Tell Us What You Really Think

By Kerry Pechter *Thu, Apr 11, 2019*

At the LIMRA-Society of Actuaries Retirement Industry Conference in Baltimore last week, Scott Stolz from Raymond James, Greg Jaeck from Edward Jones and Jarrod Fisher from Simplicity Financial Distributors delivered frank opinions about annuities and annuity issuers.

Life insurers increasingly rely on registered reps and financial advisors to recommend or sell their annuities, so insurers tend to listen closely when advisors and their broker-dealers offer feedback about what the insurers are doing right and what they could do better.

Last week's LIMRA/Society of Actuaries Retirement Industry Conference in Baltimore was the kind of event where life insurers and representatives of advisors exchange such views. During a panel discussion there, executives from Edward Jones, Raymond James, and Simplicity Financial Distributors gave a roomful of life insurance managers and actuaries an earful.

Here are some samples of what the executives said:

Scott Stolz, the president of the Raymond James Insurance Group, explained why sales of variable annuities with living benefits have weakened steadily over the years. Once a favorite of advisors looking to add a flexible source of guaranteed income to client portfolios, its bloom has faded. As Stolz and other distributors have said in the past, the value proposition of the products has shrunk and the products remain stubbornly labor-intensive.

"The [preferred] income layer has been the VA with living benefits, but the products became less attractive as insurers de-risked," Stolz said. "The performance of the volatility-managed products has been miserable. People now know they won't get a step-up [in the notional "benefit base" that's used to calculate income payments]. That's a shift from eight to ten years ago, when you could get a step-up."

Variable annuity income riders were once so valuable, in terms of potential income streams for people who waited 10 years between purchase of the contract and the first withdrawals, that advisors readily added the rider and its one percent (of the benefit base) expense. But "too many VAs were sold as 'insurance in case the market falls,'" Stolz said. "Advisors told clients, 'Just throw the rider on and we'll have it if we need it.' Now we've eliminated the 'maybe we'll use it maybe we won't' sale. Last year the market was driven more by indexed annuities."

Today's advisors, he added, are using a logical and justifiable technique on the occasions when they do incorporate an annuity with an income rider into a client's retirement income strategy. If a client says, "I need at least $3,000 a year above Social Security for essential expenses," the advisor can say, "Invest X number of dollars in a deferred annuity with a living benefit, wait Y number of years, and then start pulling out $3,000 a month."

"The advisors are working backwards [from the client's income goal] now," Stolz said. "It used to be, 'Let's allocate some dollars to an annuity and throw a rider on.' Now it's, 'How much income do we need and how much do we need to put into the annuity to get it?'"

Another panelist was Greg Jaeck, senior product leader at Edward Jones, the 17,000-advisor brokerage firm. There are no fixed indexed annuities on Edward Jones' product shelf; a senior executive once described their returns as "manufactured." He offered feedback on the ways Edward Jones generates retirement income for clients.

Edward Jones advisors, for instance, sell a fair amount of single premium immediate annuities, or SPIAs, which produce a guaranteed income stream starting within no later than 13 months after the contract is purchased with a lump sum premium. The increase in bond yields during 2018 helped SPIA sales.

"There's been an uptick of sales on the SPIA side as we've gone from 175 basis points to 315 basis points and back to 250 basis points on 10-year Treasuries," Jaeck said. For clients who want to combine liquidity with a lifetime income guarantee, Edward Jones offers a simple, CD-like fixed deferred annuity with a living benefit rider. "We've gone from $250 million to over a $1 billion in sales [with that product]," he added.

"Simple wins. Of our financial advisors, 50% of them might do one to five annuity contracts per year," Jaeck said. "They will gravitate to what they understand. That's why the fixed deferred annuity with an income guarantee is resonating so well. It's simpler [than an indexed annuity]. Even a SPIA is simpler. We're up 40% this year in SPIAs or DIAs [deferred income annuities]. That category may never be big as index annuities, but the simpler story works."

Stolz said that he has tried to impress upon his advisors that when they add a SPIA to a client's portfolio, the task of managing his or her other assets becomes easier. The advisor won't be able to charge an asset management fee on the value of the SPIA, but the trade-off can be worthwhile.

