

STRONGER SALES LOOK CERTAIN FOR INDEPENDENT PRODUCERS

BY JEREMY
ALEXANDER

Annuity sales have been in a downward trend, but independent producers are coming back stronger than other distribution channels.

Estimated fixed income annuity sales were \$1.8 billion in first quarter 2010, according to findings of the Beacon Research “Fixed Annuity Premium Study.” Conditions seemed favorable for these products. The Obama administration endorsed them as a way to provide retirement income, and there were many efforts by insurance companies, broker-dealers and marketing organizations to train producers in using them as part of retirement income plans. But despite all this interest and activity—and long-term corporate bond yields that were somewhat higher sequentially (enabling larger payouts)—first quarter’s estimated income annuity sales were down 6 percent (-\$123 million) compared to the year-ago quarter and 8 percent (-\$149 million) from the prior quarter, the second consecutive decrease.

Sales are coming back stronger in the independent producer channel. Study participants’ income annuity sales through these producers were down (-11 percent) compared to first quarter 2009. But from fourth quarter 2009, results were up 3 percent. And fourth-quarter results advanced 8 percent from the prior quarter.

Why did independent producers buck the general downward trend? It appears that they were selling income annuity products differently. These producers have been selling mainly term-certain products since third quarter 2009. These products represented 60 percent of their income annuity sales in the second half of 2009 and 71 percent in first quarter 2010. In contrast, lifetime payouts dominated participants’ income annuity results in the other distribution channels—generating 78 to 81 percent of sales since third quarter 2009.

Independent producers may be selling term-certain annuities successfully for a variety of reasons. Many marketing organizations are encouraging

producers to use the annuities for funding purchases of long-term care and—especially—life insurance. This makes sense in today’s low-interest-rate environment. Owners of deferred annuities nearing the end of surrender charge periods may be unhappy with the low credited or cap/participation rates available if they exchange these contracts for new deferred annuity contracts. But if they exchange these contracts for term-certain annuities, they can use the payouts to buy insurance products that meet other needs.

When term certain annuities are used to buy life insurance, beneficiaries will not only avoid paying inheritance tax but will receive a larger inheritance.



"It's the magic of life insurance leverage," says Raymond J. Ohlson, president and CEO of the Ohlson Group. "For example, instead of paying taxes when they inherit a deferred annuity with a \$100,000 accumulated value, they can receive \$200,000 tax free." He observes that while fixed and cap/participation rates are dropping, life insurance dividends generally have remained stable. Ohlson still considers annuities to be excellent vehicles for retirement savings and income. But life insurance can be an excellent product for this purpose as well. "As long as the policy doesn't lapse, you can take policy loans or withdrawals and it's not only tax free, but it's not reportable as income for tax purposes."

A number of companies are certainly encouraging the use of life insurance for retirement income. Life insurance provides diversification for companies that have focused mainly on annuity sales. Diversification not only makes good business sense but it also pleases the ratings agencies at a time when strong

Income Annuity Sales for Independent Producers by Type: Q1 2010



financial strength ratings are especially important.

"If you're looking for tax-free retirement income, municipal bonds and life insurance are pretty much the only choices left," explains Michael S. Pinkans, senior vice president of marketing at Zenith Marketing Group. He's noticed an increased concern about income taxes among the wealthier clients of Zenith's agents. Suitability concerns also have led to more sales of term-certain annuities to clients age 90 and older. In addition, Zenith has been encouraging its producers to use these products as a good way to create an inheritance for clients who aren't interested in life insurance. "You buy a joint-and-survivor

annuity and make a grandchild one of the annuitants," he explains.

However, term certain payouts are used, it looks like these products will continue to be popular in the independent agent channel, at least as long as interest rates remain very low. It will be fascinating to see if these products catch on in the other distribution channels as well. [INN](#)

Jeremy Alexander is president and CEO of Beacon Research. His company tracks fixed and variable annuity sales, rates, and features. Beacon provides spreadsheets and search tools for the Web sites of marketing organizations, banks and broker/dealers. Carriers use Beacon's Web-based tools at annuitynexus.com for research and sales support. Jeremy can be reached at jeremy@beaconresearch.net.



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