



Past Predictions

I was wrong on bonds. I thought bond rates would be higher by now, and rates did head up until spring, but then kersplat. I also said fixed rate annuity sales would be down (true) and index annuity sales should be down – I hedged the last part because I thought the roll-up story on GLWBs might offset the effect of lower caps. It was a good thing I hedged. At \$24 billion through the 3rd quarter FIA sales are smack-dab even with where they were last year.

On the righter side I said Wall Street would get into the game. Hartford and Pacific Life launched and Mass Mutual filed FIAs. I also said there wouldn't be a double-dip recession, which at the moment looks true. When rates did turn down again I suggested that current GLWBs were at fire sale prices because roll-up & payout rates were coming down, and that turned out to be correct. I'll try some 2012 predictions next month.

By the way, I sold Safe Money Places. My original idea was to use it to train agents to take an educational sales approach with consumers, but that didn't work. It was just sitting there and I got an offer. The sale will free up time to allow me to do more research on the annuity world.

I've use the word "I" 13 times in this article. I'll try to be less self-centered next year.

3rd Quarter Index Annuity Sales

Third quarter 2011 index annuity sales were \$8702 million compared with sales of \$8273 for the previous quarter – a 16% increase and were down 1% from third quarter 2010 sales of \$8772. Index life sales were up 20% from the previous quarter and up 51% from a year ago according to AnnuitySpecs.com's Indexed Sales & Market Report 3rd Quarter, 2011.

The top ten carriers for the third quarter:

Allianz Life	1,555,766,813
Aviva	1,354,245,210
American Equity	1,056,020,432
Great American	602,085,143
Lincoln National Life	461,979,000
North American Company	437,500,000
Jackson National Life	427,436,893
Midland National Life	413,716,085
Security Benefit Life	351,658,249
ING	311,048,232

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The Saver and the Wall Street Cougar

In years past there lived a handsome Wall Street Cougar that desired the attentions of a Saver. The Saver did not return the cougar's attention for he was too wild for her, so the cougar sought the goddess Athena for help. Athena took pity on the cougar and explained the Saver would never be interested in a risky relationship with a Wall Street Cougar, but that she could change him into an Annuity Cat.

No sooner had the Saver set eyes on the Annuity Cat that true love sprouted and they became joined, as the Annuity Cat spoke of nothing but guarantees and safety. A short time later Athena happened upon the couple and wondered if changing the cougar's form and also changed his nature. So she set down a hedge fund prospectus before them. The Annuity Cat immediately pounced upon the hedge fund extolling it's virtue to the disgust of the Saver. Athena, provoked by evidence that Annuity Cat had not been transformed, turned him back into a cougar again.

Moral: What is bred in the bone will never be absent in the flesh.

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3rd Quarter Index Annuity Sales (continued from page 1)

Top Selling 3rd Quarter Index Annuities

1. Allianz MasterDex X
2. American Equity Bonus Gold
3. American Equity Retirement Gold
4. Aviva BAA 12
5. Allianz Endurance Plus
6. Security Benefit Secure Income Annuity
7. Aviva Income Preferred Bonus
8. Great American Safe Return
9. Lincoln National New Directions 6
10. Aviva MultiChoice Xtra

Winners & Losers

Companies that told a very strong GLWB roll-up rate story tended to show increases. Sales from Aviva, Security Benefit, American Equity and Phoenix collectively gained \$638 million in sales when compared with the second quarter, contrasted with a collective decline of \$382 million from Allianz, Lincoln National and ING with stories that didn't seem as showy. Great American had a strong gain due to very competitive caps. And frankly, I don't know why Jackson National's sales were up 24%.

Top Carriers By Channel

Agency
Allianz
Aviva
American Equity

The average annuity sale was \$65,663. Products with a surrender period of less than 10 years represent 21% of all sales. The index annuity agent commission averaged 6.6% of premium.

