# The IRI Conference, Annuities and the American Way

By Editor Test *Thu, Sep 13, 2012*

*Vote for Obama and you'll get more 'government in your knickers,' keynote speaker Haley Barbour told 300 or so IRI meeting attendees in San Diego this week.*

The Insured Retirement Institute's 2012 meeting in San Diego was pretty good, considering the prospect of the "fiscal cliff," the fact that variable annuities have proven *not* to be the salvation of the life insurance industry and the fact that the IRI, a lobbying organization, will have its hands full if Barack Obama wins in November.

Since it molted its original NAVA skin four years ago, the IRI has broadened the scope of its membership to include a wider range of annuity issuers, asset managers and distributors. The membership now includes 150,000 advisors, said outgoing IRI chair Lynne Ford; that's almost double the level of a year ago.

The IRI now focuses on sales of all types of annuities—a product category that, according to a Cogent Research presentation, only 5% of non-annuity owners say they understand well. The conference featured panels on variable, fixed indexed and deferred income annuities, a panel on how annuity manufacturers are supporting advisors, and a panel specifically devoted to the topic of variable annuity "capacity."

The 300 or so attendees, most of whom appeared to be senior executives or managers, also heard lots of high-level talk. There was a judiciously partisan political oration from Haley Barbour (see below), a big-picture view of the markets from David Kostin of Goldman Sachs (see today's cover story) and a stratospheric view from Peter Diamandis, creator of the Ansari X Prize, which helped jump-start the private suborbital spaceflight industry.

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The capacity (or shortage thereof) of variable annuity issuers to meet market demand has been widely discussed this year, but a panel of VA issuers, led by Prudential Financial's Bruce Ferris, seemed to agree that, for them, capacity still isn't a problem.

"Supply and demand are equal. Everybody who wants [a variable annuity] has been able to buy one," said Randy Freitag, chief financial officer at Lincoln Financial Group, a perennial top-10 VA seller. Even at current interest rates "we can still put out a product that speaks to consumers and shareholders," he said.

Similarly confident was Michael Reardon, CFO at Forethought Financial Group, which is in the process of taking over The Hartford's variable annuity business. "It's a wonderful time to get into this product," he said.

Transamerica, which has sought to buy back some of the variable annuity contracts it sold during the mid-decade boom, "has lots of capacity at the right price and the right product design," said Thomas Swank, president and CEO, Individual Savings & Retirement at Transamerica.

The panelists were asked what might happen if the variable annuity industry gets its wish and a large portion of the 80% of advisors who don't currently sell variable annuities starts selling them. "We have $1.6 trillion in total assets," the audience member said. "Can we handle $5 or $6 trillion?"

The answers, like VA income riders themselves, were hedged. "Markets will find a way to absorb that," said Reardon. Swank suggested that would be a nice problem to have. On another topic entirely, Scott Stolz of Raymond James asked if "the deterioration of products" was over? Freitag assured him that "large-scale changes are behind us."

Insurers can't be blamed for wanting to hang on to VA/GLWB. By most accounts it's a very profitable profit that's capable of generating revenue from its insurance riders as well as from its mutual fund subaccounts.

On the other hand, the product seems to need a bull market in equities and healthy corporate bond spreads to generate enough revenue to provide profits for shareholders, inflation protection and longevity protection for contract owners, and attractive incentives for intermediaries.

The Bush-tax-cut/Iraq-War bull market helped the industry punch all of those buttons—temporarily. Since then, the financial crisis and the low-rate environment have demonstrated how hard it is to keep all those promises: hence the smaller sales goals and departures from the industry.

Still, perennial optimists like Prudential's Ferris ("the glass is half full") maintain that the Boomer aging trend is still the industry's friend, that short-term market volatility doesn't reflect or seriously affect the affordability of the GLWB's long-dated liabilities, and that companies who design these products right will do well selling them.

