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Insurers revamp equity index annuities for boomers

Carriers believe the products could gain favor amid volatility

By **Darla Mercado**
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Inspired by market volatility, insurance carriers are making over their equity-index annuities in an attempt to beat a bad reputation and target baby boomer investors.

Historically, the products, also known as fixed-index annuities, have been criticized by the advisory community for their lengthy surrender periods and heavy withdrawal penalties, as well as high commissions for agents. Insurers, such as Sioux Falls, S.D.-based Midland National Life Insurance Co., also have faced legal heat from state attorneys for questionable sales to senior citizens.

Undeterred, carriers have added flexible withdrawal features to their product lines and updated their investment options, based on the idea that consumers will probably flock back to annuities if the stock market worsens.

"I expect [the lawsuits] to fade away if we have a market correction," said Jack Marrion, president of Advantage Compendium Ltd., a St. Louis-based annuity research group. "The same thing happened in 2001 when people weren't getting the upside of the bull market, and then [the criticism] went away when we entered a bear market."

That point wasn't lost on ING USA Annuity and Life Insurance Co. of Des Moines, Iowa, which last month introduced Envoy fixed-index annuities. Anticipating that jittery investors will want access to their money, the company gave clients penalty-free withdrawal "windows" in the third and sixth years of a nine-year contract.

"Last year we had an inverted yield curve," said Chad Tope, senior vice president of ING's fixed-annuities distribution unit. "With the environment going into the future, you'll have people with more liquidity concerns."

Additionally, the product gives consumers the chance to participate in the Dow Jones Euro Stoxx 50 index from Dow Jones & Co. of New York, which comprises 50 European companies.

STAGGERED COMMISSIONS

Perhaps Envoy's most innovative feature is the way agents are paid, Mr. Tope said.

Producers get an automatic commission trail of 0.25% for each year the policy is in force. Paid to agents in addition to their upfront commission, which has a ceiling of 8%, the staggered commission encourages producers to build a relationship with clients, Mr. Tope added.

For fixed-index annuity provider American Equity Investment Life Insurance Co. of West Des Moines, Iowa, a new guaranteed-income rider answered boomers' needs for security.

The company's Bonus Gold product was the top-selling annuity in the third quarter of last year. It beat the MasterDex10 equity index annuity from Allianz Life Insurance Co. of North America in Minneapolis, according to the Advantage Index Sales & Market Report from AnnuitySpecs of Pleasant Hill, Iowa.

"[The rider is] an important benefit as boomers move to retirement," said Kevin Wingert, president of American Equity Investment Life. "At ages 50 to 65, these are people with 30 to 35 years of life expectancy who can use the rider to accumulate a sum of money, regardless of the performance of the underlying account."

Mr. Wingert also attributed the product's success to the fact that it didn't have a two-tiered structure — one that pays different interest rates depending on whether the accumulation is annuitized or the money is withdrawn. The company also permits 10% penalty-free withdrawals.

Other carriers, such as Jackson National Life Insurance Co. of Lansing, Mich., have noted that while the climate seems right for index annuities, it remains cautious about launching revamped versions of the product and instead will focus on educating clients and advisers.

"There is a solid market for these types of products," said Robert DiNardo, vice president of fixed-annuity product management for Jackson. "As long as people are educated on what they're getting, there's a segment of the U.S. market that will benefit from it."

Advisers, however, are not totally convinced.

"A withdrawal without penalty fees sounds great, but annuities traditionally have high expenses," said Malcolm Greenhill, president of Sterling Futures in San Francisco. "You can manage and target certain levels of risk, but costs take off a huge chunk of upside potential."

Although index annuities have their place, advisers can come up with better — and less complex — options, such as certificates of deposit, said Mr. Greenhill, who said that he has recommended annuities sparingly in the past.

Pushback from the adviser community is to be expected, Mr. DiNardo said.

Products are getting better, he said, "and companies are moving [toward] transparency and simplicity."

"The important thing to keep in mind is that this product has been around for about 10 years. Variable annuities and mutual funds probably had much of that skepticism in their first five or 10 years, too," Mr. DiNardo said.

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