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Watch for CD & Bailout Annuities to Resurge

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The most interesting, cutting edge annuity trends are the continuing development of "CD" type annuities and the resurgence of annuities issued with a Bail Out clause.

Why are these two types gaining in importance? Because some policy owners have received exceptionally low, unfair renewal rates in their old, "trust me" annuities. Once burned, agents and policy owners are highly reluctant to trust that insurance company, or any other company, to be fair with them again.

The only sure way to solve the trust problem is with "CD" type and Bail Out annuities because: a "CD"type annuity offers an interest rate guaranteed for a selected period of time. For example, 6 percent guaranteed for 5 years. At the end of the period, the policy owner generally has three options; to renew for another period, rollover to a different annuity, or cash it in.

An example of an annuity with a Bail Out clause is one that has a five-year surrender penalty period. It may offer 6.10 percent guaranteed in the first year, and states if the renewal rate ever drops below the initial rate, the policy owner has the right to Bail Out of the contract without incurring a surrender penalty. At that time, he may cash it in, rollover to a different annuity, or accept the lower rate and continue the policy as is.

Some companies, although they have a great renewal crediting history, are going after the money in other companies by developing or strengthening their own portfolio with these two types of annuities.

Of course, interest rates, in general, have been on the decline, but that's only part of the answer for low annuity renewal rates. The median income return at the large majority of insurance companies was around 7.35 percent in 1996. To me, this implies that if a company credited less than 5.3 percent, it either had a lousy investment team or it was taking an excessive spread (*i.e.*, the difference between what the company earns on their assets and what is credited to policy owners)

I've talked to senior officers with companies that are sending out more money than they are taking in.

Many admit they got greedy and increased their spread, so as to put more attention on increasing stockholders equity rather than policy owner values. Now, they are paying the price. "The only way we can stop the outflow is by offering our policy owners the opportunity to roll their existing contracts into a 'CD' type annuity," they've told me. "We just pray it isn't too

If anyone doubts this scenario, read the trade journals with reports of unbelievably high officer salaries and companies announcing record breaking profits while their clients receive statements showing renewal rates dropping. This is hard on clients, especially when they receive notices from their bank offering certificate of deposit rates higher than their annuities are paying..

There is no question that many agents have contributed to the problem by selling obscene commission annuities, particularly when offered various "dial-a-commission" deals by some companies.

The old analogy of the three-legged stool, where the insurance company, agent, and policy holder all share fairly, is becoming more wobbly as one or two legs get shorter with a growing list of companies.

These trends have not gone unnoticed by all policy owners, nor their attorneys, as witnessed by some of the current lawsuits we've been reading about. It will be interesting to see what happens, for the repercussions can be enormous. When anyone receives a black eye in our business, everyone in the family feels the blow.

Therefore, if the insurance business, as whole, is to retain, recapture, and increase market share of available investment dollars, companies will be rethinking what it takes to pay higher returns to policy owners. The "cutting edge" companies have already seen these trends and are sharpening their tools! For you see, without policy owner values, there can be no stockholders equity.