



Lower Bank Rates = Rising Fixed Sales

Second quarter fixed rate deferred annuity sales increased significantly to \$15.6 billion says Beacon Research. Fixed index sales also rose to just under \$7 billion. A very strong quarter for fixed annuities.

LIMRA got it wrong saying the increase is because a “volatile and declining equities market made fixed annuities an attractive option” (BestWire 8/14/08). If you do your research you find there is little historic correlation between stock market movement and fixed annuity sales but a strong correlation between fixed sales and CD rates.

The main reason for higher fixed sales is in the 2nd quarter of 2007 the average 1-year CD rate was 3.8%; it was 2.1% in the 2nd quarter of this year, based on my data. If you look back over the last two decades fixed annuity sales rise when bank rates fall and stagnate when bank rates rise. There is a lag – it takes consumers awhile to realize that the CDs have dropped, but the pattern is consistent and shows causality. Another possible reason for the index annuity uptick was the overselling of GLWB rates.

It appears CD rates may again be heading up meaning fixed players probably have a good couple of quarters before sales slacken. So, it is time to sell, sell, sell fixed annuities.

2nd Quarter Index Annuity Sales Jump

AnnuitySpecs.com’s 2nd Quarter 2008 Advantage Index Sales & Market Report shows second quarter 2008 index annuity sales were \$6931 million compared with sales of \$5776 million for the previous quarter. Second quarter sales were up 20% when compared with first quarter sales and up 6% when compared with the same period one year ago.

The top ten carriers for the second quarter:

Aviva	\$ 1,604,545,409
Allianz Life	1,060,526,169
American Equity	640,179,900
Midland National Life	489,400,000
North American Company	422,900,000
ING	374,361,442
OMFN	354,055,223
Lincoln National Life	352,516,240
LSW (National Life)	236,765,934
GAFRI	194,022,673

(continued on page 2)

Cartoon

2nd Quarter Sales (continued from page 1)

Top Selling 2nd Quarter Index Annuities

1. American Equity Bonus Gold
2. Allianz Endurance 15
3. American Investors Income Select Plus
4. Aviva MultiChoice IncomeXtra
5. Aviva MultiChoice Income Plus
6. North American Charter 14-Year
7. American Investors Income Select Plus
8. Lincoln National New Directions 6
9. ING Secure Index Opportunities Plus
10. Allianz MasterDex 5 Plus

Top Carriers By Channel

Agency
 Aviva
 Allianz
 American Equity

Bank

Lincoln National
 Jackson National
 ING

Wirehouse

Jackson National
 Amer National
 Protective/WCL

Winners & Losers

From a year ago North American sales nearly tripled, Lincoln National nearly doubled, and LSW was up by a half; Aviva was up around a third. Old Mutual, GAFRI and Sun Life all were down around a third and Allianz sales were down roughly a quarter from a year ago.

Average Commission

The index annuity agent commission averaged 7.81% of premium.

