Trick or Tweet

By Kerry Pechter *Thu, Oct 26, 2017*

Uncertainty about tax legislation, and Congress' apparent disinterest in 401(k)s except as a kind of piñata, lent a daffy, fatalistic tension to many of us at the ASPPA and LIMRA annual conferences, held this week at a convention center outside Washington, D.C.

It was the tweet heard 'round the retirement world, and beyond. At 7:34 a.m. last Monday, President Trump typed on his smartphone keypad: "There will be NO change to your 401(k). This has always been a great and popular middle class tax break that works, and it stays!"

Wisely, retirement industry-watchers waited for Trump's other custom-made shoe to drop. It did. Yesterday, House Ways and Means Committee chairman Kevin Brady said that elements of the 401(k) program might still serve as bargaining chips in tax bill negotiations. The President agreed, telling reporters, "Maybe we'll use that."

But let's return to Monday, and to Gaylord National Harbor Convention Center, just south of the Capitol. Brian Graff, CEO of the American Retirement Association (ARA), held his own press conference at the 2017 meeting of the American Society of Pension Professionals & Actuaries (ASPPA), a part of ARA. ARA lobbies for the advisors and third-party administrators (TPAs) who serve 600,000+ small and mid-sized 401(k) plans.

Graff felt a bit, in a staff member's words, "punchy" due to the labile status of Republican tax legislation and its impact on tax incentives for retirement savings. He knows that there is no policy—only a scavenger hunt for revenue to "pay for" still-undefined tax cuts. Reducing the tax break for contributions to 401(k)s may be one of those pay-fors.

"This is crazy time," Graff mused, as much to himself as to the two reporters present. He began to describe a possible timetable for the passage of a Republican tax bill before the fast-approaching end of the current legislative session, and then gave up. "But I'm talking logically, and logic doesn't hold now," he concluded.

The uncertainty about tax reform, and Congress' apparent disinterest in 401(k)s except as a kind of piñata, lent a daffy, fatalistic tension to many of us at the Convention Center, where not just ASPPA but also LIMRA, which conducts market research for the life/annuity industry, was holding its annual conference.

Nonetheless, both conferences offered a number of informative panel discussions, keynote presentations, and break-out sessions on topics that included direct online sales of deferred income annuities, the conflict between low-tax pass-through businesses and tax incentives to sponsor micro 401(k) plans, and the reputational risk that may or may not be associated sales of indexed annuities.

Selling DIAs direct

Over the past year or so, Nationwide has been running a pilot program in Arizona to test the feasibility of marketing and fulfilling the sale of deferred income annuities entirely online. In a session called "Innovative Product Design" at the LIMRA conference, Nationwide's Eric Henderson, senior vice president for life insurance and annuities, and Jean Finnegan, assistant vice president, product design, shared lessons learned.

"Offering DIAs in a low interest environment was a challenge. We faced a lot of 'no's' at the beginning," Finnegan said. "People said, 'No one will buy this product online, no regulator will approve, our systems will have to support the product forever, you can't do suitability assessments online.'

One by one, Nationwide overcame those hurdles, she said, but capturing prospects, educating them and getting them to sign a contract remains difficult. "We have five million brand impressions and 7,000 people coming to our educational landing page. So we have no trouble filling the top of the funnel. But we discovered that it's hard to drive people to the bottom of the funnel."

Finnegan and Henderson leveraged some of the direct online sales experience of Nationwide's property and casualty business in setting up an online DIA business, but they learned that they needed help from small tech companies for mobile applications and chatbots.

There was a culture clash: Tech firms operate at warp speed while big insurance companies operate at tortoise speed. Ten-person tech firms don't have Chief Risk Officers on staff. In the month that it takes a big insurer to coordinate executive schedules and convene a preliminary meeting, a tech start-up can burn through hundreds of thousands of dollars of venture capital.

Interestingly, Finnegan noted that Nationwide has lowered one behavioral barrier to DIA sales by making its contracts revocable, with haircut.

The 'pass-through' problem

Lawyers at the American Retirement Association, which lobbies for service providers to the vast numbers of small and micro 401(k) plans, are hoping to defuse the threat that a tax bill might reduce the tax rate on so-called "pass-through" business entities to 25%.

If that happens, as it did in Kansas, many small proprietors who currently pay ordinary income tax at much higher marginal rates might convert their companies to pass-through. If they lower their taxes that way, they won't need the tax break that they get from sponsoring 401(k) plans. Observers disagree on how likely a pass-through plank would be included a new tax bill.

CEOs debate FIAs

In a lively panel discussion among four CEOs, Ted Mathas of New York Life, Tom Marra of Symetra Financial, Bob Reynolds of Great-West Financial, and Bob Kerzner of LIMRA, discussed fixed indexed annuities (FIAs). Marra and Reynolds defended the product; Mathas explained why his company doesn't sell it.

“There’s nothing inherently wrong with the product,” Mathas said. “The manager buys mostly zero coupon bonds and takes some of the remaining money and buys some equity options. Structurally, there’s nothing wrong with it.

“The question is, ‘What are people hearing at the point of sale? What are their expectations, and will the product meet their expectations over the long term? The distributor is selling an illustration that shows a 7.5% return, but most people don’t understand the trade-off,” he said.

“If you cap all of the best years, you won’t be able to make up for the down years. Your chance of a 7.5% return over 30 years is in the single digits. So there’s the reputational risk of not living up to expectations. If we came out with a product that illustrated [a more realistic] 5% return, people would say, ‘Why is yours so low?’”