



FUND INTELLIGENCE

A not so SECURE future for annuities growth?

Fund groups, insurers forge ahead with expansion plans, sales strategies as US retirement reform package stalls

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The annuity landscape has hit a relative plateau in recent years, leaving the asset managers seeking new distribution avenues in a similar holding pattern. Top providers have not faced many challenges from outside players, and market share wins are hard to come by even at the highest ranks, according to industry executives.

Despite insurance providers marking their highest annuity revenues in nearly a decade — with \$62.1bn of sales in the fourth quarter of 2018, according to **Limra** — some executives say there is still more ground to be gained if the regulatory environment were opened slightly by the Setting Every Community Up for Retirement Enhancement Act of 2019.

But with the US retirement reforms package now stalled for six months and counting, the state of play in the defined contribution realm remains uncertain.

What's at stake

The so-called SECURE Act was expected to breeze through the Senate after it passed the House of Representatives in May by a margin of 417-3, with 12 non-votes.

Like growth in the annuity industry, the bill has been stagnant since then. Three senators put the brakes on the SECURE Act — **Ted Cruz**, **Mike Lee** and **Pat Toomey** — over a range of concerns.

Cruz, a Republican from Texas, was the first to stall the vote because of provisions relating to 529 college savings plans. Lee, a fellow Republican from Utah, stacked Cruz's concerns with his own for provisions providing relief to small community newspapers. Toomey, a Republican from Pennsylvania, has focused his dismay with the SECURE Act on technical tax corrections affecting retailers.

Collectively, the trio kept the bill from avoiding a formal debate and vote on the Senate floor, subsequently landing on the desk of President **Donald Trump** and introducing the first major reform to the national retirement space since the Pension Protection Act of 2006, or PPA.

If instituted in its current state, the SECURE Act would open coverage opportunities for asset managers, annuity providers and most importantly, according to the **Insured Retirement Institute**, American participants.

For the fund industry, provisions regarding open multi-employer plans, or MEPs, and converting workplace savings into retirement income stand to make the largest impact.

When the PPA passed 13 years ago, it boosted retirement savings by allowing for increased auto-enrollment, auto-escalation and automatic investments into target-date funds, **Melissa Kahn**, managing director of retirement policy at **State Street Global Advisors**, explained. The MEP provisions in the SECURE Act would allow for firms to access smaller employers and participants previously unserved by 401(k) plans and retirement products in general by giving small companies the scaling and collective power of a larger business.

Greg Porteous, head of defined contribution intermediary sales at SSGA, said the MEPs opportunity alone is a game-changer for the industry, providing a means to getting down-market without having to install a vastly different set of capabilities to service the collective plans.

For annuity providers, a separate provision has the potential to generate an uptick in growth where results have been flat to mixed on a 10-year basis, according to **Dylan Huang**, senior vice president and head of retail annuities at **New York Life**.

He and other annuity-focused executives from firms like **TIAA**, **Prudential Financial** and **Nationwide** agreed that passage of the SECURE Act will not result in a sales avalanche, but if executed on properly, can help providers tap into a new subset of participants.

“This is not **Field of Dreams**. If you build it, they will not come,” Huang said. “You have to build it. You have to educate them. You have to talk about how it fits within their portfolio, how it affects what they’re trying to accomplish.”

Risks and rewards

For asset managers and mutual fund providers, variable annuities stand to make a greater impact on sales opportunities than their fixed counterparts, though both would be able to carve out space in standard retirement menus if the SECURE Act were to pass. The key difference between the vehicles, beyond their guaranteed returns, is how the money invested into them grows.

Fixed annuities, as the name implies, track a fixed interest rate and deliver risk-free returns over time. Variable annuities are higher-risk vehicles because of how the structure is designed to invest, typically using a mix of stocks, bonds, money market and mutual funds for the possibility of generating higher returns than their fixed interest rate counterparts.

In recent years, **Jackson National** has been one of the leading players in the variable annuity space in terms of annual sales and performance. **Alison Reed**, executive vice president of operations at **Jackson National Life Distributors**, said a key driver of the firm’s success has been its ability to adapt and shift focus in volatile performance and regulatory environments.

Reed said the firm’s product platform has freedom and flexibility in its investment and benefit options, allowing more advisers to access and evaluate what is ultimately landing in Jackson’s variable annuity offerings and weathering long-term headwinds.

“We don’t offer what would be called a ‘one-size-fits-all benefit’ for advisers and consumers to select, we offer a variety of living benefits and investment options,” Reed said. Customization within the product allowing for increased participant value is key to finding success in the variable annuity space, she said, noting that not every investor wants a traditional asset allocation model or the same blend of active and passive funds in their mix.

Pending any changes to the regulations surrounding retirement plans, Reed said Jackson has been building out its fixed and fixed indexed annuity offerings. Should the current interest rate environment and stalled legislation persist, she said the fixed vehicles will have a stronger value proposition to advisers and participants across the industry.

Donnie Ethier, senior director at **Cerulli Associates**, said larger asset managers in particular have a chance to build custom indices for fixed and newer annuity product structures, often referred to as structured or buffered annuities.

For boutique shops, he pointed to investment-only variable annuities, which offer the tax-advantaged accumulation possibilities of traditional variable annuities without additional insurance riders.

What next?

Movement on the SECURE Act has been slow despite weekly prodding from lobbyist groups and endorsers of the deal with several letters urging the Senate to show the bill has a sign of life raining down over the past 6 months.

On Nov. 11, 91 heads of industry groups and firms signed a letter addressed to Senate Majority Leader **Mitch McConnell** and Minority Leader **Chuck Schumer** arguing for Senate passage after the resounding bipartisan support the SECURE Act garnered in the House.

Signatures on the letter included **Mark Pearson**, president and CEO of **AXA Equitable**, **Ted Mathas**, chairman of the board and CEO of New York Life and **Wayne Chopus**, president and CEO of the Insured Retirement Institute among other industry notables.

The IRI also issued its own commentary on the bill after the Senate failed to advance the bill during the previous week. In its current state, there is no visible sign that the bill will appear on the Senate floor anytime soon.

Any impending changes to improve the retirement space for firms and participants, including open MEPs and annuity opportunities, will sit stalled alongside the SECURE Act that was once all but certain to receive unanimous backing.

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