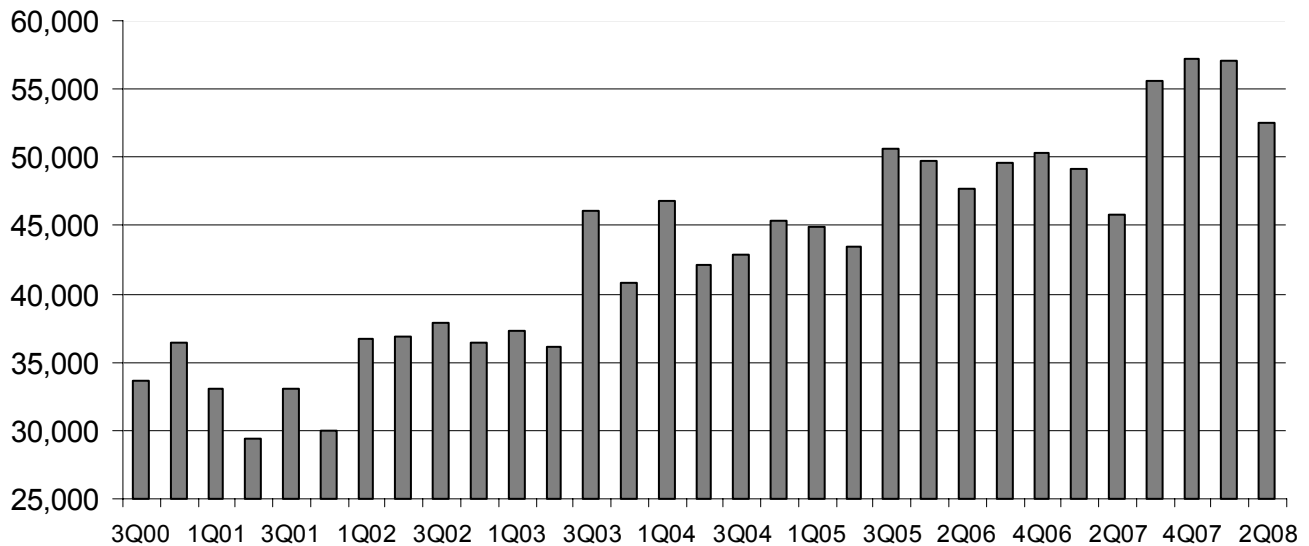
Surrender Period

The market share of two-tier annuities dropped from 14.6% to 3.0% in the last year.

2nd Quarter Index Life Premium

Aviva	\$32,044,203
AIG American General	17,213,000
Other	79,474,069
Total	\$128,731,272

Average Index Annuity Sale Premium



Source: Advantage Compendium, AnnuitySpecs.com

GLWBs Should Help Women Plan For Retirement

An analysis of 150 studies finds that men are comfortable taking greater financial risks than women. In addition, as a man's belief in their financial capability grows the more risk they take. However, even when women increased their financial capability and understanding they still did not take on more risk.

What this says is guys are more inclined than gals to pick investments with higher potential returns even when the risk goes up, and when you educate guys about investments and the realities of risk and return they choose investments with even greater risk/return possibilities, but when women are educated about risk and return they still do not become more risk oriented.

A problem often mentioned in retirement planning articles is because women are more conservative when investing for retirement they do not earn the returns that men do and thus have less money to draw on during retirement. A solution proffered by many, including the SEC, is that educating women about investments will encourage them to select the higher risk/return portfolio needed. However, these studies say no, because educating women about risk/return does not cause them to take on more risk.

A Case For GLWBs

A new study first asked both men and women if they would be more likely to put \$20,000 into a stock mutual fund if, for an annual fee of \$200, the mutual fund guaranteed no losses and a minimum return. The study then educated the men and women on the possible risks and returns of the mutual fund.

After educating the men about how the mutual fund worked they were significantly more likely to simply buy the mutual fund without the insurance. However, after educating the women about how the mutual fund worked they were no more likely to buy only the mutual fund than they were before they were educated, but the women *were much more likely to buy the fund and pay the \$200 "insurance fee."*

The implication is educating women about the investment world will not turn them into risk oriented investors, but educating women on how they can "buy insurance" against losses does make them a lot more likely to look beyond the safety of the bank to satisfy retirement needs. Women should be more attracted to the index annuity message than men and women should be more attracted to the guarantees of GLWBs, and less influenced by cost of the "risk insurance".

It also means a need for different sales stories. The index annuity or GLWB story to a man should focus on the potential return in spite of the insurance protection, whilst the story to a woman should tell how the protection allows her to try for higher potential returns without greater risk.

Xin He, Inman, Mittal. 2008. Gender jeopardy in financial risk taking. *Journal of Marketing Research*. 45: 414-424

3 Card Monte Hypothetical

You are shown three index annuity returns representing the hypothetical results obtained from plugging in current rates to historic index movement. The hypotheticals produced show you a best return of 10%, a middle return of 5%, and a worst return of 1%. It seems fair. The problem with this is if the consumer does not get any other data he or she will mentally give each outcome the same odds of occurring. Since 3 returns are listed the consumer will subconsciously conclude there is a 2 in 3 chance of earning either 10% or 5%, and feel those are pretty good odds.

The problem may be that the reality of the entire hypothetical stew produces a 10% return only 2% of the time, 40% of the time the return was 1%, and 50% of the time the return was between 4% and 6%. Based on the real numbers there is a 90% chance the annuity will produce less than 6% if the past repeats.

If you going to look at hypothetical results be sure you look at a broad range of outcomes to get a better feeling of the hypothetical probabilities.

