What's Hot In Fixed Annuities

BY DANNY FISHER

IN THE PAST FEW YEARS, many insurers have been heavily promoting indexed annuities and variable annuities, allowing their fixed annuity portfolio to fall out of competition.

But now, as a result of the Securities and Exchange Commission's recent adoption of Rule 151A and in light of the increased cost of guarantees on VAs, most insurers have changed their attitude about fixed annuities. They are pursuing the FA market more aggressively.

Some insurers will simply try dusting off old annuity policy forms with a possible tweak or two. Others will develop all new contracts. In view of this, here are some tips from an old annuity pro on ingredients needed for the ideal fixed annuity.

Rate: The most important ingredient in a fixed annuity is the interest rate. If the rate is the highest one available, clients and agents will find it. The only marketing effort required of the insurer is a simple e-mail to producers and/or a posting of the rate on the company website. Then, the world will beat a path to the insurer's door.

It's really been interesting to watch so much time, money , energy, and creativity being directed toward developing more "gimmicky" annuities with higher commissions. If the insurers redirected all that expense to increasing the interest rate, they could solve their marketing problems overnight and fire a bunch of home office recruiting/marketing people.

Multi-year guarantee: Many years ago, I used to sell "trust me" contracts, where clients put their money in an annuity for a period of years and then trusted the insurer to be fair with rates during the interim. The world changed and I no longer offer that type of annuity to my clients. Unfortunately, I don't think you can trust insurers to be fair on renewal rates after the first contract year, unless the renewal rates are contractually guaranteed.

Now, I only offer multi-year guaranteed rate contracts, where the initial rate matches the length of the penalty period. These contracts are often called "MYG" or "CD" type annuities.

Keep it simple: Make the contract easy to read and understand.

For example, the company will pay the owner 5% for 5 years. At the end of 5 years, the owner can cash out, transfer to another annuity, or let it ride at whatever the renewal rates are until the owner decides to do something else. In the meantime, if the owner dies, the full accumulated value is available to the beneficiary.

The owner can also withdraw 100% of the accumulated interest at any time or have monthly interest checks sent to a preferred location. If something happens and the owner needs more monthly income, the insurer will waive all charges if the owner accepts a 5-year or longer payout option.

Remember, the more the agent sells, the more money the agent makes. The easier the contract is to read and understand, the more the agent sells. And, the easier it is to purchase the contract, the more the agent sells.

> "The ingredients that sustain life, in the annuity business are: integrity, safety, stability, a fair return paid to policy-holders, and need for the policies offered."

Example: use a one-page application and a one-page disclosure form. A 4-plus page application as used by some companies, is absolutely ridiculous.

Furthermore, if all the hidden "snakes" are removed from the contract, the insurer will be sued less often, reducing the need for so many in the home office legal department.

Small: I prefer small, lower-rated insurers because they are hungrier for my business and much easier to work with. If there is a problem, you can find someone to solve it. Generally, small companies have much less turnover in staff than large companies, so long-term working relationships can be formed. And, they have live people answering the phones. Large companies have huge rule books to follow and if something isn't written in the book, they don't know how to solve the problem.

Big, famous companies are like other celebrities – they often have a tremendous ego problem. They know it all and everyone else is beneath them. Speaking frankly, I only do business with big companies when absolutely necessary.

Chief executive officers should consider that, if they follow these simple tips, their premium will increase, which in turn, eventually increases profits, which means the CEO would receive greater rewards.

Just to be certain this is clear, if an insurer cuts out a lot of unnecessary expenses, such as exorbitantly high commissions, marketing and legal staff, and if the insurer then puts the savings into the rate paid to policy owners in "gimmick-free" contracts, the company will end up making larger profits. Return on equity will be higher, making it easier to raise capital in order to increase business even more.

As certain as the sun rises in the morning, the ingredients that sustain life in the annuity business are: integrity, safety, stability, a fair return paid to policyholders, and need for the policies offered. It's a sad trend to watch so many well-known companies forget that. However, their memory lapse creates opportunity on which brighter, younger companies can capitalize. NU

Danny Fisher, CLU, ChFC, is founder and principal of The Fisher Agency, Dallas, and publisher of Fisher Annuity Index. His e-mail address is Danny@MrAnnuity.com.