

# Immediate annuities, whole life are likely to gain favor

Aging baby boomers will flock to insurance that generates income

By [Darla Mercado](#)

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Sales of immediate annuities and whole-life insurance policies will increase this year as boomers nearing retirement seek reliable income streams that aren't subject to the whims of the market.

“The benefits afforded in the immediate annuity from the cash flow perspective will become that much more attractive,” said Merry Mosbacher, a principal in the insurance marketing unit at Edward D. Jones & Co. LP. “It’s an amount you can count on, and a way to look at necessary expenses and fund them with a predictable income stream.”

Financial advisers are also likely to take advantage of whole-life insurance as they seek a fixed-income alternative for clients that can fare well despite a low-interest-rate environment.

Eric D. Brotman, president of Brotman Financial Group Inc., especially likes “10-pay” whole-life contracts for clients under 45, treating the insurance as a fixed-income alternative. The firm manages \$70 million.

“It’s likely to outperform fixed-income markets for the foreseeable future, and it reduces out-of-pocket costs for term life insurance if you do a conversion [to permanent coverage] or a replacement,” he said.

Last fall, the Guardian Life Insurance Company of America released such a product, which requires that all premiums be paid within 10 years.

Another plus is that while clients are paying more annually for 10-pay whole life versus a traditional whole-life policy, they are paying for a shorter period of time.

The 10-pay policy allows young clients to maintain an investment portfolio that is a little heavier on equities, while stashing money in a tax-free vehicle and providing necessary insurance coverage, Mr. Brotman said.

Analysts point to a change in the mix of insurance products that advisers are recommending and the more widespread use of immediate annuities as an income-producing supplement in a client's portfolio.

“The transition for the insurance industry is having the annuity play that supporting yet critical role of guaranteeing income,” said Lisa Plotnick, associate director of Cerulli Associates Inc.

At the darkest point of the financial crisis in 2008, sales of variable annuities faltered as investors fled to the safety of fixed annuities. After robust sales through the first half of 2009, however, sales of fixed annuities began to slide again. In the third quarter, they were down 21% from the year-earlier period to \$21.9 billion, according to data from Beacon Research Publications Inc.

The trend against fixed annuities is likely to continue.

“It’s hard to believe they’ll sell a lot of fixed annuities unless the market tanks again,” said Scott Stolz, president of Planning Corporation of America, the insurance general agency of Raymond James Financial Inc. “Interest rates are really low, and industrywide, I believe there will be a significant decline in 2010 versus 2009.”

In the world of variable annuities, experts predict a wave of new developments, including hybrid products, new ways to pay for living benefits and an emphasis on reaching out to registered investment advisers.

Also likely to emerge are designs that add aspects of fixed annuities to variable annuities, something similar to The Hartford Financial Services Group Inc.’s Personal Retirement Manager product, which was released in October. That product paired a variable annuity with an income component that can be funded separately.

“You’re combining aspects of a deferred immediate annuity and putting it into a variable annuity wrapper,” Ms. Mosbacher said. “The market will drive similar innovations if advisers start to recommend this product for clients.”

In terms of hybrids, experts expect more insurers to look into pairing qualified long-term-care insurance riders with fixed annuities, due to a provision in the Pension Protection Act of 2006 that will allow tax-free LTC payouts from these combination products.

Frank O’Connor, director of insurance solutions at Morningstar Inc., thinks that more carriers will follow the lead of John Hancock Financial Services Inc. and release simplified, lower-cost variable annuities in an attempt to grab the attention of RIAs and others who don’t often sell the product. The AnnuityNote, released last summer, was John Hancock’s attempt at attracting advisers.

“The pieces are there for that to make sense: The demographics are right; the product serves a need in terms of income and lifestyle protection,” Mr. O’Connor said. “Gaining acceptance with

advisers who historically had a knee-jerk negative reaction to variable annuities is tough, but we'll keep seeing the effort being made by companies to crack that code.”

On the asset management side for variable annuities, experts expect an increase in fund choices that combine passive and active investment styles to cut costs to investors and hedge for market risk.

“Insurance companies got into trouble last year because their hedging was index-based and active managers didn't hew close to it,” Mr. O'Connor said.

Combinations will also ratchet up active managers' control of investments to allow them to capture more gains amid the rising market, Ms. Plotnick said. But insurers will maintain the passive side for protection.

“I believe insurers will want to keep the passive component to offer that additional degree of risk management for them and lower cost for the contract holder,” she said.

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