Which Annuity Is Better? This New Tool Tells You

By Kerry Pechter *Tue, Nov 29, 2016*

Cannex, the Toronto-based annuity product data, just announced a new tool, based on research by annuity guru Moshe Milvesky, that enables advisors to do side-by-side comparisons of annuity contracts. The first phase allows comparisons of variable annuity living benefits.

A platform where advisors and brokers can evaluate and compare living benefits on competing deferred annuity contracts and identify products that are in their clients' best interests has just been introduced by Cannex, the Toronto-based provider of financial product data.

The tool, announced today, is intended to add granular detail to the price quote comparisons and product allocation guidelines that Cannex has long provided to broker-dealers and insurance marketing organizations. For a white paper about the new platform, tool and service, click **here.**

Because they are so flexible and have so many moving parts, and because they behave differently during different market conditions and in the hands of different clients, the relative values of annuities with living benefits are notoriously difficult to compare.

The fees, payout rates, death benefits and underlying investment options are just a few of the factors that vary from one new product to another. In-force contracts vary widely in their "in-the-moneyness" of the living benefit riders—the excess, if any, of the value of a contract's lifetime income guarantee over the account value.

But comparisons are essential when clients are contemplating a new annuity purchase, or evaluating the wisdom of a transfer to one contract from another, or when considering a contract issuer's offer to buy out the contract for a lump sum. Objective third-party analysis can enable transactions that might otherwise be too ambiguous in value to execute; lack of such analysis has left some clients and some issuers holding contracts they'd prefer to escape from.

Then there's the compliance aspect. The platform and its underlying analytic technology are also aimed in part at helping distributors comply with the Department of Labor's new fiduciary rule, which becomes effective next April. The rule requires sellers of variable and indexed annuities to IRA owners to demonstrate that the products they recommend are in their clients' "best interests."

The future of the fiduciary rule is now cloudy, however. The possibility that it might never take effect has arisen since the November election—president-elect Trump campaigned on promises to reverse Obama-era laws and regulations— but distributors are still assuming that it will take effect on schedule, Cannex president Gary Baker told *RIJ*.

"I just got back from the NAILBA [National Association of Independent Life Brokerage Agencies] conference," Baker said. "We're hearing firms are still going forward with implementing new processes. They've got millions, or tens of millions invested in the new processes. There are no assumptions that anything will be stalled or stopped before April." It's been speculated that a Trump-appointed Labor Secretary might let the rule stand, but strip it of the clause that allows clients to file class-action lawsuits against firms that violate the rule.

The first version of the new tool, which can be used when advisors recommend new product sales or exchanges from an existing annuity to a new contract, will allow comparisons between variable annuity living benefits. A second version, scheduled for release in the first quarter of 2017, will allow comparisons between fixed indexed annuity living benefits.

A quick demonstration of the tool this week showed that it enables advisors to display several competing annuity contracts in spreadsheet fashion and then sort and rank them by several criteria, such as best living benefit or best death benefit, under a variety of market scenarios.

In doing so, the tool showed the "DNA" of each product, as Baker put it. Advisors will be able to see where actuaries at different insurance companies added more or less weight to different aspects of their products, and what clients can expect to pay in fees over the long haul. The tool can output an almost overwhelming volume of information, but Baker said Cannex will be able to assign a single-number "score" that will make comparisons quicker and easier for advisors.

"We are not suggesting that the industry replace existing illustration and comparative tools, but rather add our method to enhance sales and compliance processes and help fill a gap where the determination of economic benefit to the client may be deficient," Cannex said in a white paper that supports the new tool."

Fixed-rate deferred annuities with living benefits could also be analyzed by the tool. So far, only New York Life has launched such a product, but other carriers will soon follow, Baker said. Unlike variable and indexed annuities with living benefits, fixed-rate annuities with living benefits can be sold by insurance marketing organizations and their agents to IRA owners without limitation by the new fiduciary rule.

The actuarial technology behind the new tool traces its lineage to Moshe Milevsky, the York University finance professor, author, and consultant to annuity issuers. Three years ago, Cannex acquired QWeMA, Milevsky's quantitative analysis firm. Milevsky is a member of the Cannex board of directors.