took the question and ran for daylight—lifting a ready-made anecdote about racial profiling from his own 2016 memoir, "Dig Deep."

Suitably enough, this year's IRI conference was held at The Breakers in Palm Beach, not far from the president's own exclusive Mar-a-Lago club. It marked the 25th anniversary of the organization, which began as a trade group called the National Association of Variable Annuities. CEO Cathy Weatherford has been its leader since 2008. At the conference, she announced her intention to retire at the end of 2018 after a ten-year run.

Regulatory limbo

The DOL rule, tax reform, and the tribulations of the annuity business were the main topics of conversation during the panel discussions, breakout sessions and cocktail receptions, as executives from major life insurance companies and brokerages mingled among the palms on the very sand bar and in the very hotel where the Florida real estate boom reached its 1920s peak.

Despite their outward deference to the spirit of the Obama DOL rule, many of these executives are "angry," I heard anecdotally, both at the Obama administration's attack on their annuity sales model and at the Trump administration's apparent inability to work out the controversies over the rule in a timely manner.

Anger is understandable; the industry has been whipsawed by the federal government. They spent tens of millions of dollars and thousands of hours on internal changes to comply with the rule—only to find that many changes may turn out to be unnecessary. Meanwhile, uncertainty over the fate of the rule has chilled the market for annuities, costing them untold billions of dollars in lost product sales.

The DOL set out to break the influence of manufacturer-paid commissions on advisors' product recommendation to clients. That has been happening, and will probably continue to happen. It has had disruptive implications up and down the annuity supply chain, at least where third-party distributors are involved.

"We don't control our compensation rates anymore," lamented Bill Lowe, president of Sammons Retirement Solutions, which wholesales Midland National Life annuities. "We used to set the compensation levels. Today, [brokerage] firms say, 'Here's what you will pay.' The paradigm has shifted. There's been a complete flip in who sets the compensation rates."

He's referring to new policies at brokerages like Raymond James, which sells Midland National's no-commission fixed indexed annuities (FIAs). For instance, Raymond James is setting one advisor comp for all brands of three-year indexed annuities, one for all five-year annuities and one for a seven-year annuities, as Raymond James' senior vice president Scott Stolz told RIJ. Midland must retool its products accordingly.

The brokerage tail is wagging the life insurer dog, in effect. Raymond James is also reducing the compensation it will accept for selling structured variable annuities, which have lower guaranteed floors but higher caps than FIAs.

"We're telling the structured product people that you have to take the money you save on commissions and put it back in the product," Stolz said. (For FIAs at Raymond James, the differences in commissions are based on the number of years that the client can be expected to own the product, Stolz said.)

'Tell Ken Fisher to Stuff It'

Variable annuities were a frequent topic of discussion. Once the fiery chariot of the annuity industry, it has been suffering not just declining sales but negative net flows. Life insurers, led in recent years by Jackson National Life, still sell about $100 billion worth of VA contracts each year. But the category's future is unclear.

One wirehouse executive envisioned major product changes. "I see the unbundling of the insurance and the investments in the variable annuity. Putting those investments into an insurance wrapper creates complexity. You can unbundle it so that the client knows exactly what they're spending on what," said Ben Huneke, managing director and head of Investment Solutions at Morgan Stanley Wealth Management.

Bill Lowe of Sammons, which distributes indexed annuities, noted that VAs have become expensive relative to the limited upside they now offer. "Why are sales of the VA with the guaranteed lifetime withdrawal benefit declining? Because we're asking for risk-transfer pricing in that product but were not transferring customer risk," he said. That is, investments inside most VAs are now so risk-dampened, that they provide little or no more upside than indexed annuities despite their higher fees. "It's all one indexed market now," Jeremy Alexander of Beacon Research told RIJ.

One VA veteran struck an optimistic chord. "The DOL issue is a wonderful opportunity," said Bob Saltzman, the retired CEO who in 1994 pioneered variable annuity sales at Jackson National Life.

"The fee structure of variable annuities will drop to the level of mutual funds, and you'll have the opportunity to sell an investment with no tax event," he said in his IRI Hall of Fame induction speech Monday night. "It will better than mutual funds. You'll be in a position to tell Ken Fisher to stuff it very soon."

Weatherford begins a long goodbye

Amid the commotion of the conference, IRI president and CEO Cathy Weatherford announced that she would retire at the end of 2018. On the brink of the financial crisis in September 2008, she took over a narrow-focus trade group called the National Association of Variable Annuities, welcomed all kinds of annuity manufacturers and distributors into the fold and turned it into a robust lobbying organization.

Weatherford, a former Oklahoma insurance regulator, persevered in the face of low interest rates, departures of several firms from the VA business, and an unsympathetic Obama administration, whose DOL rule was aimed precisely at her organization's members' business models. In a short speech, she assured her members that there would be a smooth succession, but she didn't indicate who her successor might be.