Variable Annuities

Product Positioning Guide

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THE LEADERS GROUP

Value Proposition

Insuring against retirement risk. This includes longevity risk, market risk, inflation risk, and medical risk.

Target Client Profile

The best prospects for this product type are over 60.

Prospects aged 55 could work but will pay extra for the benefit charge and are only ideal if they're thinking of retiring and starting to take money out at 60. If they are risk-adverse or concerned about market fluctuation, I would suggest considering RILAs, MFs, or money market opportunities.

Where do you find a prospect? Basically, start with your client base and anyone most likely ready to retire. If you think you have a prospect for this product, your first question should be, "When are you thinking of retiring?"

Begin your positioning discussion with explaining the Retirement market and how VAs fit into that market. Over the years, I've done a lot of work in the retirement space. In 2019, I produced $20,000,000 just in variable annuities with guaranteed payouts. I've done quite a bit of business in this market over the years.

Here are my approaches:

Value Proposition #1

I start by explaining the retirement market and how VAs fit into that. Over the years, I've done a lot of work in the retirement space. Last year, I ended up doing about $20,000,000 just in variable annuities with the guaranteed payout and over the years have done quite a bit of business in that market.

- According to the Gerontology Society of America, there's over $25 trillion – and this is the value of all 401K plans, IRA plans, and retirement savings as of 2015. I remember this because I started in the business in 1971, and 401(k) plans which everybody is familiar with wasn't started until 1974 and, interestingly, IBM was the company that started 401(k)s.

- IRAs didn't come into play until 1982, and just incidentally the maximum you could put in was $2000 a year. There was no income limit, then that went away in 1986, and they put in the income limits and introduced Roth IRAs. So, both are kind of relatively new in the scheme of things going back to the history of retirement plans.

- Prior to 1974, I would say probably about the turn of 1970, about 85% of the people that had retirement plans had defined benefit plans. Today, there's only 7% of all the plans out there that are defined benefit plans, and most of those are the government, and 93% of the plans out there today are the other ones like 401K, 403B, 457, and what the government calls a "thrift savings plan" which is their version of the 401(k).

Value Proposition #2

An article from the Bureau of Labor Statistics (BLS) in March 2018 cited only 3% of the people in the private industry even have access today to a defined benefit plan. 58% have access to the defined contribution which we refer to as 401(k). So, technically, only 58% of the workforce right now (excluding government) have access to retirement plans. Historically, when you talk about a defined benefit plan, you truly didn't get a lump sum that you could do something with, you got a guaranteed income for life.

- On the defined benefit plan, once you started receiving the income and passed away – that was an end to the plan. You received no more money, with exception being if you had a spouse as a beneficiary and you took out spousal survivorship, and there are variations of that, but once both partners are gone, that's it, you don't get more money.

- Social Security is really an annuity; it pays a guaranteed income for life. That's the attractiveness of it - you don't get a lump sum. If both spouses are taking Social Security and one spouse passes away, the surviving spouse gets the highest of the two payment amounts.

Today, when retirees receive a lump sum of money, they are skittish about annuities because they're worried that they might not get all their money back. Which is categorically not true because the good you can structure the plan in various ways, so you can protect the money you started out with or somebody is going to get it if you pass away. That is the attractiveness on the private side and really and truly I call it the modern pension plan because you have more flexibility than you have with a defined benefit plan.

Value Proposition #3

According to the Gerontology Society of America (Longevity Economics, 2018 and The Financial Services Professionals magazine, July 2019), there are over 25 trillion dollars of assets – and this is the value of all 401(k), IRA, and retirement savings plans as of 2015.

- I started in the business in 1971, and 401(k) plans, which everybody is familiar with now, weren't started until 1974 by IBM.

- IRAs didn't come into play until 1982, and just incidentally the maximum you could invest was $2,000 a year. Initially, there weren't any income limits, which ended in 1986 with the introduction of income limits and Roth IRAs.