"Advisors don't like to sell SPIAs because the assets go away, and because clients don't like to delve into their principal," Stolz said. "The reality however is that the majority of clients *will* have to spend principal. We tell advisors, 'If you handle the income piece then it gets easier to invest the rest of the money.'

"When we ask our advisors if it's easier to manage a client's money when he or she has a defined benefit pension, they typically say yes. Once they understand that a SPIA is like a pension, a light bulb usually goes off. But you have to tell the advisors four or five times before it sinks in. It would be useful if the insurance wholesalers would reinforce that message."

There's plenty of room for life insurers to improve their support for existing annuity business, Stolz said. "We have $52 billion of annuity assets on our books, and the amount of work associated with managing the block is horrific. It's not like years ago. You have hard-to-manage riders. You have to make sure there are no excessive withdrawals and that the clients are starting income when they should. For instance, clients might be eligible for a 12% [of premium] withdrawal at age 68, but if they don't need the money they don't take it.

Scott Stolz

"There's close to zero help from the annuity companies on supporting the old blocks of business. The first insurer who makes it easy to manage a block, and text the client saying, 'There's a step-up due, or here's how to manage a withdrawal [will get more business from us.] You might have eight versions of a product, all within one prospectus. It's hard to find somebody at the home office who remembers how each version of the product worked. And if that person dies, I don't know what I would do."

Life insurers who help advisors save time will be more popular at Raymond James, Stolz said. "Advisors look at their ratio of revenue-to-time-spent. Anything [insurers] can to decrease the time spent will help. On the FIA side, it's often about the rate, but all of our products are equally worth selling. So it comes down to the difference in time-spent. Advisors need support not just when the policy is issued but also post-issue, and even four or five years after the policy is issued."

Regarding the indexes that are used in indexed annuities, neither Stolz nor Fisher showed enthusiasm for the custom indexes that many issuers now offer.

"We prefer the annual point to point crediting method and we use the S&P500 index. It's recognizable. We're skeptics on the performance of the new indexes. They scare off a lot of clients," said Jarrod Fisher. Stolz agreed. "We realized that you'll get about the same result whether you use a volatility-controlled index or not," he said. "So about 85% of our indexed annuities are linked to the S&P500 index."

The panelists were asked what they thought about the introduction of no-commission annuities for advisors who don't accept commissions from life insurers, and whether manufacturer-paid commissions to advisors, which create a conflict-of-interest for the advisor vis-à-vis the client, will even exist for much longer.

Greg Jaeck

“That’s where the market is going,” Jaeck said. “The fiduciary rules that have been proposed by individual states and the National Association of Insurance Commissioners are driving [the adoption of no-commission annuities].

“My team and other distributors are in the advisory market or looking at it. We need to design annuities to fit into the advisory solution. But it’s not just a matter of stripping out the commission. It’s more about technology,” he said, referring to the fact that annuities are not well integrated into advisors’ electronic workflows. “There will be a tipping point. The industry would double or triple if we can solve the advisory issue. If not, it could go the other way.”

Stolz expects the no-commission annuity market to grow. “A year and a half ago I thought in five years we would no longer see that commission-paying packaged products. It’s coming, judging by the number of meetings I sit in on where we talk about the commission structure so our advisors don’t have to get accused of conflicts of interest,” he said.

“About 15% of our annuity business today is no-commission,” Stolz added. “We will always offer advisors a choice, and we won’t make the decision for them. But more and more advisors will switch to no-commission. We need a lot of infrastructure to support commissions and, with half or more of our [total] business on the advisory side, we’re not doing enough commission business to justify it. About 90% of our compliance chores are related to commissions. If we don’t fix that, you will see annuity sales fall off a cliff in three and a half years.”

As the panel discussion drew to a close, Stolz asked life insurers to please stop using the acronym RILA, which stands for registered index-linked annuities, to describe annuities that offer a floor or buffer against potential loss of principal rather than a guarantee of no loss at all. “I understand why they call it RILA,” he said, “but you have to find something else to call it.” In an industry already loaded with acronyms, “RILA” might be one too many.