Annuity News & Trends

Rates: What Wall Street Appears To Be Saying

We have a market where ceilings on interest caps are strongly going up. It looks like the index option punters see modest volatility ahead with modest index gains for the next 12 months, but they are afraid of getting caught in an unpredicted big gain bull rally.

Mass Women's Bar Needs To Take A Math Class

It appears a class in actuarial statistics should be required before being elected to the legislature or becoming a lawyer in Massachusetts. The women's bar pushed through the *Equitable Coverage for Annuity Policies (S2729)* act, signed by the Governor, requiring the insurance industry to have the same payout for life income annuities for both men and women. This sounds fair – both men and women will receive the same immediate annuity life income payments for the same premium – but it ignores the economic reality that women live longer.

Altho women receive a smaller yearly payout they receive the payout for more years than men. The current method provides equality because the men and women receive identical actuarially based benefits over their respective life expectancies. The new Massachusetts law sexually discriminates against men because men will now receive significantly lower lifetime income than women.

NAIC Receivership Database GRID

On 8 August NAIC unveiled the Global Receivership Information Database (GRID). The GRID contains contact information, court orders and docket numbers, ongoing tasks, distribution of assets, claims-liability details, business activity and deposits for over 1200 carriers that entered state receiverships over the past couple of decades.

The information is a little sparse and can be outdated (Western United came out of rehab in June and was still shown in receivership in August), but they will be improving content – balance sheet data will be added next spring. www.naic.org/cis.

State Financial Regulators Win One For Consumers...

InvestmentNews writes that State regulators were both quicker and more effective than the SEC in persuading financial firms to buy back auction rate securities (ARS) announcing settlements with several Wall Street houses that will return money to frozen-in investors.

...And Lose One

Also mentioned in the August 25 issue were the departures of Florida, Ohio and Utah regulators over allegations of a lack of oversight in the mortgage industry (10,000 folks with criminal records worked in the Florida mortgage business). I've said it before, the current regulatory models are broken (but they can be fixed).

Jackson National Life

has added the choice of a 2.5% or 5.0% (10 year option only) premium bonus to the *Jackson AscenderPlus Select*. The brochure also states "Electing an optional premium credit will result in your contract having lower interest rates and Caps than if you had purchased a contract without a premium credit", a fact that is true EVERY time ANY carrier offers a premium bonus, but rarely pointed out. Bravo to JNL for the disclosure and hopefully the start of an industry disclosure trend on bonus realities.

Midland National Life

will be changing their GLWB to provide unlimited years of 6% annual income benefit growth in all years that a withdrawal has not been taken.

Sagicor

announces the *Platinum Series Fixed Indexed Single Premium Deferred Annuity With 5% Bonus*. The annuity offers a choice of fixed account, S&P 500 or Global Index Linked Strategy using a 3 yr pt-to-pt crediting taking 60% of the best performing index, 40% of 2nd best, 0% of third, times participation rate.

The product has 10% free withdrawals after 1st year, and a 9 yr surrender schedule: 15% 14% 13% 12% 11% 9% 7% 5% 3%. The GMWB provides 10% annual withdrawals of original premium beginning in 11th year payable for up to 20 years (contract years 11 thru 30), this is the equivalent of a 3.54% annualized return over 30 years.

Social Security: Are Men Mean Or Stupid? (the study says stupid)

Most married men begin receiving Social Security at age 62 or 63. Because benefits increase the longer they are delayed it can be argued that it makes sense to delay claiming Social Security until at least the full benefit age. However, due to a man's shorter life expectancy it works out to a pretty near thing overall whether the man receives lower payments for more years or higher payments for fewer years. The problem is the early retirement may severely impact the wife.

A man retiring today at 62 may get 75% of their full benefit, but due to life expectancy that 75% beginning at age 62 actuarially approximates the cash of getting 100% at age 66. However, usually when the husband dies the wife is still alive and she receives the survivor Social Security benefit that is based on the husband's benefit. If the husband claimed early benefits and only received 75% of the full share the surviving spouse is also penalized for many more years due to a longer life expectancy. The husband's decision to claim the benefit 3 or 4 years early may severely impact the widow's income for many more years after the husband dies.

Claiming early benefits can be justified if the couple needs the money, but the study found the man often did not need the income, but was simply filing for Social Security because that is what one does when one retires. The question the study raised was – did men that did not need to claim benefits file early because they were unaware of the consequences or because they wanted to act like a cad towards their wife. The study concluded that when a man claimed early benefits he was simply ignorant of the possible results, and not intentionally being a jerk.

