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Why Push a Five-Ton Annuity Truck Uphill?

By Danny Fisher, CLU, ChFC

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It seems many insurers and agents are trying to push a five-ton truck uphill.

Not that it can't be done. My first general agent told me how, back in 1975. If I wanted to push a five-ton truck uphill he said, just work real hard at rocking it until it starts to move. Then grunt, push, sweat, and strain myself to exhaustion, pushing it uphill. Alternatively, I could gently nudge the truck downhill, ride in the cab and steer it to a place for repairs – then drive it up the hill.

Some insurers work really hard at developing complicated policies and forms. They grunt and push a pile of junk uphill with high profit margins trying to get agents to sell it. As a result, agents grunt, push, and complain about how hard it is to sell annuities.

On the other hand, some insurers and agents are steering 18-wheel rigs downhill, loaded with cash and applications.

With that image in mind, let's s deferred annuity business. It continues to expand and contract. For various reasons, there are fewer insurers offering fixed annuities than one year ago, but the number of annuities offered by the remaining companies has increased.

Deferred, fixed annuities can be divided into two general categories; equity index annuities and traditional fixed annuities.

While EIA sales are about 3 percent of total sales, the number of EIAs offered for sale continues to grow.

When they first came out, EIAs were relatively simple to understand and easy to explain to clients. As time goes by, though, the EIA surrender penalty period is growing and the products are becoming more complex. In some cases, the newer EIAs are virtually impossible for consumers – and producers – to comprehend.

The *Fisher Annuity Index* currently tracks 162 EIAs issued by 33 companies. Of the group, only 16 percent have penalties for six years or less while 84 percent have penalties of seven years or longer. Of the total, a whopping 19 percent have penalties lasting eleven years or more, representing one out of every five EIAs on the market.

One of the most important features in an EIA is the participation rate. In 48 percent of the contracts, the participation rate is locked-in for the length of the penalty period. In other words, the final value will be based purely on the rise or fall of the index.

In the other 52 percent, the insurer may periodically adjust the participation rate according to their whims.

An interesting point is that 64 percent of EIA's, with penalty periods of seven years or longer and 99 percent with penalty periods of 11 years or longer, the insurer reserves the right to change the participation rate.

Regarding the 807 traditional fixed annuities tracked by the *Fisher Annuity Index*, 28 percent have penalties for six years or less while 72 percent have penalties for seven years or longer. Of the total, 9 percent have penalties lasting 11 years or more.

Why on Earth would any person want to sell – or buy an EIA or traditional fixed annuity with surrender penalties of 11 years or longer, especially when 99 out of a 100 such annuities do not offer guaranteed participation or interest rates in excess of the minimum guarantees?

Of the 807 traditional fixed annuities, 30 percent are currently certificate-of-deposit type annuities. These products offer an interest rate guarantee for the length of the penalty period, at the end of which time the client can renew for a new period, remove the money, or roll the money into a new annuity.

There is a clear, dominant trend emerging of more "CD" type annuities being offered.

Some companies have told me that over 40 percent of their sales are coming from "CD" type annuities. A year ago, many didn't even offer "CD" type annuities. At two companies, total sales have reportedly more than tripled as a result of offering new "CD" type annuities.

Within the past 18 months, another new type of traditional fixed annuity has been developed. For lack of a better name, we call it the "Pick-Your-Portfolio" annuity. With PYPs, the clients participate in a bond portfolio(s) of their choosing. Some may require that a maximum or minimum percentage be invested in each portfolio. PYPs often guarantee the spread, i.e., the difference between what the insurer keeps and what it pays out to policyholders. The spread is normally 2 percent or more.

Generally speaking, the spread and commission is about twice as much in a PYP as in highly competitive "CD" type annuities.

Bottom line: Today's market offers some really good annuities, paying rates that are higher than we've seen in 10 years. What's more, there are millions of people with billions of dollars who want to buy high quality, consumer-oriented annuities.

All producers have to do is decide if they're going to market the good, the bad, or the ugly. My feeling is, it's a lot easier to coast downhill than push a heavy load uphill.