Volatility - A Word That May Be Complicating Fixed Annuities For The Traditionally Conservative Client

By: Jeff Affronti—September 5, 2017

I started in the insurance business many years ago as an internal sales representative and wholesaler. My daily routine consisted of assisting advisors with the fixed portion of the financial plan for whomever client they happened to be working with that day. Advisors would give me a set of parameters for either accumulation goals or income needs. A design would be formulated by evaluating the available products in the marketplace. The fixed products included Single Premium Deferred Annuities (**SPDA**), Multi-Year Guarantee Annuities (**MYGA**), Single Premium Immediate Annuities **(SPIA**) and Fixed Indexed Annuities, (**FIA**). I was able to access all of the above products to build a guaranteed plan that met the clients goals.

Over the last 5 plus years, finding guaranteed fixed products to fit the advisors planning needs has become much harder. A prolonged low interest rate environment has reduced the amount of products which will suitably solve and at the same time guarantee the clients needs. All fixed annuity product categories have seen challenges to how they are created, marketed and sold.

SPDA products usually only offer a 1 year guarantee, then reset annually thereafter. When minimum guarantees where at 3.00% - 4.00% these products were an excellent option as one could illustrate the minimum guaranteed accumulation returns upfront. If the first year enhanced/advanced bonus rates were high enough, the minimum yields could still hit client targets, while giving them a chance of exceeding targets. The SPDA terms were generally 1-10 years and commission could be as high as 8.00%. So, advisors could illustrate and guarantee over 3.00% as a worst case minimum annual yield and earn a large commission. Therefore these products were shown along side the advisors other investment products nearly automatically. Today, minimum guarantees on SPDA products are around 1.00% and commissions are lower as well. The SPDA products are rarely presented as options currently, mostly due to the lack of guarantees and a history of carriers quickly dropping to or near those 1.00% minimum guarantees.

MYGA products still offer suitable savings rates compared to equally safe investments. In the August 1998 FSD Annuity Journal, I was marketing a 6 year guaranteed annual yield of 5.82% (6.65% year 1 then 5.65% years 2-6) with a 4.00% commission. That was a guaranteed 40.38% yield in 6 years. Today, I am marketing a 6 year rate of 3.25% that will guaranteed 21.15% in 6 years with a 2.00%. So, today's rate and advisor pay is about 50% less and still guarantees of over 21%, not bad for a fixed product. Locking in a portion of a clients funds on a guaranteed basis allows advisors to focus on their managed accounts that offer the most potential. This concept could work better, while avoiding a more risky hybrid plan that may miss the mark on both the clients conservative and aggressive funds.

SPIA products have also been subject to lower rates. However, SPIA's have had great gains in public perception. In the past, immediate annuities saw almost exclusively negative articles and misinformation targeting them in the large trade publications. Today that pendulum has swung in the opposite direction. While still not shown as often as the fee based income riders in FIA's, SPIA's are finding their way into mainstream planning venues. Positive articles and new longevity options help

SPIA's remain the insurance product for clients in need of the highest possible income now. SPIA's used in combination or split annuities have decreased substantially due to low returns on the MYGA side. SPIA's used for laddering, lifetime income needs and to fund life insurance are still very good options for advisors fixed income planning needs.

FIA products started out relatively simple, with the most difficult to explain strategy being daily averaging. Clients could step away from market risk and still potentially gain double digit returns. Some products even offered a 100% @ 3.00% minimum guarantee. A perfect bridge for the MYGA hesitant clients that wanted a shot more than a 6.00% MYGA return. Yes, it could be difficult back then to get clients to lock in for a 6.00% guarantee, perception of a good return was quite different. As we know now, interest rates dropped causing cap rates to fall from the 12 - 15% range to the 2.00% - 5.00% cap range we see today. In order to keep advisors interested in these products, carriers have been building more complex crediting strategies that illustrate higher assumption/potential and roll-ups rates than other fixed investments.

Insurance products do not just naturally occur. They are designed, priced, reviewed, filed and finally submitted to states for approval. New developments in fixed annuities products are primarily based in the FIA arena. The reason is simply, PROFIT. The carriers are just not putting the time into developing SPDA, SPIA or MYGA products for the truly conservative investors. The traditional or core fixed annuity client is not interested in a downside of ZERO. Insurance minded clients want a guaranteed gain, even in their FIA products. An investor mindset may see a ZERO as a good thing or protection, but in the arena of fixed planning a ZERO is no hero. Infiltrated by stock market and securities influences, many of the top producing insurance companies have lost there way in my opinion. When it comes to the conservative clients, carriers have left them to fend for themselves in a sea of high profit, fee laden products that really offer no more than traditional SPDA and MYGA with decent annuitization factors ever did. I do not relate current FIA crediting methods to fixed products, I relate them more to variable products. Just check out some of the terminology being used in the crediting of FIA's today. Remember these are Fixed Annuities, and some of the key words used in the marketing materials describing these new strategies and terms have never been used in fixed annuities before:

- NYSE and NASDAQ-listed stocks
- Includes dividends and Multiple Asset Classes
- Equity, Commodities and Real Estate
- Crediting buckets with names of well known investment firms and other stock market firms.
- Annual Fees For Income Guarantees
- Volitility
- Sizzle based mass marketing and training as **THE SOLUTION** for clients.

I would like to see a shift back to guarantees over assumption. I would like to see carriers consider client yields over large profit spreads when designing new products. I would like to see carriers stop transferring risk from themselves to the clients in the form of fees for guarantees the clients may never use. I would like the securities industry banned from the design of new fixed indexed annuities. A new generation of clients deserve the option of an untainted and truly fixed category of insurance products for retirement. Separate, clean and devoted to maximizing clients returns.

If a client has the resources to guarantee their future needs today, why chance it? Guarantee it! Otherwise, it's like winning a ball game and requesting extra innings.

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