

Annuity Round Table

The SEC Threat Is Over,
Now Let's Get Back To Doing What We Do Best...*Selling Annuities!*



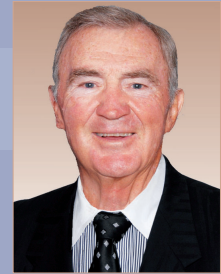
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What are the top three factors an agent must consider when recommending an annuity to a client? Why?

John Douglass: Age would have to take center stage. With issue ages advancing to people who are 80, 85 and 90, we're working with a senior population, which requires an agent to be especially careful in his presentation to make sure that the client understands the product completely.

It's very tempting to sell "the sizzle," especially when you're talking about bonus indexed annuities. You want to avoid confusion. Unfortunately, after the agent leaves the appointment, many seniors can forget some of the details. If

they are talking with other family members, it can also create some confusion on what was presented.

Obviously for these reasons, when working with older clients, especially because enforcement in many states is heavily regulated in regard to marketing materials and presentation disclosures, an agent has to be extremely careful that he has covered all his bases, not only to protect his clients, but to protect himself.

The second important point would be liquidity. Many contracts in the past have

offered aggressive cumulative withdrawals, or at least 10 percent yearly, but now we're down to interest only in some cases. As these contracts become increasingly less liquid, withdrawals are sometimes not available until the end of the first year. If you're working with people with limited assets, you'd have to be aware of their liquidity needs.

Also you need to consider minimum mandatory IRS withdrawals that may be necessary, or withdrawals to pay premiums on life or LTC insurance policies which they are funding with the annuity they are purchasing. So liquidity becomes increasingly something to be aware of.

This liquidity discussion must include annuitization options. In some cases the companies have pushed out annuitization

options far into the future, again, keeping the contracts very illiquid. If an emergency should arise, you don't want to be in a position where you have to say to your client, "I'm sorry, but you're going to have to incur a surrender charge to get access to your monies."

We must consider the client's level of sophistication (product understanding), as well as their net worth, which go hand-in-hand. If your client is not that sophisticated, you have to make extra effort to make sure he understands the contract. Obviously, people with higher net worth, who are used to handling larger sums of money, may be a little bit more savvy in regard to understanding annuity products, but even then you don't want to take their understanding of the product features for granted.

Last, realize that competition is keen. We should always make sure that we put our best products in front of the client at all times. With that I mean that you have to lead with your best product.

If an agent proceeds with recommending a contract that pays him the most, he's walking on dangerous ground. If there's any other broker that these clients come in contact with (with the local bank or a brokerage house) they will certainly be quick to identify a contract that isn't as competitive as it could be.

We all want to put our client's interests first!

Rich Hellerich: The top three factors an agent must consider when recommending an annuity are (1) the purpose for the funds (dreams, desires and goals); (2) its place in the overall retirement plan; and (3) how it will impact the overall estate plan. All three of these factors come into play to ensure that the agent "does no harm," an adage we take very seriously here at Great Plains.

The first and foremost factor an agent must consider is the client's response to: What are your dreams, desires and goals for the future? This is how we get the client to define his purposes for the funds.

Clients usually do not want to learn how the "Swiss watch works," but they are very

interested to learn about financial solutions that help them accomplish their dreams and goals, especially if that can be accomplished with contractual guarantees and protecting the assets they have strived a lifetime to accumulate.

A good fact-finding session will expose those desires and a competent insurance professional will start to plan strategies and solutions to help the client. I believe it is wise for insurance advisors to share the fact-finding results with their marketing outlet(s) for input as well. Trying to keep up with hundreds of products, let alone rate changes, is a daunting task. Brokerage marketing agencies are a great resource to producers for crafting tax-efficient and well thought out strategies to present to their clients, as well as assistance with specific carrier and product solutions that should be considered.

The second consideration when recommending an annuity is: Its place in the overall retirement plan. Again, a competent insurance advisor is listening to the client and obtaining a clear understanding of their desires and needs, not simply justifying an annuity sale.

If the asset is destined for wealth transfer purposes, perhaps a life insurance solution should be considered. LTC is a consideration in a prudent discussion of future exposure to the expense of failing health in later years, unless your client can afford to self-insure or has other financial products to protect his nest egg. We must also consider—and respect—the client's risk-tolerance. Recommendations for a single, 75-year-old female with \$250,000 in assets should look quite different from a couple aged 62 with \$2.5 million.

