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Bonus Annuities Create an Integrity Dilemma

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"We have a great new annuity designed for agents. You will have the option of giving your clients a first-year rate bonus of 1 percent, 2 percent, or 3 percent. Or, you can simply sell the annuity without a bonus," an excited insurance company executive told me.

"Oh, you're talking about a Pick-A-Commission annuity," I said.

"What's a Pick-A-Commission annuity?"

"Well, the only way to give the client the interest bonus is for the agent to give up commission. So, the agent gets to pick what commission he wants to earn and then give what's left to the client. Hence, the name, Pick-A-Commission (PAC)."

He agreed, and then explained that for each 1 percent of bonus interest paid, the commission is reduced by 1 percent.

I told him to send me information relating to the maximum bonus of 3 percent, because that was the only option we would sell.

He seemed perplexed and asked why I wouldn't be interested in selling the zero bonus deal.

I asked him, "If you were to sell this annuity to your mother, which bonus would you give her?" He quickly said, "Of course, the 3

"Well, how would you feel if I sold her the zero bonus annuity, and then you both found out that she could have received a 3 percent bonus? What kind of opinion would you have of me? Do you think either of you would ever do business with me again?" He meekly said, "I see your point."

Here are some other points we discussed.

The reason why his company developed the PAC was because other companies have introduced a PAC and his company was simply trying to meet the competition.

I mused that just because someone commits suicide doesn't mean I want to join the group.

If I sold a zero bonus PAC to my clients and they later learned how I had chiseled them, it would be tantamount to committing business suicide. Therefore, if I wanted to stay in business, the only option I could sell would be the 3 percent bonus.

The company executive wondered why so many of their agents were asking for PAC's. My observation was that agents with integrity weren't doing the asking.

Professional agents with letters after their name, such as; CLU, ChFC, CFP, or agents who belong to organizations, such as MDRT or an association of life underwriters, are supposed to adhere to a Code of Ethics. Basically stated, they promise to do the best job possible for their clients – without regard to which policy pays the most commission.

PACs do just the opposite, and they impose a needless integrity dilemma on the agent. A person with integrity will only sell a PAC with the highest bonus available.

The executive also said that most of his company's agents would only sell the annuity without a bonus and earn the maximum commission. Then I told him he has a company full of agents with no integrity. He offered no comment.

This particular company has certification from the Insurance Marketplace Standards Association, essentially meaning the company has committed to truth in advertising and requires its agents to be honest. But if the company's approaches are typical of its peers, I think this raises some questions about the value of IIMSA certification for the policyholder.

This company, as well as many others, also requires a Disclosure Statement to be submitted with each application. On the form, clients sign a statement indicating they understand what they are buying.

Some applications and disclosure statements include "suitability" questions, whereby agents "sign off" that the policy meets the financial objectives of the policyowner.

I wonder how many zero bonus PAC annuities would be sold if the disclosure statements included a line like this, "The agent has agreed to pay the policyowner a 0, 1, 2, or 3 percent bonus. Any bonus not paid to the policyowner is retained by the agent."

In today's world, where many states require agents to take courses in ethics, professional organizations busily touting their Code of Ethics, and insurance companies requiring agents to sign IMSA compliance forms, it seems insane that Pick-A-Commission annuities are becoming so prevalent.

The old three-legged stool that the insurance business was founded on – the company, the agent, and the client – appears to be getting wobbly in some sectors as some insurers cloak themselves in market conduct and compliance handbooks but then roll out products that entice agents to do what they shouldn't..

While some companies and agents continue seeking new gimmicks to sell annuities, the bold truth is as evident as the sun rising every morning. The formula for selling huge amounts of annuities is simple: Pay the highest interest rate possible to policyowners, a fair commission to the agent, and let the insurance company earn a fair spread. It works every time.

There are hundreds of ethical companies and thousands, upon thousands of agents with integrity in the insurance business. It's a shame that bad marketing decisions by some can make it so tough for others to sell high-quality, consumer-oriented annuities.