

## **SPECIAL REPORT:**

### ***5 Vital Steps Every Agent Selling Indexed Annuities Must Follow***



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## ***INTRODUCTION.***

Your decision to read this report is a good one. Unfortunately, many of your fellow agents will not and you will very likely see them embroiled in an administrative hearing or other litigation regarding an indexed annuity sale. Sad but true.

There is an analogy I have used before and still believe fits: the equity indexed annuity is the Frankenstein monster of the insurance industry. You know the story by Mary Shelley, right? The brilliant but ethically-challenged Dr. Frankenstein dreamt of immortality for the human race and attempted it through the piecing together and re-animation of a dead man. Similarly, in the early 1990's the faltering insurance industry dreamt of reviving their fixed annuity sales with a creation whose interest was pegged to then then-booming stock market. Pure genius.

However, neither Dr. Frankenstein nor the insurance industry appears to have given much thought as to what would happen after their initial goal of implementation was achieved. In both the fictional and real stories, the creations quickly became uncontrollable and were hunted down by torch-and-pitchfork wielding villagers (although thankfully in real life this was accomplished only with the NASD Notice to Members 05-50 and much negative press).

It is a tragedy that the insurance industry teaches agents closing techniques to sell indexed annuities, entices agents with various rewards to keep selling them, and encourages agents to sell to the same demographic of older Americans – all without giving agents any real education about the product or proper steps they can take to protect themselves from investigation and litigation.

Since 2001, my company's software programs and training have been helping agents to properly place millions of dollars in equity indexed annuities. There exist five simple steps that every agent selling indexed annuities must begin to follow – now – or risk the consequences.

## ***YOUR CHALLENGE.***

I really hope that because you are reading this, you are someone who likes people and wants to help them achieve their personal financial goals. If you are selling annuities purely for the money, and a customer is just a commission, then please do the industry a favor and go sell cars or electronics – something that people are not counting on to financially support them in their most vulnerable years. None of my five steps will protect you, if you are not interested in putting the client first - always.

It will be your challenge as you read the rest of this report to carefully consider each step, and begin to implement them today. Yes, today! If you do not, as much as you may want to help people reach a happy retirement, you will not be able to do so when your reputation is ruined or you lose your license. “Be Prepared” is a motto not limited to Boy Scouts.

## ***THE SOLUTION.***

Think for a moment: How much time did you spend selecting an indexed annuity for your last sale? Did your client know why you made the choice? Did you explain to the client the different crediting methods options (if any) available? Did you write down why the decisions were made – or why an indexed annuity was used in the first place? Did you keep a copy of everything?

If this is making you sweat a bit – good. Your state’s insurance department is very likely going to revisit the whole arena of indexed annuity products and sales practices THIS YEAR. Experts in the insurance and securities industries are saying that increased scrutiny is certain and increased regulation is likely. So be prepared. The 5 crucial steps agents must follow are:

1. Pre-Screening
2. Compare Products
3. Income Needs
4. The Big Picture
5. C.Y.A. Documentation

## STEP 1. Pre-Screening.

You may be surprised to find that I am referring to screening your client, not screening indexed annuity products. While you may think you know about annuity “suitability”, how well are you documenting it? Most insurance companies require only the most minimal assessment, leaving the annuity suitability subjective and entirely on the agent’s head.

In December of last year, the California Insurance Department (CID) published a paper that recommended detailed fact finding, more akin to Variable Annuity suitability questionnaires. I agree whole-heartedly that current NAIC requirements are inadequate, and leave even well-intentioned agents vulnerable.

At every sale, agents should “interview” their client to uncover potential pitfalls with an annuity sale, and determine:

- Age. In most cases, sales to persons over the age of 65 can be a “red flag” – especially if you frequently sell to persons over age 75. Be sure to *document* the full extent of the annuity’s benefits to your client.
- Previous investment experience. More complex annuities may not be suitable for persons with no or limited investment experience. Ask them to seek independent financial advice – or at least consult with a trusted family member - and *document* that you made this request. Also, having too many existing deferred annuities could be a “red flag” to new sales.
- Goal(s) for this investment. This more than anything will determine whether an immediate or deferred annuity is appropriate, and how much is appropriate to allocate. Their “time horizon” (anticipated date of needing these assets) should also be discussed. Are there any pending needs for large sums, such as college tuition, a wedding, or a new roof?
- Tax Status. Don’t overlook asking about dependents as well as their tax bracket, to determine if a deferred annuity is beneficial.
- Employment Status. Determine if their job outlook is stable, as well as if employer-sponsored plans are being contributed to. Is employment (or a pension) their primary source of income?

- Income Status. Find out if their current income needs being met. How are they meeting their living expenses now? Do they have an “emergency fund” available?
- Risk Status. If they do not currently have long term care insurance, disability or health insurance, you need to know. You should discuss these as an option, and *document* that you did so. Also be sure to inquire about any existent or recent health problems that may require significant resources for treatment or care. Survivor needs (life insurance) also should be addressed: are there any business debts or funeral expenses to be considered?
- Source of funds. Determine where the premium will be coming from. If from a transfer or surrender, be sure to *document why and how* your recommendation improves their situation or better meets their goals.

While many agents will balk initially at the thought of having to ask specific questions about income and assets, most can agree that the more they know about a client (or prospect), the better they can recommend the correct product and avoid becoming party to any investigation later. You can build client trust, uncover client needs, and protect your career all at the same time!