Annuities are phenomenal tools to guarantee lifetime and period-certain income. The safety, tax-deferral and liquidity benefits of fixed and fixed indexed annuities can bring great peace of mind to clients. A client's overall retirement plan will carry the most weight in suggesting an annuity solution.

The third consideration is: How do these recommendations impact the overall estate plan? Once again, completion of an inten-

sive fact-finder will lay the foundation for an existing plan, lack of a plan, or a plan no longer meeting needs and goals. If an agent can passionately present recommendations to a client as well as his CPA and attorney, the chances for implementation rise dramatically.

Many may disagree, especially those who have had a sale or recommendation blown up by a CPA or attorney in the past. My response is this confirms the importance of having a relationship with your clients. If you sense there is an adversarial relationship in working with these advisors, chances are they have clients who were harmed by poor annuity planning or they are simply misinformed and need to be educated. It is a lot easier to understand why an attorney wants his client's financial plan to follow his legal plan when you know the attorney has dealt with poor financial planning. You must be viewed as a professional more than just a product peddler. If you can accomplish this, you'll find other advisors might become great referral sources for your practice.

All three factors above contribute to my belief that offering an annuity solution should work in concert with the client's dreams, desires and goals, with positive impact on an existing financial plan or part of a new and better strategy. *Do no harm!*

Ron Lane: Suitability should be a broker's first concern when recommending a fixed annuity to a client. Clients have vastly different investment goals, and only through a series of questions can the insurance professional glean enough information to discern whether a certain annuity achieves the client's objectives. This includes tax-free exchanges.

Client understanding is the second factor in making a fixed annuity sale. During the sales interview it remains paramount that the insurance professional keep clients involved in the conversation, asking them to restate their investment tolerances and goals. The procuring agent must be assured that their clients understand interest rate guarantees, policy attributes and surrender costs.

Affordability is the third prerequisite. Many times repositioning funds from stagnant accounts into annuity products makes sense. However, emergencies can arise, and if too many dollars were allocated to a deferred annuity and those funds needed to be accessed during the surrender periods, loss of interest and surrender penalties could negate growth.

Roger McCarty: Before recommending an annuity to a client, it's always important that an agent first determine if an annuity is suitable, or the most appropriate product, for the client's specific needs.

When determining the most appropriate product, an agent will more than likely take into consideration (at a minimum) the following three factors: (1) the client's long term use of and/or need for his savings, (2) the client's comfort level with a safe and conservative rate of interest, and (3) if and when the client will need to take income from the annuity.

These three factors are important because they set the stage for retirement savings. If a client needs immediate access to savings or will need to access savings in the near future, he will need an adequate amount of liquidity available. Because annuities are meant to build retirement savings, certain penalties apply if more funds are accessed than allowed by the annuity contract and, of course, the federal penalty (10 percent) if taken before age 59½.

An annuity offers a safe and conservative rate of interest. As a client approaches retirement age, he may be less inclined to place money in retirement vehicles that expose his savings to risk. By purchasing an indexed annuity, retirement savings are protected against market losses while still allowing for growth potential.

The timeframe in which a client will need to take income from an annuity will largely impact the type of annuity that is purchased. As with most retirement savings vehicles, the longer the money is allowed to accumulate, the higher the future income payments will be for the client.

It's also important for an agent to know how a client plans to use the money being

placed in an annuity. If the client does not plan to use the money but would like to pass it on to a beneficiary, there may be

more tax efficient products, such as life insurance, that can better meet the client's needs.



Have there been innovative new products or useful "tweaks" to existing products in the annuity marketplace?

Hellerich: There have been several recent innovations or "tweaks" to fixed and fixed indexed annuities. The introduction of guaranteed lifetime income benefits (GLIBs) and annuities with long term care riders are examples of our industry's continuing efforts to meet the needs of the consumer.

Historically, the vast majority of fixed annuities sold were transferred at death, without liquidation or decumulation by the original owner or annuitant. I believe we are going to see a dramatic shift to income planning going forward.

The losses to baby boomer 401(k) plans, Social Security solvency concerns, and the economy in general have educated consumers about being responsible for creating their own retirement paycheck going forward. This makes the value of GLIBs an incredible tool in planning for reliable retirement income. Ongoing consumer concerns about Social Security and future market risk make GLIBs an obvious consideration to self-insure retirement income.

