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Some CD-Annuities Feature 'Good Deals"

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After years of success, many state lotteries changed their philosophy to, "We'll pay out less and keep more. Therefore, we'll make more money." It was disastrous. Fewer people played, lotteries took in less money, and state revenues fell.

Now comes news that a Texas law, which increased state lottery payouts, is prompting more players to spend more money. This validates "the idea that if you raise the payout structure, you bring in more players," noted a recent *Dallas Morning News*.

A recent CBS-TV report remarked the same point, noting that as states have increased the size and number of lottery payouts, more people are playing the games, increasing the intake by 10s of billions of dollars.

Setting the social issues aside for this article, it does sound amazing doesn't it? The more money paid out, the more money taken in. My seven-year old grandson would say, "Duh!"

What does a state lottery have to do with insurance? The answer is simple: The same concepts hold true in this business as in the lotteries. That is, the higher the payout on life, health, and annuity policies, the more premium is taken in. What's more, the easier it is to buy a policy, the more policies people buy, and the more premiums received. Consider:

- Some insurers have made the same mistake as the state lotteries, trying to increase profits by paying out less.

Today 100s of fixed annuities are on the market that are simply trash. These FAs force policyowners to earn low interest rates on renewals for a very long time, often over 10 years, while they pay outlandish commissions to the producer and allow the insurer to earn unreasonable spreads. Once policyowners discover what has happened, they will never put more money in that company again. Often they will never put money in any annuity with any company again, particularly with that agent.

Many of those companies are in net redemption, meaning, more money is going out than is coming in. What's surprising, when I talk to them, is they don't really understand why no one wants to put money in their company. Another "duh!"

- On the other hand, a number of companies have gotten smarter, learning what some state lotteries have learned. As a result, some super deals are available on annuities today – perhaps better than we've seen in over 10 years. These smart companies are setting FA sales records on a monthly basis!

How did this happen? About three years ago, some companies started developing more consumer-oriented, higher-quality FAs. These earn smaller commissions and provide a lower spread to the company. The insurers also became slightly more aggressive in their investments, while paying higher yields to the policyowner. When they made these changes, their FA sales shot up.

- Within the last few months, new and improved "certificate of deposit type" FAs have come out, offering higher guaranteed rates than more traditional CD-type annuities.

I term these FAs "new and improved" because their commissions are more than 50 percent lower than on traditional CD-type annuities, and the spreads the companies take are also roughly 50 percent lower. These changes have allowed the crediting rates to run higher – by an average of one-half to three-fourths percent annually – than the rates on more traditional CD-type annuities.

Coupled with the high rates is the concept of simplicity. The easier the FA is to explain, the easier it is to sell. This group of annuities leaves out all the gimmicks and goes straight to what clients want – high guaranteed rates.

Not surprisingly, the latest sales results from these issuers show an explosion in premium receipts. Agents and companies are actually making more money, despite the 50 percent cut in commissions and spreads, because the average size case has gone up and they are making more sales.

In short, the better the deal, the more people buy. People are starved to deposit their money in an account that earns a high guaranteed rate, without market risk, and allows their money to grow tax-deferred.

A corollary to the above is: The easier it is to buy, the more people buy. For example, some companies insist on the old, arcane method of using "one size fits all" applications that are cumbersome, long, and multi-paged in an effort to save a little in state filing and printing costs.

By contrast, modern marketing companies are using short-form "brochure-applications" that clients and agents can complete quickly and easily. More importantly, the "bro/apps" are easy to read, give complete policy information, and can be mailed to a client. If the clients so desire, they can mail it back to the agent with a check at the client's convenience.

Remember, the better the deal and the easier it is to buy, the more people buy. My hope, and my prediction, is that as more insurers and agents buy into this concept, even better FAs will be offered and more agents will be accepting the inevitable lower commissions. The more people buy, the more profits agents and companies will make. It really is just that easy and that simple to make money selling FAs. State lottery systems have proven the concept.

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