Bank

Lincoln National
Jackson National
Great American

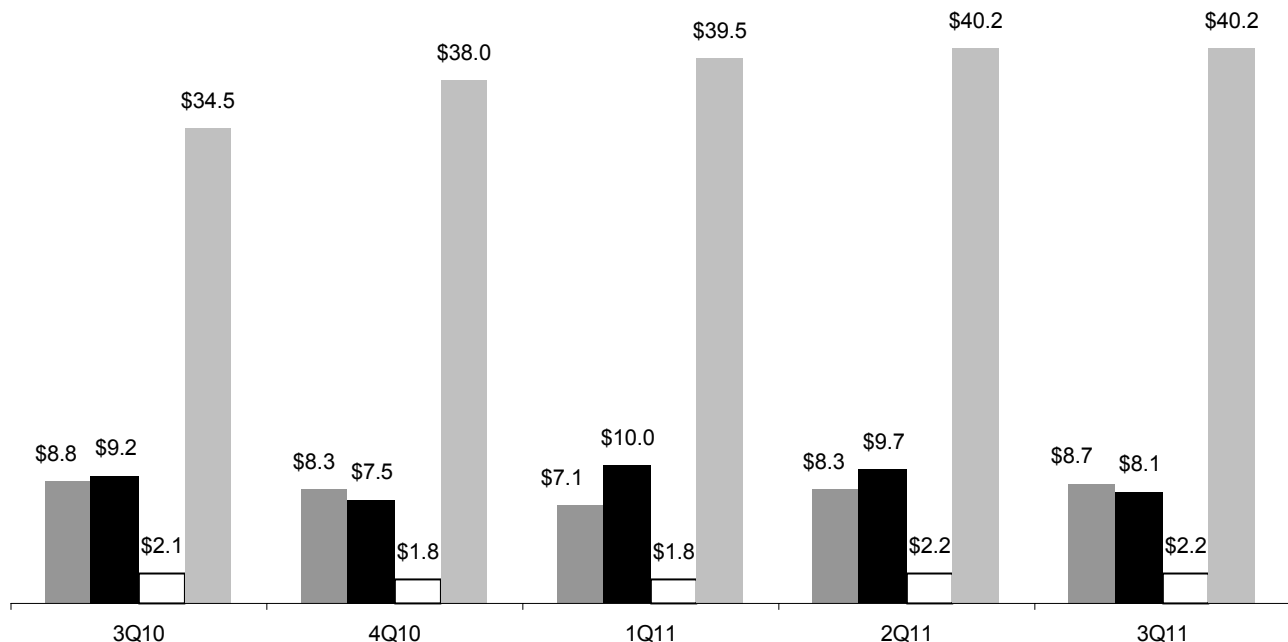
Wirehouse

Jackson National
ING
Lincoln National

3rd Quarter Index Life Premium

AXA	\$ 45,681,729
Aviva	37,162,032
Other	168,316,260
Total	\$251,160,021

Annuity Sales (in billions)



Based on analysis of all annuity sales tracking services

■ Fixed Index ■ Fixed Rate □ Immediate ■ Variable

The Typical Agent Survey Results

Thanks to the wonderful people at American Equity I was able to conduct a survey this fall researching decision making. Based on the composition of the survey base and the demographics of the 916 independent annuity agents that completed the survey, I am confident that this accurately reflects the overall index annuity agent field. I'd like to share what some of the results say about the independent index annuity agent.

The typical agent is between age 51 and 65
55% of index annuity agents are between those ages. 23% are age 36-50, 19% are over age 65 and only 4% are age 35 or younger.

The typical agent sells the annuities of 2 to 5 carriers in a given year
80% of the agents sold at least one annuity for 2 to 5 carriers within the last year, only 15% used more than 5 carriers and only 3% used a single carrier. An agent may will be contracted with more than 5 carriers, but at any one time they're only actively using two or three.

Over a third of the agents sell over \$2 million of annuities a year
To be specific, 37% sell over \$2 million, 25% sell between \$1 and \$2 million, 27% sell \$400,000 to \$1 million, and 11% sell under \$400,000 a year. Based on the data the median agent (not the average) is selling over \$1 million a year and based on average commission paid is earning \$90,000 to \$120,000.