Agents should also find success with GLIBs by introducing the concept of laddering the client's assets over time, in multiple "buckets," which will give flexibility and liquidity in facing future economic and tax issues. This concept should find great acceptance in mapping retirement and estate planning goals and providing peace of mind.

Another product development to note is the LTC benefits tied to annuities now being introduced to the market. Clients who are concerned about the cost of LTC and worried about economic ruin in the event of declin-

ing health should have great interest in these products. The comfort with this type of LTC self-insurance solution, within the annuity, allows a client to avoid feeling like he is paying premiums for coverage he may never need.

Lane: Until 2010, the words *innovation* and *annuity* had no correlation. For the last several years the industry has dealt with a sagging economy and flat interest rates. Carriers were able to enhance annuity products with premium bonuses and lifetime withdrawal riders.

Fast forwarding to this year, we see interesting combo-annuity products being built. For the first time in history, a combo-annuity owner can withdraw funds from his non-qualified annuity to pay for a long term care benefit rider. There is no federal income tax charged on LTC benefits through combo-annuity products. Finally, some innovation comes to our arena.

McCarty: There have been both innovative new products and "tweaks" to existing products in the annuity marketplace. An example of an innovative new product would be the creation of combination annuity products, also known as hybrid annuity products. These products combine long term care insurance with annuities and allow a consumer to position a portion of retirement assets into one policy that can address multiple retirement needs including: (1) ensuring retirement assets that may last many years in retirement, (2) protecting at least a portion of these assets from market

losses, and (3) limiting the impact long term care risks can have on an overall retirement plan. Combination annuity products are also an attractive alternative for consumers who feel long term care insurance is too expensive and may never be needed.

Further additions and enhancements to available income riders continue to evolve. Some benefits available to consumers through income riders include: (1) the ability for clients to receive joint lifetime income payments on qualified dollars, (2) the option for clients to choose to receive lifetime income payments that increase each year, (3) the opportunity to receive benefits that double in the event that the annuitant is confined to a nursing home, and (4) the capability for beneficiaries to receive the growth from an annuity's income account value upon the annuitant's death.

Douglass: Regarding useful tweaks to existing products in the annuity marketplace, I like to present indexed annuities in conjunction with single premium immediate annuities. By having a guaranteed income stream, the payout to the client in conjunction with a bonus indexed annuity presents a strong up-front package with the annuity bonus as well as the liquidity coming in the future if the S&P, or whatever index you've chosen, does not perform the way you wish. There's always going to be liquidity flowing to the client through those years when the contract is not performing at its best. It makes a great tandem play.

As for new, innovative product "tweaks"—immediate annuities have come into play with a lot of unique new features which we haven't had in the past. For example, the ability to get up-front checks for up to 12 months with many contracts (*at no additional cost*) in case the client wishes to take care of an emergency need; plus, another is the utilization of the new LTC annuity contracts that offer tax-favored payouts for long term care needs.

Last, some niche products like return-of-premium term, guarantee liquidity options on second-to-die and universal life products. The marketplace is loaded with new, innovative concepts.



Indexed annuities have taken the spotlight for many reasons over the last few years; however, the traditional "old standby" annuity products and riders are important, too. What are some of your favorites and why?

Lane: We have been developing and marketing annuity products for numerous carriers over the last 30 years. During the 1980s, some of our favorite annuities were the bailout products. They became prominent due to their underlying promise to pay a certain interest rate each year. If the insurance company did not pay that annual projected rate (as high as 14.75 percent), the client could simply "bail out" or leave their contract without incurring any surrender penalty costs.

The staid-and-true products of yesteryear then brought us multi-year guaranteed interest products. The mid-1990s low rate environment brought us first year premium bonuses and then annuitization bonuses. *Those were the good old days!* [RL]

McCarty: Following a large market decline, the normal response from most consumers is to remove or limit the amount of their money from the market in favor of what they consider safer alternatives. Because indexed annuities offer consumers the potential to receive higher interest without the risk of market losses, fixed indexed annuities have become a viable retirement savings solution for consumers.

I do have annuities that I prefer; however, not all annuities are created equal and what may work best for me and my situation may not fit the specific needs of someone else.

