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## **The Future of Fixed Annuities: A 2020 Vision**

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By Editor Test     *Wed, Feb 17, 2010*

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The well-known indexed annuity expert, Jack Marrion, president of St. Louis-based Advantage Compendium Ltd., predicts that by 2020 the securities industry will exercise control over the annuity market in the U.S.

In a new report, "Fixed Annuity Distribution In 2020," he forecasts that Boomer demand for lifetime income guarantees will strengthen, and that the securities industry will attach these benefits to investment vehicles with minimal insurer involvement.

"The securities world will be doing a lot more annuity business," Marrion told RIJ. "The changes are going to be as big as we saw in the '80s." Such predictions aren't likely to make him popular, he said, but he believes they're accurate.

Advertisement The report says Rule 151A (the contested SEC rule written in 2008 that reclassifies indexed annuities as securities), if enacted, will ruin the profitability of any insurance marketing organizations (MOs) that doesn't own or is affiliated with a securities broker-dealer or advisory firm and therefore won't be able to collect commissions from the sale of securities.

Three out of four insurance wholesalers don't have such affiliations, Marrion said. Of the 51 MOs in his study, only six had or were forming their own securities operations. A handful of others, also listed in the study, already have links to securities firms.

The report says in part:

"The next decade for annuity distribution will be unlike any other," the report says. "Commissions will be lower, regulatory supervision will be ramped up to levels that today's typical annuity producer cannot imagine, marketing organizations will need to change or die, and the financial markets will continue to be volatile and difficult to forecast.

"And yet more fixed annuities will be purchased in the next ten years than ever before because the fixed annuity value proposition will find a receptive ear in the 57.7 million people that are currently between ages 55 and 75. Fixed annuities, through creative uses of living benefits, will finally be embraced by the financial community and be used to offer protection against the major uncertainties of retirement.

"Wall Street could become the main annuity store for consumers because they have the marketing power, the capital, and they can meet a financial behavioral need best expressed by realizing that we buy both insurance and lottery tickets. Today the 'insurance need' in a Wall Street portfolio is met by bonds, but could also be provided with a synthetic annuity attached to an investment.

"A few of the conclusions reached are that 1035 exchanges will significantly decline, securities regulators

will essentially supervise the fixed annuity world, and that the largest distributors of fixed annuities in 2020 will be broker-dealers and advisory firms.”

Ten years from now, Marrion predicts:

- Banks and wirehouses are likely to sell multi-year guaranteed rate annuities (MYGAs) during parts of interest cycles and at all times sell fixed annuities to protect against longevity risk or create an income foundation. Wall Street may create synthetic annuities to perform these functions rather than using off-the-shelf insurance company products.
- 1035 Exchanges will have declined resulting in lower annuity sales in all distribution channels.
- Today’s annuity marketing organizations will be rare in 2020 because securities regulators will supervise the fixed annuity world. MOs that offer B/D or RIA capabilities will benefit because they can offer agents someone that “gets them.”
- MOs without securities connections will find a decreasing pool of annuity agents with which to work and greatly reduced overrides.
- Private annuities will not be required in pension plans, despite the current buzz in DC. The use of annuities in retirement planning will grow because of government interest, however.
- There will be a wide variety of fixed annuity guaranteed benefits that go beyond the current lifetime withdrawal riders and LTC/annuity combos.
- Wirehouses, banks and advisory firms will be the biggest distributors of annuity products, but these annuities will be largely synthetic driven by the investment engine within.
- Fixed annuity sales, whether traditional or synthetic, will have strongly increased and be many times greater than they were in 2010.
- A growing number of jobs will be available in the annuity industry for suitability officers, broker/dealer liaisons, marketing people with behavioral economics backgrounds, and product development specialists.

Advantage Compendium Ltd. provides research and consulting services to insurance companies and financial firms in a variety of annuity areas ranging from the behavioral economic reasons why consumers buy or don’t buy financial products, to carrier and marketing company future industry impact models, as well as providing executive management strategic planning for annuity carriers and distributors.

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