Top selling agents think more
Top agents spend more time gathering and analyzing data and just plain thinking than other agents. All agents enjoyed thinking, but the results showed that top producers thought things through a little more than the rest.

All annuity agent suffer from decision biases...
Herding behavior means following the crowd – it explains the Justin Bieber phenomena. Hindsight bias means changing your prediction after the fact – saying in October “Yeah, back in August I knew the Cardinals would win the World Series.” The problem is sometimes following the herd can

get you killed – as the lemming four rows back from the cliff edge learned, and hindsight bias can make you overconfident (because next year you bet the Cubs to win the Series and lose your money). Annuity agents also have these biases that get in the way of making the best decision

...But stockbrokers are worse

Agents exhibited moderate herding behavior. They tend to sell the annuities and use the crediting methods that they hear other agents are using. However, a study was done of investment managers a few years ago and their herding behavior was even worse.

Top selling agents suffered the most from the Better-Than-Average (BTA) effect

The better-than-average effect is where we think we are above average in darn near everything we do. It is said that in Lake Wobegon all the children are above average, and most annuity agents think they above average agents as well. Indeed, responses indicating evidence of the BTA effect were the strongest of any question asked. And it went up from there – the more the agents sold the higher the effect.

The problem is in a normal population everyone can't be above average, and if you think you are that can make you overconfident and screw up your decisions – hubris is not a good thing. However, maybe you are that good. If Lake Wobegon only enrolls gifted students then their children would be above the national average. Perhaps index annuity agents simply are better than other agents.

What the survey didn't do

was support my idea that people that thought a lot would be less affected by these decision making biases. It turns out whether you like to think a lot or not think at all your decisions are still impacted by biases. One way to lessen their effect is to ask yourself...why am I following the herd...what did I really think a year ago...and even though I am great how might a lesser person make this decision.

Annuity News & Trends

FG AccumulatorPlus 10 & AccumulatorPlus14

are new FIAs from Fidelity & Guaranty offering very attractive caps.

In addition to a fixed account they offer APP & monthly average (min. cap 3%) and monthly cap & Trigger (min. cap 1%). Min. guarantee based on 87.5%; min. premium is \$10,000.

SC 10 yr: 12, 11, 10, 9, 8, 7, 6, 5, 4, 3. or 14 yr: 14.75, 13.75, 12.75, 11.75, 10.75, 10, 9, 8, 7, 6, 5, 4, 3, 2 with nursing home, terminal illness and unemployment waivers.

Allianz Income Maximizer (R95332) was filed in November. The cost is [1.20%]. The GLWB adds [6%] to the income account value on top of interest earned. Payouts (Jt) are ages 60-69 5% (4.5%), 70-79 5.5% (5%), 80+ 6% (5.5%).

The Death Benefit Enhancement (R95334) is a no-cost Rider that adds 25% to actual interest earned payable as additional death benefit

Hartford Launches FIAs

The Hartford Saver Solution (5 or 7 yr, S&P 500) and The Hartford Saver Solution Choice (5, 7, 10 yr, S&P 500, Global, 5% bonus) mentioned in October have launched. They offer APP w/cap, trigger or fixed options.

Only 38% Of FIAs Are 1035s

An Advantage Compendium survey of carriers representing 72% of indexed annuity sales found that the percentage of old annuities replaced with new annuity sales was 38%. By contrast IRI said 77% of 3rd quarter VA sales were exchanges or transfers.

- The 38% number is the percentage of ALL index annuity sales whereby the premium came from another annuity.
- The median carrier had 50% of their new annuity sales coming from transfers or exchanges of other annuities.

The difference is the top selling carriers reported a much lower percentage of sales coming from old annuities than the others and this skewed the total percentage.

SEC Catches FINRA Altering Documents & Scolds

With the SEC threatening a severe scolding and a brisk tsk-tsking after finding out FINRA was doctoring documents to mislead the SEC about what was going on during FINRA staff meetings, FINRA said they wouldn't admit they were doing anything wrong but said they wouldn't do it again.