Having said that, my favorite aspects of annuities are the core benefits they offer consumers, such as tax-deferred interest, lifetime income options, taxation on withdrawals using the "last in, first out" method, minimum guaranteed interest,

and the possibility of avoiding probate. Another favorable benefit offered through some annuities is the option of additional liquidity through checkbook access.

Annuities, when appropriate, are meant to supplement a comprehensive retirement savings plan, which should also be complemented by life insurance, long term care insurance, and/or annuities with income riders that offer some of the same benefits as life insurance and long term care products. [RM]

Douglass: My favorite products would have to be short term guaranteed annuity contracts because they offer a fixed, guaranteed rate. We have contracts with two-year and three-year rates that get us through these rough times so the money can be repositioned at a future time.

One important comment in regard to guaranteed contracts is for agents to look at companies that aren't necessarily rated A- or better. I realize this is a problem for agents when it comes to E&O coverage and, for that reason, many agents have not given B rated companies a second look. However, I personally have excellent relationships with several B to B++ rated companies. They're a joy to work with, offer competitive products, and based on our own due diligence—I feel they are an excellent choice.

On our website we have interviews with numerous companies like this, companies with below A- ratings, to talk about their unique company's financials.

Agents should do their own due

diligence by looking at all the agencies, A.M. Best, Fitch, Standard & Poors. They should also contact the companies and/or check out their websites. Never pass by a golden opportunity to represent a fine company! [JD]

Hellerich: One of the most important traditional fixed annuity products is the single premium immediate annuity (SPIA). SPIAs are more than just a guaranteed lifetime or period-certain income stream in exchange for the premium deposited with the carrier.

These products are a helpful tool in life insurance planning when a SPIA is purchased to ensure ongoing life insurance premium payments into the future. Older clients don't have to worry about remembering to make annual payments on a life policy. This is particularly important on life policies used for wealth transfer purposes, where a lapse could have catastrophic financial consequences.

When an SPIA is determined to be the appropriate solution for reliable income needs, an advisor can rely on his marketing company to see which carriers are offering the most competitive payouts. We have a very active market for SPIAs in our shop for a number of reasons and find the top payout rates and best carrier options change weekly.

Safety, tax-deferral, yield, liquidity and estate planning benefits are the most important "old-standby" characteristics of annuities. If you can effectively present these characteristics, you should be able to benefit many clients who need your help

as well as their other advisors who may be operating from misinformation found in consumer media. [RH]

John Douglass founded Annuities Exchange/Financial Products Corp. 30 years ago. In 1995, the organization introduced indexed annuity products on its newly created website. Leading a national marketing group offering indexed annuities, Douglass is very much aware of pending legislation and brokers' sentiments in regard to current regulations. He keeps a watchful eye on the marketplace and is very optimistic the equity indexes will continue to be a competitive part of the marketplace, with expanded markets and more consumer friendly products.

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Richard (Rich) Hellerich is the principal of Great Plains Annuity & Life Marketing, Inc., a national wholesaler specializing in the development, marketing and distribution of traditional fixed, fixed indexed annuities, and life insurance products. He founded Great Plains in 2002.

Prior to starting Great Plains Annuity & Life Marketing, Hellerich had 16 years experience in the financial services industry, focusing in the early years within the municipal bond markets as a trader and market maker. He spent the last of these eight years with what would become one of the largest annuity and life marketing organizations in the country, focusing on agent recruitment and product development ideas.

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Ronald J. Lane, Sr., is president of Fairlane Financial Corp. He oversees the company's day-to-day national operations. His ability to network with carriers has been instrumental in developing new proprietary products for producers.

Prior to joining his father, Sam Lane, at Fairlane Financial in 1979, Lane was one of Prudential's top agents in the United States.

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Roger McCarty, Founder/CEO, Brokers International, Ltd., was born and raised on a farm in Guthrie County, IA. After moving to Denver, CO, he joined State Farm Insurance Company and became one of their top agents nationwide. He entered the brokerage business in the 1960s with Oregon National Life, which later became First Far West Insurance Company. His success in the 1960s and 1970s helped him develop relationships with leading insurance companies, which were the stepping stones for his success with Brokers International, Ltd.

Through McCarty's leadership and commitment to excellence, Brokers International, Ltd. is one of the largest insurance marketing organizations in the country. His philosophy is: The agent is number one and without the agent we are out of business.

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