

Low Annuity Renewal Rates: Why This Agent Is Smiling

BY DANNY FISHER

THANK GOODNESS FOR ANNUITY insurers that drop their renewal interest rates to the minimum.

During my 32-year career as an insurance agent specializing in fixed, deferred annuities, I've sold hundreds of millions of dollars in multi-year guaranteed rate contracts, sometimes referred to as "CD" type annuities. At issue, the initial guaranteed rates were high. When the initial guaranteed rate period ends, some renew at competitive rates but the majority renew at the contractual minimums.

If policy owners have the option of surrendering or transferring an annuity with a low renewal rate, most will take action to earn a higher rate. They simply will not accept low renewal rates of around 3% unless they are totally apathetic towards taking action or they have some need for liquidity in the near future.

When the rate drops to the minimum, a large percentage of policy owners will transfer their money to a higher guaranteed rate—and that's why I'm glad there are companies that drop their renewal rates to the minimum. I get to make a sale and earn a new commission. The policy owner earns more interest. Everybody's happy but the surrendering insurance company.

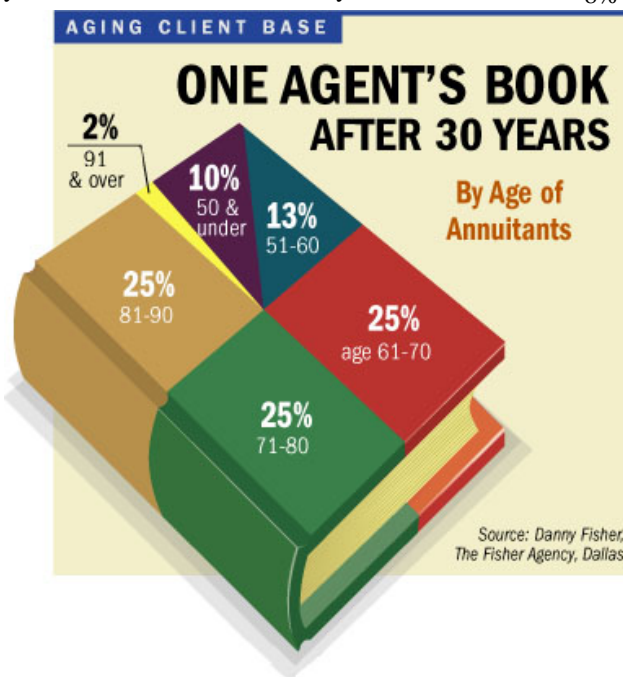
Quite frankly, if it were not for the low renewal rates, there are thousands of agents, including myself, who would probably be out of business.

New money annuity sales are a very small percent of business today. Most current annuity sales are coming from transfers of existing business.



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Previously, I have written in this space about why the exchange ratio of sales to new money sales is currently so high. Basically stated, historically insurance company annuities have paid higher rates than certificates of deposit at banks. Now, banks are paying higher rates. Therefore, annuity sales with new



money are down, causing the ratio of new money sales to exchanges to be lower than historical levels.

Recently, I performed a review of my in-force business. Some readers will no doubt find these statistics of interest:

- ▶ As of Aug. 1, 2007, 36% of current in-force annuities were from new money sales.
- ▶ As of the same date, 64% of current in-force annuities were exchanged from other annuities.

As my block of business and my clients continue to age, it's natural for this ratio to be heavy on exchanges.

Regarding the 64% of current in-force annuities exchanged from other annuities:

- 12% were internal exchanges within the same company. A typical scenario is

when surrender penalties expire, the renewal rates drop dramatically, and the company offers much higher rates on new accounts. So, an internal exchange is completed to earn a higher rate.

- 64% were transfers from companies no longer writing new annuities.
- 8% were transfers from companies where I was not the original agent.
- 16% were transfers from what I consider to be normal business activity. The companies are still in business, but their renewal rates were lower than desired. These annuities were transferred to other companies paying higher rates.
- None (0%) are transfers from annuities still in the surrender penalty period!

As a side note, 40% of the companies I've sold annuities for are no longer in business. As is well known, there were hundreds more insurance companies 30 years ago than there are today. Mergers, and a few failures, have reduced the number of companies dramatically.

Another interesting statistic is the aging of my client base, as shown in the chart.

Based on the chart, it appears that I have enough annuities in force to keep me in business for another 10 to 20 years. If there are any drastic changes, I will either have to retire, reduce my overhead expenses dramatically, find a bunch of younger clients, or pray harder for companies to continue dropping rates to the minimum at renewal.

In sum, as a professional agent, I try to do the absolute best job possible in providing high-quality, consumer-oriented annuities to my clients.

If a transfer is deemed to be in the best interest of my clients, I make the recommendation to transfer the funds. If the client wants to earn a higher rate and I don't make the transfer, the client will find another agent who will. **NU**

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