If a B/D had done this FINRA would have demanded a hefty fine and probably suspended the people involved. However, it is clear the same rules don't apply to FINRA staffers.

Hancock Index UL

Last month John Hancock introduced Index UL (SERFF MANU-127345692) with two methods linked to the S&P 500: APP with 13% cap & APP less 5.5% spread. A fixed account offers a declared rate with a 2.5% minimum.

Hancock Restricts Sales

After a \$1.3 billion 3rd quarter loss John Hancock will be suspending sales of a variety of VA and fixed annuities – including the *Inflation Guard* released 3 months ago; the *Essential Income* immediate annuity is also being withdrawn. Earlier this year Hancock trimmed their wholesalers down to 16 from 50 and cut 116 jobs in their annuity division.

Aviva GLWB Rider BAIR2

was filed for their Balanced (BAA) annuities. The GLWB guarantees a [6%] minimum increase (roll-up rate) in the income account value plus 50% of the actual interest earned in the annuity. The cost is [0.95%]. if the roll-up rate is extended past the initial [10] year period the annual rider charge will increase [0.20%] for each year added.

Payouts (Jt) are ages 60-64 4.5% (4%), 65-69 5% (4.5%), 70-74 5.5% (5%), 75-79 6% (5.5%), 80-84 6.5% (6%).

Enhanced Income Benefit for nursing home confinement/ADL impairment doubles the payout.

Use A Customer-Centric Approach

I was asked to review a phone script that a carrier was using to contact new annuityowners after their annuity was delivered. The calls were to determine whether the annuity purchase appeared to be suitable and that the annuityowner knew what they'd bought, but they were finding that too many annuityowners tried to cancel their purchase and asked for a refund after the call was made. With a little editing to hide carrier identity here was the first part of the original phone script:

Mr./Ms. Client, this is _____. I am calling from the home office of _____ regarding the recent purchase of your [annuity product]. We are contacting all of our new contract owners. Do you have a few moments to discuss your annuity contract?

If yes... We are on a recorded line. The information referenced was taken directly from the application paperwork submitted by you and your agent.

- 1. Our records indicate that you received your annuity contract, is that correct?*
- 2. Did the funds for this annuity contract come from an existing life insurance or annuity product?*
- 3. According to our records, your approximate annual household income is ["income"]. Is that correct?*
- 4. You indicated on your application paperwork that your approximate net worth, excluding the value of your primary residence is ["net worth"]. Is that accurate?*

...And it went on from there with a total of thirteen questions. Some version of "according to our records" was said four times. The word "contract" was used eight times. And almost every question concluded with "Is that correct" "Is that accurate" or "Are you familiar."

This is a great script if the annuityowner is on the witness stand and you are trying to trip them up during the cross-examination and a lousy one if your goal is to see if the annuity meets their needs and you want to leave a favorable impression.

Talk with customers, not at them

Say that you had purchased salami from a local deli that you'd never bought from before. On the drive home the radio says some deli salamis in another city were tainted and people died. That evening you get a call that begins: "I am calling from the deli. We are contacting all salami buyers about the salami they bought. Do you have a few moments?"

What emotions are you feeling at this moment? Fear? The urge to return the salami? Now, instead of a salami say it was an annuity that you purchased from an agent and carrier that was new to you. You had heard some negative things about annuities, but you went ahead and bought one anyway. You then get a very officious call from the annuity carrier that seems to be questioning the actions of the agent and implying that they doubt your word. How does this call make you feel?

The problem with the script is the writer didn't put themselves in the customer's shoes. They didn't ask how they would feel if they received a call like this. They didn't stop to consider what would be influencing the frame of mind of the person they are calling. If you put yourself in the customer's shoes you might begin the call this way:

Mr./Ms. Client, this is _____. I am calling from _____ regarding your [annuity]. Everything is fine. One of the things we do is call our new annuityowners to say thank you, see if they have any questions, and get a little feedback so we can know how to better serve you. Do you have a few moments? If yes... This is recorded for training purposes. I'd like to briefly go over the information you provided on the application to see if we got it right. Okay?

