

■ GUEST OPINION

Regulators Need Indexed Product Training

BY SHERYL J. MOORE
AND JACK MARRION

RECENTLY, THE IOWA INSURANCE Division adopted rules 191-15.80-87. These require all producers who wish to sell indexed life or indexed annuity products in Iowa starting Jan. 1, 2008 to complete a 4-credit training course on the products.

The state is in a supreme position to lead the way with this industry-changing educational requirement, given that more than 40% of indexed life and indexed annuity premiums flow through Iowa domiciled companies (*Advantage Index Sales and Market Report*, 3rd quarter 2007).

Many states will likely follow suit. But before that happens, the regulators themselves should be required to take the same training. Here's why:

Over the past 2 years, select insurance and securities divisions have provided bulletins, notices and instructions regarding indexed annuities that are incomplete, inaccurate or downright misleading. Yet these are the people to whom insurance companies look for approval of products, insurance agents for approval of their licenses, and consumers for protection.

When regulators don't take time to educate themselves on a product before issuing public notices, the results can be embarrassing if not damaging. Consider:

1. William Galvin, secretary of the Massachusetts Securities Division, released an "important message" to state residents warning consumers about annuities.

Annuities, he said, "are almost always not a good investment for older people." But this contention can easily be disputed. An annuity is the only product that can guarantee lifetime income, providing a secure retirement for millions.

UNINFORMED REGULATORS

They Need Training On Index Annuities

- **Secretary** of the Massachusetts Securities Division
- **New Jersey's Commissioner** of Banking and Insurance
- **Chief financial officer** for the State of Florida Department of Financial Services

Source: Sheryl J. Moore, *AnnuitySpecs.com*,
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He also said annuities "often have no long-term guarantee of the interest to be paid." Perhaps Galvin hasn't been instructed that fixed annuities guarantee a minimum interest rate for the entire duration of the contract. This includes indexed annuities.

2. New Jersey's Commissioner of Banking and Insurance, Steven Goldman, issued standards for carriers wishing to file indexed annuities for sale in New Jersey; these standards seem inequitable or incomplete.

Goldman carefully noted in his memo that "the participation rate should not be less than 30%." However, he then said that "if the contract has a cap rate, this rate, net of the threshold rate or margin [spread], should be greater than 0%." For anyone minimally familiar with indexed annuities, that second requirement is a head-scratcher. It means that if the indexed annuity has both a cap and a spread, the difference of the 2 must equal zero. However, what if the product does not have a cap? Alternatively, what if the product does not have a spread? Goldman has not specified a minimum cap or maximum spread for these products.

For this reason, ABC Insurance Company could file an indexed annuity in New Jersey with a minimum participation rate of 30% and no minimum cap. Or, it could file the same product with a minimum par-

ticipation rate and no maximum spread. So, if the market gets bad, ABC Insurance could potentially lower its caps to 2% on one product and raise its spreads to 20% on another product.

3. Alex Sink, chief financial officer for the State of Florida Department of Financial Services, issued an alert characterizing indexed annuities as the bad guys of the annuity market.

She said "some annuities, and especially equity indexed annuities, include a feature known as a market value adjustment." That is misleading. MVAs are just as common in fixed annuities and even on the fixed buckets of variable annuities.

Furthermore, Sink provided a one-sized description of market value adjustment: These "typically function to alter or reduce the cash value of an annuity dependent on changes in the interest rate since the contract's issue." However, MVAs can result in a positive *or* a negative adjustment to the cash value and only when more than the penalty-free amount is withdrawn. Maybe Sink doesn't know that.

Sink employed scare tactics, too. When discussing what she calls "bonus gimmicks," for instance, she warned consumers to "beware of the promise of a 'bonus' used to entice you into investing in an equity indexed annuity." Her most damaging statement warned, "However, bonuses are often illusory, and are seldom paid up-front." But here is a reality check: As of November 2007, 37% of the 335 products on the indexed annuity market feature a bonus. Ten of them are two-tiered annuities that require annuitization to receive the bonus. Another 3 feature a bonus on the guaranteed lifetime withdrawal benefit value; to receive the bonus, the annuitant must take withdrawals for life. The remaining 111 policies feature up-front bonuses.

In sum, state regulators are wise to require ongoing training of annuity producers. This will help ensure that producers know the facts before they speak to the public. But, as the above examples demonstrate, state regulators need some training, too. ■



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