- Both are relatively new in the scheme of things dating back to the history of retirement plans. Prior to 1974, probably around the turn of 1970, about 85% of the people that had retirement plans had defined benefit plans. Today, only 7% of all the plans in the market are defined benefit plans, and most of those are for government employees. Whereas, 93% of current plans in the retirement market run along the lines of 401(k), 403(b), 457, and the government's version of the 401(k), referred to as "thrift savings plan."

Value Proposition #4

Michael Finkle, Chief Academic Officer for The American College, made a comment that was very appropriate, “we’re facing the first generation American workers approaching retirement with no clear idea on how much money they can count on receiving and what they can safely spend from their savings such as IRAs and 401(k)s without running out of money.” And it’s true, most people don’t know what to do, there is a lot of confusion and annuities can answer that problem.

The big problem for people today is retirement risk. I think most of the people in the industry are pretty much familiar with it, but you have longevity risk, market risk, inflation risk, and medical risk.
Interestingly, the number one concern is longevity risk and 73% people are worried about running out of money before they die, and, of course, market risk, which is very appropriate right now with what the market has been doing since the coronavirus pandemic started. 83% of the people are very concerned about losing their principal – that’s the big deal.

Inflation risk, although 92% of people say they are concerned about risk. Of those, only about 26% said they are really concerned. Of course, the other big elephant room is long-term care, and 58% of people say that they are not very well prepared for a major life event. Annuities can solve all that, that’s the good news.

With longevity risk, the concern is either dying too soon or living too long. People that are in managed money to mitigate the risk either take out too little, or they take out too much. Which, in turn, makes the annuity pretty attractive.

We know for a couple today at age 65, life expectancy on a healthy male is 85 – add two more years if a non-smoker – and female life expectancy is age 88. We also know that one of the two statistically has a 50% chance of living to 92.

- The Centenarian website, based in the UK, tracks people all over the world that have lived over age 100. In 2019, they estimated there’s around 72,000 people over 100. By 2030, they expect 19.3% of the US population will be age 65 or over. By 2050, 25% of the world’s population will be over age 65 with 1.6 billion people, and in the US, there will be close to a million people over the age of 100. So, people living a long time is a legitimate concern.

- According to a Putnam study from 2012, the Government Accountability Office reports to avoid the risk of outliving assets, save more, work longer, delay Social Security, and purchase a life annuity.

That leaves market risk. Statistical data pre 2008, and there are a number of articles have been written about this, say that in order to have your money last at least 25 years, you need to put 65% of the money in stocks, 35% bonds, and 5% cash, and if you didn’t take out more than 4%, your money would last 25 years. Keep in mind, prior to 2008, interest rates were in the 5% to 6% range. Just this morning I was reading the 10-year treasuries are at an all-time low of .9% and that dropped from 1.13%. Today, due to the meltdown in 2008 and the drop-in rates, they suggested that you should not take out more than 3%. The good news is that with the annuity you can take out a higher percentage distribution and not worry about the money running out.

Value Proposition #5

One of the ways I talk about the variable annuity is I kind of joke around and say, “at the grocery store, do you like paper or plastic?” If they say plastic, I present the following scenario:

Let’s pretend you have a plastic bag, and inside the bag we have investment choices that you can place in the bag. The bag is a non-qualified account, and as long as the money is in the bag there are no taxes. When you take non-qualified money out of the bag the growth is taxable and if you take it out prior to 59 ½ you have a 10% penalty in addition to taxes. With qualified money the same applies except all of the money whenever it comes out as taxable.

So, we have this bag and the bag allows us to grow investments that you can interchange between different funds and there’s no charge. The significance of the bag unlike a regular managed money account is we have a little invisible fence around this thing. You know those invisible doggy fences? This invisible fence is the guaranteed income benefit or a feature that can be added that is not available manage money.