The study also shows how little the typical person understands about Social Security as they enter retirement and the need for coordinating Social Security planning with other retirement planning.

Sass, Steven, W. Sun, A. Webb. 2007. Why do married men claim Social Security benefits early? Ignorance or caddishness? Center for Retirement Research. CRR WP 2007-17.

Social Security Benefits

Starting in 2009 the full retirement age for the next 11 years is 66 (Born 1943-1954)

<i>Reduced Benefits</i>	<i>Wage Earner</i>	<i>Spouse</i>
Age 62	75.0%	35.0%
Age 63	80.0%	37.5%
Age 64	86.7%	41.7%
Age 65	93.3%	45.8%
Age 66	100%	50.0%

Monthly Retirement Income Wage Earner (Widow/Widower)

Retire @	Age 62	Age 63	Age 64	Age 65	Age 66
\$20,000	575 (268)	617 (289)	675 (325)	735 (361)	795 (398)
\$30,000	708 (330)	761 (357)	835 (402)	910 (447)	987 (494)
\$40,000	841 (392)	905 (424)	995 (479)	1086 (533)	1180 (590)
\$50,000	973 (454)	1049 (492)	1154 (555)	1261 (619)	1371 (686)

*Born 1/1/1947, 1st column current earnings, in current dollars, Social Security Quick Calculator

For educational purposes only and results are not warranted. For information about Social Security contact the U.S. Social Security Administration

Objection Preemption (from the new book *Annuities: A Rational Choice*)

The typical sales book talks about overcoming objections and often defines this as a battle between the salesperson's powers of persuasion and the buyer's reluctance to commit. But the "objection" may either be a request for more information – in which case nothing needs to be "overcome" – or a signal that the buyer has already decided not to buy.

Do not ask what their expectations are – tell them what their expectations should be

For example, if the buyer asks "how long is my money tied up in that annuity" they could simply be trying to decide where the annuity fits in with their other assets. In this case the buyer has subconsciously decided in favor of the annuity purchase and is trying to determine how large a purchase to make. On the other hand, the buyer may have decided not to buy the annuity and the question represents a psychologically acceptable way for the buyer to tell the salesperson no without turning it into a confrontation. I am afraid that much of the advice on how to overcome objections is often ineffective because its goal is to coerce the buyer into reversing their decision, and even when it is successful the final result may be a remorseful annuityowner.

Preempting the objection – meaning to address the objection before it arises – may be the best solution.

There are many times the consumer does not buy because the product does not help them achieve their goals. Rather than trying to "overcome" and sell the buyer something they do not want, the producer should move on to the next prospect. However, often the reason the consumer does not decide to buy is they simply do not feel they have the necessary facts to make a favorable decision. The consumer needs information that is relevant to them. This definitely does not mean the consumer needs to know everything the producer knows, but only those facts that are important for the consumer. By providing the needed information in a way that shows the consumer how the annuity will help achieve their goals the producer preempts future objections.

Preempting the objection is showing the consumer why the annuity fits their goals in spite of the negative aspects of buying the annuity. It is creating a favorable decision-making framework that raises and answers the objections during, or even before, the presentation. It is the exact opposite of the producer waiting until "the close" to find out what information is missing, which is often too late because the consumer has already decided not to buy based on what they know.

The way in which the relevant information is presented, or framed, usually determines the decision outcome. The framing of the information helps the consumer determine whether the annuity will help them and should be purchased.

Safety (Liquidity) Preemptions

When I ask producers why consumers buy annuities the overwhelming response is because fixed annuities are safe. But what is safety? A producer often translates the concept of annuity safety into a lack of stock market risk, but this is not the typical consumer's definition of safety. From my talks with consumers I believe their definition of safety is "can I get my money back?"

The consumer is asking – can I get my money back (is there market risk)?

The consumer likes the fact that fixed annuity principal and credited interest cannot be lost if the stock market goes down, but this benefit is important only because it ties into the broader concept of "can I get my money back." For many consumers this no-market-loss benefit is enough.

Objection Preemption: "In a fixed annuity both your principal and credited interest is protected from stock market risk of loss."

The consumer is asking – can I get my money back (are the annuity funds FDIC insured)?