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Two insurance company executives, Bill Lowe of Sammons and Al Dal Porto of Security Benefit stopped to chat with *RIJ* during breaks between general sessions of the conference.

Dal Porto, an actuary who came out of Ernst & Young's retirement practice (where he worked for Chris Raham) to become senior vice president, head of Retail Retirement, at Topeka-based Security Benefit two years ago, explained the company's strategy on variable annuities and fixed indexed annuities.

A unit of Guggenheim Partners, Security Benefit sells fixed indexed annuities through banks and broker-dealers. Its Secure Income FIA was second only to New York Life's Lifetime Income Annuity in sales in the second quarter of 2012, according to Beacon Research. No Security Benefit product had made it into the top five sellers before.

On the VA side, Security Benefit is selling a no-living benefit variable annuity with 200 investment options. Like Jefferson National's product, it's designed for advisors who want the freedom to tactically reallocate without worrying about short-term tax consequences. Security Benefits' rating (a B++ strength rating with stable outlook from A.M. Best) effectively prevents it from competing against A-rated issuers in the market for VAs with guaranteed lifetime withdrawal benefits.

The de-risking of variable annuities and retrenchment by former leading issuers of VAs, however, has created an opening for FIAs with living benefits, and Security Benefit has an FIA with a GLWB that's designed for that opening.

"We're seeing a shift in the FIA space because of the capacity issues in the VA marketplace," Dal Porto said, noting that broker-dealers are willing to run FIAs with GLWBs through the same suitability process that they use for VA/GLWBs: "Many allow their reps to sell the FIAs away [from the broker-dealer], but they want to do the suitability on FIA sales." Security Benefit is also planning to introduce a single-premium income annuity sometime next year.

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While Security Benefit is wholly owned by Guggenheim Partners, Guggenheim Partners is one-third owned by the Sammons Financial Group, whose members include Midland National Life, North American Co. for Life and Health Insurance, Sammons Securities, Sammons Financial Network and Sammons Retirement Solutions Inc. So it's not surprising that the sales strategy at Sammons echoes the strategy at Security Benefit.

Bill Lowe, president of Sammons Retirement Solutions, spoke with *RIJ* about Sammons' LiveWell variable annuity. Instead of living benefits, this product offers hundreds of non-proprietary investment options. It is designed to compete in the same space as Jackson National Life's Elite Access variable annuity.

Sammons emphasizes sales of the C share contract, which pays a one percent upfront commission and a one percent trail, has no surrender charge, and has a mortality & expense ratio of 130 basis points, of which all but 30 basis points covers the intermediary compensation.

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If the IRI wanted to show where its political heart is, it could hardly have chosen a more partisan keynote speaker than Haley Barbour, the twice-elected governor of Mississippi, chairman of the Republican National Committee from 1993 to 1997 and consummate K Street lobbyist for Microsoft, RJ Reynolds and other giant firms.

In his thick-as-sorghum-syrup Gulf Coast accent, the beefy, white-haired native of Yazoo City, Miss., opened his zesty talk with a put-down of government competence in census questionnaire writing (he joked about a request for "a list of workers broken down by sex") and closed with a solemn warning that the American way of life is at stake in the upcoming election.

"Obama wants more government in your knickers," Barbour drawled.

The presidential contest is too close to call, he said. Obama is the better campaigner, he conceded. But, contrary to conventional wisdom, he counted Medicare as an issue the GOP can capitalize on. "The longer the conversation about Medicare, the more people will favor the Republicans,” he suggested, because the public will recognize that only radical reform can save the 47-year-old health insurance program for retirees.

For all his evident familiarity with politics, Barbour revealed only a passing acquaintance with economics. He suggested that the “government is sucking all the money out of the economy” by “spending a net $4 billion a day” more than it takes in. The opposite policy—trying to balance the budget by spending less and reducing tax expenditures—would be more likely to “suck all the money out” of the economy.

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