- 1. You did receive your annuity policy, right?*
- 2. You indicated that the reason for purchasing this annuity is [“objective”], is that correct?*
- 3. By the way, did the money come from an existing life insurance or annuity policy?*
- 4. You mentioned your annual household income is [“income”] and approximate net worth, without including the value of your home is [“net worth”]. Did we get that right?*
- 8. Do you have any questions for me?*

I was able to get the questions down to eight – and that was after adding a new one – “Do you have any questions for me?” The carrier was still able to achieve their goal, but the customer is less likely to be negatively affected by the call.

Put yourself in the customer's shoes

Too often we approach the customer from our perspective and not theirs – how we want to sell them and not why they really buy. An example is how tax deferral is usually shown as the upper jaw in a two line chart with after-tax growth being the lower jaw. From the agent's view this shows the power of tax deferred growth. However, for many buyers this shows the creation of a future tax bill that will bite them someday. A chart should be added to address this perception that would show how tax deferral can result in more money in the pocket even after paying the tax.

From the agent's view a fixed index annuity has a minimum guarantee, protection of principal and credited interest from market risk, and a couple ways to receive a lifelong income. From the customer's view they might be looking for something that won't lose 30% of it's value (like their investment portfolio did three years ago) because their main goal is to preserve financial independence in retirement. The agent has the solution, but until it is transmogrified by showing how the index annuity features help keep the customer independent, no sale will result.

The same customer-centric focus should be reflected on all carrier communications. On an annual statement most annuityowners want to see how much interest did I earn last year, what is my account value, and what can I walk away with if I cash it in? However, some annual annuity statements mix that in amongst columns for minimum values, lifetime income account values, performance of every index the carrier offers whether selected by the annuityowner or not, and any explanatory footnotes are written in lawyer-talk. Annual statements, and all communications, need to reflect on what the customer would feel is important and flow from that perspective.

Before any letter gets sent out, marketing brochure gets printed, or sales presentation gets approved you need to sit down and pretend you are the customer. You need to look at it all from the customer's perspective and see how it comes across. If you can't get your mind to bend that way then have a real prospective customer take a look and have them tell you what it says to them. If you want more sales and fewer problems use a customer-centric approach.

Returns (Year Ending 30 November)

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

Annual Point-to-Point	1.00% - 5.63%	S&P 500	5.63%
Trigger Method	3.00% - 4.10%	Dow Jones Industrial Average	9.45%
Monthly or Daily Average	1.82% - 5.75%	Russell 2000	1.43%
Monthly Cap Gain-Not Loss	0%	Nasdaq	4.89%
Fixed Account	1.10% - 4.00%	One Year Certificate of Deposit	0.51%

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

115 Securities Complaints For Each Index Annuity Complaint

Last spring I examined and contrasted securities and fixed annuity complaints for 2010. At the time I had a complete list and breakdown by category of FINRA and NAIC complaints, a breakdown of the top ten SEC complaints and no data from state securities departments or NASAA. NASAA has finally released their 2010 report eight months after everyone else. Representing 45 states NASAA reports there were 7063 investigations of complaints in 2010.

How many of these are due to allegations of improper index annuity selling or “source of funds” concerns? NASAA doesn’t exactly say. All they will say is that there were “dozens of cases reported involving variable or equity indexed annuities.” I have asked NASAA for a breakdown, but it has not been forthcoming. The NAIC reported 80 index annuity complaints. Even given the greatest latitude, the number of NASAA complaints relating to index annuities could not exceed 60. Therefore, in 2010 there were, at least, 16,130 securities related complaints and, at most, 140 index annuity complaints. The link to the NASAA report is <http://www.nasaa.org/wp-content/uploads/2011/10/2010-Enforcement-Report.pdf>

2010 NAIC/FINRA/NASAA/SEC Customer Complaint Breakdown

