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PRACTICE MANAGEMENT

Annuity-Reluctant Advisors Face Demand

By **MARSHALL ECKBLAD**
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New York -- The long and raging argument over the cost of variable annuities has a new voice weighing in: Investors who want them regardless.

For years, two entrenched camps of financial advisors have disparaged or defended the insurance products, which offer investors the option of converting a pile of assets into a guaranteed stream of income for life, but also richly compensate advisors who sell them.

Lately, however, some advisors who long ago ruled out selling the products have been caught off guard by heavy demand from retiring clients. Moreover, in at least one instance a financial services firm, Raymond James Financial, Inc. (RJF), has required insurance companies to lower the costs of variable annuities in order to appear as agnostic as possible in offering the products.

While annual costs for the products can often total 3% or more -- even after such price cuts -- many clients don't balk at paying high fees in exchange for the promise that their money will not run out.

Such guarantees are typically only available by purchasing the products' optional insurance riders, which the industry refers to as "living benefits." The riders offer a range of benefits, from protection against investment losses to guaranteed minimum withdrawals, income streams and base-line increases in account balance.

Due to popular demand for these riders, "advisors who don't love annuities are being forced to add them to their product lineup," says Carly Maher, director of national accounts at Commonwealth Financial Network.

"Living benefits are attracting a lot of dollars," says Frank O'Connor, product manager of Variable Annuity Database, a service of Morningstar (MORN).

As of the end of the third quarter, sales of variable annuities were up 15% over last year, says O'Connor. He estimates that upwards of 70% of current sales include some type of living benefit rider.

Recession Riders

Against the backdrop of a volatile stock market and rumors of an impending recession, investors are surprising many advisors with their willingness to pay the riders' high fees, which many advisors say they themselves would not pay.

That increasing interest is proving something of a quandary for these annuity-reluctant advisors, since clients can grow frustrated upon learning about the products elsewhere -- be it from friends, or even a competing advisor.

"They're running into situations," says Maher, "where clients are having dinner at the country club" and hear about variable annuities from friends or neighbors who already have one.

Soon after, Maher says, their unsuspecting advisor will get an earful: "Sally next door has a product...where she can't lose money. Why aren't I in something like that?"

One Commonwealth advisor even lost the business of an A-list client who felt slighted at not at least being

offered the option of purchasing a variable annuity.

Client enthusiasm notwithstanding, variable annuities remain arguably the most controversial mainstream financial planning tool available today.

The products, which combine investment and insurance characteristics, have taken lumps in recent years. Consumer groups, the media and even crusading advisors say their expensive fees and enticingly high commissions can leave unwitting investors vulnerable.

As a result, says Scott Stolz, president of Planning Corporation of America, a unit of Raymond James, the industry has "run the risk of having variable annuities trivialized as a financial planning product."

For advisors already reluctant to recommend the products to clients, the compliance landscape can look like a mine field.

The Financial Industry Regulatory Authority has heavily scrutinized sales of variable annuities and paid especially close attention to advisors who've sold VAs to senior citizens; regulators argue that VAs' typically long lockup periods are usually not appropriate for someone approaching their life expectancy.

Making sales more dicey still, variable annuities carry widely varied contracts that are notoriously long and complicated.

"They don't provide our advisors with enough information to decide which features are right for which clients," says Stolz. He says many advisors complain that crucial parts of the contract are buried in small print.

As a result, advisors often worry that living benefits won't end up working the way they explain them. If that happens, and clients then sour on the purchase, they often face severe withdrawal penalties in re-claiming their money.

"That's an A-list client," says Lon Dolber, chief executive of broker-dealer American Portfolios, describing the nightmare scenario. "But the 'A' stands for 'arbitration.'"

When asked about these complaints, a spokeswoman for the National Association of Variable Annuities, an industry group, said its members do not currently have any initiatives to simplify variable annuity contracts, but are instead working with regulators to distill crucial information for each product into a "brief summary prospectus" that uses "clear, concise, plain English."

Filling A Void

"Variable annuities are filling a void that is hard, if not impossible, for other products to fill," Stolz says.

Last year, his firm, Raymond James, handed uniform price caps to each of its 17 annuity suppliers and mandated they pay its advisors commissions of no more than 7% over seven years -- levels more in line with commissions paid by mutual funds.

Variable annuities have drawn fire for not offering commission "break points," or the volume discounts in commission that mutual funds offer.

"Limiting the cost was a step in the right direction," says Stolz.

NAVA's spokeswoman says that while Raymond James is the first firm to have "established commission rates for its annuity providers," the group's member insurers have "heard other firms are looking at it."

With costs and commissions reduced, Raymond James then closely analyzed the living benefits available for each of the VAs that it offers, in order to make them easier for advisors, and clients, to understand.

"If you think about it," he says, "every broker-dealer has stock analysts and a mutual fund research department. Why not do something similar with annuities?"

Four weeks ago, the firm released a short summary document that provides a side-by-side comparison for every living benefit it makes available.

Another firm, **Integrated Financial Group**, has also dissected the VAs it offers.

Nonetheless, says **Don Patrick, the firm's managing director**, clients' worries over running out of money can still defy these traditional cost-benefit analyses.

"We sit behind the scenes and crunch all these numbers in perfect, sanitized scenarios," he says.

"And then we go out and work with real people."

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(Marshall Eckblad writes about business issues facing financial advisors.)

---By Marshall Eckblad, Dow Jones Newswires; 201-938-4306; marshall.eckblad@dowjones.com