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## Wells Fargo to sell no-commission VAs

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By Editor Test     *Sat, Jun 16, 2012*

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Fee-based advisors at Wells Fargo will now be able to do what fee-based advisors at LPL have been doing: selling no-commission, no-surrender-charge variable annuities with lifetime income guarantees.

Wells Fargo commission-based brokers have long been selling commission-based, B-share variable annuities to clients. Until now, Wells Fargo hasn't had VA contracts on its shelf that suit the compensation structure of its fee-based advisors.

There will be four variable annuities on Wells Fargo's new Advisory Variable Annuity platform, from Nationwide, Lincoln Financial, Pacific Life, and (later in 2012) Allianz Life.

The advisor-sold VAs will be significantly less expensive than the broker-sold VAs, according to Bernie Gacona, senior vice president and director of annuities for Wells Fargo.

"We anticipate the [advisor] fee to be 75 to 100 basis points," Gacona said. "The inherent fees in an advisory variable annuity are significantly lower. The average cost of a B-share variable annuity is between 350 and 375 basis points. Our advisory variable annuity with a one percent advisor fee will have an all-in range of 280 to 320 basis points."

According to a Lincoln Financial release, "Popularity of fee-based variable annuities has significantly increased over recent years. A Lincoln analysis of Morningstar data shows that from 2008 to 2011, sales of variable annuities sold through a fee-based platform increased 36%."

Besides being less expensive, the advisor-sold contracts have no surrender charge schedule, which means that clients have more freedom to leave the contract if their needs change or if their advisor changes strategy.

Since the insurance company pays no commission to a broker in this arrangement, the insurer doesn't need to recover the commission from the clients through annual fees.

Therefore the insurer doesn't need to charge surrender fees or a high mortality & expense risk fee, both of which are related to recovering the up-front commission that the insurer paid the broker.

The variable annuities chosen by Wells Fargo include Nationwide's Income Architect contract, a no-surrender charge version of Lincoln National's ChoicePlus Assurance contract, and the Pacific Odyssey contract from Pacific Life.

All-in annual fees for the Nationwide contract will be between 150 and 200 basis points, depending on the

investment options chosen. The Nationwide contract has a mortality and expense risk fee of just 20 bps, an administrative fee of 20 bps, and a lifetime income rider fee of 60 bps (70 bps for joint and survivor). The investment charges range from 42 to 143 bps. The minimum purchase premium is \$25,000. The income benefit base has an annual ratchet, which means that the benefit base gets marked up to the account value if the account value is at a new high water mark on the contract anniversary.

The annual payout rates under the lifetime income guarantee appear to be based on the number of contract years that have passed since purchase, rather than the age of the contract owner or owners. Lifetime payout rates are 4.5% per year of the benefit base in years one through five, 5% in years six through ten, and 5.5% thereafter.

Pacific Life's Odyssey contract has a mortality and expense risk fee of only 15 bps, an administrative fee of 25 bps, and several lifetime income guarantees with annual rider fees ranging from 30 bps for the single-life CoreIncome Advantage Plus to 175 bps for the joint-and-survivor Flexible Lifetime Income Plus rider. Investment expenses are separate, and investments are restricted to a selection of asset allocation models. The minimum purchase premium is \$50,000.

Under the basic CoreIncome Advantage Plus income rider, there is no deferral bonus and the maximum annual guaranteed withdrawal amount is 4% per year for contract owners over age 59½.

The Wells Fargo version of the Nationwide product is more transparent and less complex than commissionable variable annuities, said Cathy Marasco, Nationwide's associate vice president of product development. "It's a way to add a guarantee to a portfolio of other assets," she said.

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