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CD Annuities: Time's Ripe For a Blockbuster Year

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The cast is assembled, special effects are in place, and the cameras are set to start filming what looks to be a blockbuster year in CD-type annuities.

Scene 1. The volatility of the stock market is causing many investors to look for safer harbors for their money. People who thought the market only moved upward have learned it can also move downward or remain flat for months and years.

As an example, when I was writing this article, the 50-year old son of one of my clients called to discuss his mother's annuities. He said, "Mother has done better with her money over the past five years than I have. Her annuities have grown, while my stocks are worth less today than five years ago. It's time to rethink where I put

Scene 2. Variable annuity sales will continue to be in a state of turmoil due to the same market conditions that influence stock prices and mutual fund values. In addition, VAs continue to receive a tremendous amount of negative press.

Did you see the recent *Larry King* show where he interviewed a financial planner who raked VAs over the coals? She was adamant in displaying her "total disgust" with VAs. Whether she was right or wrong doesn't matter at this point. Millions of people saw the ugly face she made and heard the ugly words she said about VAs.

Scene 3. Equity index annuity gains will probably be less than expected. Participation rates and cap limits are declining as the market stagnates or declines, thereby reducing their sales appeal.

Considering all those scenes, it makes you wonder: Where will the people who want to safely invest their money with guaranteed growth go?

The answer is; certificate's of deposit, Treasury bonds, and fixed annuities.

The good news for the insurance business is that fixed annuities are a better deal than CDs or Treasuries. That's because FAs generally pay higher interest and grow on a tax deferred basis. (FAs have many other advantages, too, but they're too numerous to discuss in this short article.)

But there is bad news for the business, too. This has to do with the fact that so many people have been burned by the "bad guys" in the market, who have paid such low renewal rates on "trust me" FAs that the clients are reluctant to place more money into such a product.

A "trust me" annuity is one in which a client commits to a long penalty period and the insurer tells the client, "trust me to pay you a fair rate of return on renewals during that period."

My experience is that some companies can be trusted, while others cannot. Also: Even if an insurer can be trusted today, doesn't mean it can be tomorrow.

For example, many people have purchased an FA from Company A, only to find their issuing company is bought by Company B, which is later sold to Company C. Often, the new company owners finance the purchase by paying lower rates to policy owners.

When I discuss this dilemma with friends in the business, they often say, "Sell annuities with the bigger, higher rated companies."

Sounds good. But my experience tell me that, in general, the bigger the insurer, the lower the interest rates paid to policy owners.

I believe that exorbitant commissions, greedy company profit margins, and overly conservative investments also cause the villainous bad guys to pay extremely low renewal rates.

Now comes the hero on the white horse. His name is "Certificate of

-type) annuity. He's a hero, because his rate is guaranteed to match the length of the penalty period.

The CD-type insurer makes an offer of interest rates guaranteed for varying periods of time. The clients choose the rate and the time period that best meets their needs. Once the policy is purchased, the clients don't have to worry about it again until the end of the guaranteed rate period.

What's more, if the company or the block of business is sold, the guaranteed rate remains in effect at the new company.

Although CD-type annuities have been around for a long time, they have recently exploded in the number of annuities offered and the premium levels sold.

The number of CD-type annuities offered has increased by about 300% in the last five years, with most of the growth occurring in the last two years and more on the way.

It's virtually impossible to accurately gauge the total amount of CD-type premium that's being written. But I have learned from several companies that their sales have increased dramatically. Some insurers are reporting doubled or tripled sales with the majority of the increase in CD-type annuities.

Why are CD-type annuities sweeping the market place?

Simply put, they make sense to clients. They're readily and easily understandable. The client deposits the money and knows in advance what the guaranteed return will be.

More importantly, at the end of the rate period, clients perceives the agent and insurer as "good guys" because they've done what they said they would do.

The handwriting is on the wall. If you are an insurer or an agent that wants to stay in the annuity market or increase market share, you must offer high-quality, consumer-oriented , "good guy" CD-type annuities to your customers.

It promises to be a blockbuster year for those who do and a very bleak year for those who don't.