

# Who Is To Blame For High Annuity Lapse Rates?

By Danny Fisher

Several articles have been written about abnormally high annuity lapse rates. Generally speaking, much of the blame gets placed on agents and their lack of loyalty to insurers.

As an agent who has sold hundreds of millions of annuity premiums in my 26-year career with an array of companies, here are some of my observations on that.

As I see it, there are four key factors to keeping annuity business on the books. They are listed in the chart on this page.

Please note that all four factors are heavily slanted towards new and in-force policies. Once the surrender penalties expire, it's too late to try and correct past errors.

The biggest factor in retention of annuity assets is the interest rate. If clients feel they have received, are receiving, and will continue to receive a fair rate, the majority will leave their money where it is. Conversely, if they feel they've been taken advantage of, they'll move their money at the first opportunity.

For example, if a client purchased an annuity seven years ago and earned 8% the first year and 4.5% since then, that money is going to move and it has nothing to do with the agent. In fact, the original agent is probably the last person in the world that client will do business with and he won't do business with that company again, either.

Why did the insurer drop the rate so low? Two possible answers are:

--The annuity was planned to pay a low renewal rate in order to increase commissions and profit margins. The problem is that neither the agent nor the client knew the plan.

--Another company purchased the original company. The new owner is financing the purchase price by taking a larger profit spread. This is a very common occurrence in today's world.

Another factor in annuity retention is how the insurer treats clients. There are many companies that treat customers with respect and dignity. They make it easy and attractive to do business with them. However, other companies too often treat customers as an adversary with a home office attitude of: "The money belongs to us, not the client."

When a client wants to take a little money out of his or her account, the insurer has the opportunity to make a friend out of that customer. But, the money-is-ours companies often try to throw up as many roadblocks as possible. In the process, those companies make mortal enemies out of their clients.

These insurers tend to forget that just because a client takes money out today doesn't mean they won't put more money in tomorrow.

Insurance companies should make it easy to do business with them, just as other financial institutions do. With money in a bank, clients can simply write a check, make an ATM withdrawal, or go to the bank and get the money--all without any questions from the banker. Compare that to trying to take money out of an insurer.

Another retention factor often bandied about is loyalty. Loyalty is a two-way street. From my viewpoint, the companies who scream loyalty the loudest are the ones who give it the least.

I've seen companies drop renewal rates, stop selling consumer-oriented annuities, and start selling high commission annuities with larger profit margins. Virtually every annuity advertised in trade journals show a commission higher than the rate paid to clients. That is shortsighted marketing.

With some internal exchange programs, insurers cut agents out altogether, even telling clients they are trying to sell annuities direct so they don't have to pay commissions to agents. Yet the deals I've seen are often worse than what can be found on the street.

As a result, professional agents are driven from those companies and stripped of their ability to service their clients.

Further, when companies sell annuities through "commission hounds," the practice eventually catches up to them. Many of these companies end up going into net redemption. Then, when the companies wake up and want to do more business with truly professional agents, it's often too late.

One last bone to pick: I've also noticed that the companies paying exorbitant compensation to executives often credit the lowest interest rates to clients. I've never met a home office employee that I think is worth more than a million dollars a year and yet it seems there are thousands of them.

In economics, there's no such thing as a free lunch. Too often, the client is the one picking up the tab.

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