- Right now, Lincoln is paying 6% if you leave the money there and are not taking the distribution. When you start taking the distribution, depending on age, it could be a 5%, 5.5%, or 6% coming out of the account based off of the guarantee. And basically the way it works is that if you put $100,000 in the account and let’s say the account dropped to $90,000, and recently the drop might have been more than that, but let’s say that at the end of the year you have $90,000 in the account. Because of the guarantee of 6% in my example, you would have a $106,000 value that is what they call the income base. Which means, that if you wanted to start taking income, you would take it off of that $106,000, it wouldn’t be coming off that $90,000. Furthermore, if you had a joint account and one of the owners had passed away, then your wife or spouse would continue to pull off whatever that distribution rate was and let’s say it’s 5.5% off of that $106,000.

- Now, on the flip side if the market made more, let’s say it made 20% so the $100,000 grows to $120,000. At that point, it locks in, so even if there is a market downturn, we are still going to receive that check for 5.5% of $120,000 every year using the example above. That would be the new minimum guaranteed paycheck, and any time we lock in a new high, it would give us a raise in that paycheck. On top of this, if you should ever run out of money, the good news is you’re now in the insurance company’s pocket and will continue to receive your same paycheck for as long as you live.

Value Proposition #6

The big objection that you always have with annuities is fees and they vary by company. If you are using an index annuity, then there are no fees, but an index doesn’t really lend itself to the income because you’re just withdrawing it. You can put an income rider on there, but you don’t have the potential for as much growth. I think the index annuity is better for just deferral not for income. At any rate, Lincoln has one point 1.3% M&E and that’s pretty consistent with all the companies. Then you have the underlying mutual funds and while the companies vary as far as investments are concerned you do have quite a bit of flexibility on how you can invest the money. Most of them are now recommending allocation funds, which I think is a good idea. So, in these allocation funds you can do a 70/30 model if you want. You can do 70% stocks 30% bonds or you have 80% stocks or 20% bonds and the deal here, why you are paying a little higher fee, remember going back to the model that you had managed money, it’s 60% in stocks at the most. You can be more aggressive in here and not worry about it because of the guarantee.

Value Proposition #7

Now, the fee for the income rider is 1.5% if it is joint and 1.25% if it is single and most of the benefits out there are right around the same. The way I explain the fee, and this is what I say to the client, I say, "that's for the benefit of the rider, and the fee does not come off of the guarantee. It comes off of the account value." I very emphatically go through this with people and say, "look, this is not 6% minus the 1.5% fee. The 1.5% fee comes off the actual account, not the shadow account/roll up account so that's 6% net that you are getting." Then, if there is a woman in the room, I will ask, "do you own any jewelry?" If they do, I ask if it is expensive jewelry and some do, so I say, "ok, do you have a floater on your homeowners insurance that if you lost the jewelry it would pay 100%" and some do and some don't but most know about it. So, I say well do you know how much as a percent of the value of the jewelry, how much it costs to insure it? And they usually don't know so I say 2%. So, if you had $100,000 worth of jewelry, it's going to cost $2000 to insure it, this is 1.5%. This is your jewelry insurance on your retirement. If you know people that are farmers, you can ask about crop insurance. If they have crop insurance to protect the revenue that they are expecting to generate from their harvest, and they want to protect it against a major loss due to weather, insects, or some other major event, then they are paying about 2% for that. This is their crop insurance on their retirement. By the way, if you take trip insurance which a lot of people are interested in doing right now, it's 7%. 7% of the value of the trip but of course people don't usually think about it because you are paying around $1,000 a ticket so you are only paying $70 for the insurance so it is perceived as being pretty inexpensive, but it's 7%. So basically, the 1.5% is to ensure your retirement income and generate a cashflow for life. Bottom line I just say to people is, "OK, so when you retire do you just want to just live on your savings and still be exposed to all the different types of retirement risks, or do you want to take the retirement risks off the table and have a paycheck for life?"

Support Docs

Sales kits from the carrier being presented and a proposal/illustration.

Sales Processes

New clients are a 2-3 meeting process and existing clients are a 1-2 meeting process

Top Carriers

AXA, Lincoln (Nursing Home benefit that continues if you run out of money), Prudential, Brighthouse, and Jackson