Occasionally a consumer will get hung up on what happens if the insurance company goes out of business. I found a couple ways that often preempt the concern.

Objection Preemption: *If at the start of the presentation the producer shows on a piece of paper the words “CD, fixed annuity, savings bond” and then tells the consumer they will be talking about fixed annuities today, questions about fixed annuity safety often go away. The reason is because the annuity is listed between two places that the consumer already feels are safe; the consumer mentally transfers the safety to the fixed annuity.*

Objection Preemption: *“Do you know anyone that has ever lost money in a savings account or fixed annuity? No, because these are safe.”*

What we are doing is framing the safety concern to financial reality. Because bank instruments and fixed annuities are mentioned together as very safe places – and the consumer reinforced that belief by not remembering anyone that had ever lost money in either – the consumer is less likely to challenge the safety of the fixed annuity.

The consumer is asking – can I get my money back (what are the penalties)?

In our minds the behavioral impact of a 2% penalty and a 20% penalty are very similar. The deterrent effect of losing 2% interest on a 4% CD or 20% of the fixed annuity value appears to be almost the same in determining whether the consumer keeps the money in place (but the higher penalty does sometimes deter the producer from replacement). I believe consumers are relatively indifferent when it comes to the size of the withdrawal penalties. However, the length of the penalty is something else.

The consumer usually needs to believe the longer penalty period is justified by either greater return potential or that the longer penalty period is normal. In a multiple year guarantee rate annuity the greater return potential can often be expressed as earning a higher rate as the penalty years increase – an 8 year guaranteed rate pays a higher yield than a 6 year one. Or, it can be expressed as protecting a rate as the penalty years increase – an 8 year guaranteed rate pays a lower yield than a 6 year one because the insurer is sticking their neck out for two more years to protect the yield.

This same logic can be extended to index annuities – the 8 year penalty product offers greater index participation than the 6 year product. However, if the producer is presenting annuities with penalty periods of 12 or 15 years a more effective story may be that the reason this annuity has a 15 year penalty period is because this annuity is supposed to have a 15 year penalty.

Objection Preemption: *“This annuity is for your legacy money”*

If the annuity has a surrender penalty charge that is high or long or both the producer should be preparing the consumer during the presentation by talking about fixed annuities as the foundation of the retirement years, or the place for the serious money that the consumer will only touch after everything else is gone, or the fixed annuity is the consumer’s “legacy money” that is designed to be left for the next generation. Because the producer said a fixed annuity was “legacy money for the next generation” the consumer should be more receptive to a longer penalty period because mentally they have already determined they are not going to touch the money.

Objection Preemption: *“What additional liquidity might you need from the annuity that would not be met by your other assets?”*

The annuity will not be the consumer’s only asset. The consumer needs to be reminded that liquidity needs should probably be met by places with lower potential yields first. The producer can address other liquidity the annuity provides.

- Liquidity means the annuity balance goes to the heirs without penalties.
- Liquidity means the consumer can access the money if confined to a nursing home.
- Liquidity means the consumer can access 10% a year without liquidity charges.

All of these “can I get my money back” concerns should be addressed before the product is introduced because then you will know which products will meet the consumer’s real needs.

Returns (Year Ending 31 August)

Range of 1st Year Index Annuity S&P 500 Linked Returns

Monthly Cap Gain-Not Loss	0%	S&P 500	(12.97%)
Annual Point-to-Point	0%	Dow Jones Industrial Average	(13.58%)
Trigger Method	0%	Russell 2000	(6.73%)
Monthly Average	0%	Nasdaq	(8.81%)
Daily Average	0%	One Year Certificate of Deposit	3.76%

Data Source: Advantage Compendium, bankrate.com No index sponsors or endorses any index product

A Mixed Message

A market that ignored risk in the fall of 2006 discovered it in 2007, and the Fed cut rates to keep the economy from crumbling. A 90 day rolling average look at the S&P 500 volatility index saw it doubling by last spring, but sagging to gentler levels by summer. Ten year Treasury rolling yields fell from 5.0% to 3.6% by June of this year.

Both volatility and rates have increased since the summer solstice betraying confusion about the true underlying strength of financial markets, which is why we are seeing one carrier raise index annuity participation rates, and another drop them, all in the same week. Option prices are spooky. All in all, it will be an anxious autumn.

90 Day Rolling Average - VIX & Treasury Yields

