Happy Days/Crazy Days

BY DANNY FISHER

WHEN I STARTED WRITING THIS ARTICLE, it was before September 11, 2008. I was almost in a state of wild euphoria because the annuity business was doing so well.

But within a few days, the insurance world has gone from Happy Days to Crazy Days. With the collapse of AIG, Lehman Brothers, Fannie Mae, and Freddie Mac, the world monetary system is now in a state of panic.

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>
> *—Danny Fisher*

I’m also receiving calls and e-mails from vulture marketing operations offering to move AIG annuities to their “safe” companies before it is too late. I abhor solicitations like these.

This is the clearest, most overt example of how the entire insurance business is drastically upset when one large insurer is perceived to be in trouble and the sharks start feeding on the weak.

All annuity professionals need to sit tight, to see when and how the dust will settle. In the meantime, let’s revisit what the annuity environment was like just a week earlier.

Before September 11, 2008, annuity rates were higher than bank certificate of deposit rates. Considering the volatility of the stock market, fixed annuities look very attractive to a whole host of new prospective buyers.

That meant that, for the past few months, money was once again pouring into fixed annuities. In fact, I had had some of the best sales months in my career during that period. As indicated above, my phone was literally ringing off the wall with people calling wanting to come in and put money into multi-year guaranteed (MYG) interest rate fixed annuities—products that offer higher rates than CDs.

People were putting in hundreds of thousands of dollars at a time in these products, and my average size case rose dramatically. Half-million dollar cases were common.

The takeaways: Although politicians keep talking about people wanting change in America, some things never change. People still want guaranteed rates and guaranteed values with lots of flexibility.

The MYG annuities respond to this need, because owners can buy several and ladder interest rates with different insurers. That maximizes flexibility and also safety of funds under the state guaranty law. As a result, annuity firms have been taking in lots of new money, as opposed to just transferring existing annuities between companies.

Listen to the comments from a few of my own customers:

A 74-year-old man: “I’ve had my money in a mutual fund for a long time and have always done pretty good, but now I just can’t stand the pressure of watching my account continue to drop in value. I’ve got to move my money to some place safe and that’s why I came here. Can you help?”

Several other clients: “Banks just aren’t paying anything anymore. Your 3- to 5-year annuity rates are much higher than anything the banks have to offer.”

A 70-year-old woman who transferred an IRA mutual fund to an assortment of MYG annuities: “I feel so good about what we just did. Now I can sleep at night, not worry about losing any more money. I also like the fact that you know how to help me. My stockbroker really didn’t know much about IRAs.”

Now for a few observations from this period. It was great to have new money flowing in again.

However, there were hurdles. For instance, that 70-year-old woman (cited above) tells me she spent about 2 hours to complete all the required forms. Many were the new forms required for disclosure and suitability. She found it exhausting.

My view: The process of completing a sale has become much more difficult in recent times, due to all the new required forms. It shouldn’t have to take 6 to 10 forms to sell a simple MYG annuity.

A lot of professional, long-term agents are very upset with the new requirements. Many feel that, if it hadn’t been for some of the fixed indexed and so-called “phantom rate” annuities, these rules would never have had to be imposed.

Of course, regulators will do what they have to do to protect the public, and industry professionals will comply.

But in the process, agents should not only be informed of the new rules, they should also be given the support needed to enable them to understand and follow through. This will help the annuity market grow and prosper, even in these difficult times. That includes the market for MYG which have so much appeal to today’s stock market-leery consumers. NU

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