**Stop, grab a piece of paper and a pen and *write down (right now)* your own “suitability” questions. Make copies, and take it with you on every appointment.**

## **STEP 2. Compare Products.**

More than any other step, this one is the easiest to follow and goes a long way toward proving that you placed the client’s needs first. If you are licensed through an independent marketing organization, ask them to provide a spreadsheet or matrix of potentially appropriate equity indexed annuity products. You should be evaluating company financial strength, contract surrender periods, credit method rates, liquidity features, and other features like bonuses. (Even if you choose not to show the client the variety of products you reviewed, you *must* keep a copy of the matrix in their file, to document your product research.)

Since the EIA’s returns are dependent on their credit method, the credit method selected is extremely important. Since few agents are also familiar with stock market performance and call-

option strategies, your next step is to take your list of products in hand and turn to a software tool to discover the method that is the best match for your client and their goals.

While there are several hypothetical “calculators” available, only one will let you see simultaneously how a particular EIA credit method would perform over a poor market, a strong market, and the last ten years. The EIA Credit Method Ratings Service uses an easy to understand “grade” system of “A” through “F” for simplifying your product selection. Available from MCP Premium Software, this unique tool emphasizes not just hypothetical rates of return but *how consistently* the returns occur. It also gives you the ability to choose only “top-graded” indexed annuity products for your client – a head start in your selection process.

If you – or your client – is especially sensitive to avoiding years of “zero” returns or you’d just like to make intelligent credit method recommendations, this program will be invaluable.



**Stop and think about your current EIA credit method selection process. If you don’t have access to a software program to help you, get one. Immediately.**

### **STEP 3. Income Needs.**

An indexed annuity is still a deferred annuity, and is designed to become an income stream at some future point. Since you already asked the “suitability” questions above, you have a really good idea of what your client *needs*, and what they *want*. Note that these will probably not be the same thing.

While it may be tempting to just want to make the sale, to make the client happy for the moment, your job is actually to make sure they have what they need. Feelings change more frequently than needs do. Feelings are subjective: needs are factual. If you have not taken care of their need, as soon as your client is feeling “unhappy” about a feature or term or an annual statement, you will be in their dog house.

As you know, the indexed annuity has the potential to be a better product for providing income

than other fixed annuities, because of the way the interest credited is pegged to the stock market instead of U.S. Treasury Bill rates or Bond rates.

The biggest mistake made when projecting income needs is the use of “average rates of return” in the calculations. This is especially true with the indexed annuity. First reason, it is very rare for the credit method rates (cap, participation, etc.) to be guaranteed over the entire term. Secondly, each crediting method has its own unique way of calculating and applying interest to the contract value. For instance, you may feel you are conservatively assuming a 5% annual interest in your calculations. BUT if you selected the wrong crediting method, your client account may not see anything higher than 3%. For deferred growth (where you intend to annuitize in the future) making the most interest is important. But if you intend to take withdrawals, earning the highest rate of interest possible is *imperative*. Years of “Zero” interest means principal is likely to erode.

Some will attempt the use of annuity “ladders” or “buckets” to meet income needs, but if all the growth assumptions (for future values to annuitized or draw from) are based on assumed average rates of returns, you still have not addressed the real issues raised above.

So what is the better way? Monte Carlo simulations. A Monte Carlo simulation lets you project future account values by varying (“randomizing”) the interest earned for each year in the scenario. This simulates what the annuity contract will actually experience, fluctuating with the stock market. It will also show you if your chosen credit method will meet your expectations or fail miserably. Monte Carlo simulations also are a purely mathematical, statistical exercise, so you will be able to show your income plan’s percentage of success with confidence. Our module “ImmStudy” combines the concept of buckets with Monte Carlo analysis.

Monte Carlo simulations have been used for many years in financial planning software, especially with the securities industry. The NASD even approved its use with clients in February of 2005.



**Stop, open your internet browser and do a Search on “Monte Carlo simulation”. Consider how your clients could benefit from more thorough growth projections.**

## **STEP 4. The Big Picture.**

This is all about disclosure (yours) and expectations (your client's). Since you already interviewed your client with your questionnaire, you have determined if an indexed annuity is a good match for them – if it is appropriate and suitable. This step can be a part of the second appointment with the client. You will present your product recommendations, and walk through the nuances of each.

### **You MUST be certain to cover ALL of these topics:**

- What type the “annuity contract” is (deferred or immediate, and what that means)
- That an annuity is a long-term investment available only through insurance agents
- That as an insurance agent, the insurance company compensates you
- Annuity terms, surrenders, minimum guarantees, and market value adjustments (if any)
- The impact of surrender charges in an annuity versus a CD (annuity surrender charges are taken from principal, while CD surrender charges are taken from earned interest)
- How the indexed annuity earns interest (how the crediting method works)
- What portions of the credit method can change, and what are the minimum rates
- How different methods can perform, and why you have selected a particular one
- Comparison of credit method performance to a fixed interest rate and/or a stock index
- That years of “zero” returns can occur, and how often with a particular credit method
- How a credit method can be expected to work in a poor market (bear), a very good market (bull), as well as over recent times.

For portions of this disclosure you will need materials from the insurance company, while others will require a good third-party software program for crediting method hypothetical reports.

Setting proper client expectations is what will keep you out of the dog house – and out of administrative hearings. If you have *told* them what they are buying and have *shown* them how it is likely to work out over time, your chances of having problems drop to nearly zero.



**Stop and think about your indexed annuity presentations. Are you giving clients a *balanced* look at how a method performs? Are you minimizing ‘Zero’ years, by choosing the better credit methods? If not, you need to find software – NOW.**

## **STEP 5. C.Y.A. Documentation.**

I'm sure you were wondering: "C.Y.A." stands for "Copy Your Applications". You would be surprised how many agents overlook this basic step. I have repeatedly encouraged you to *document* every step in your annuity sale. This means make – and keep – a copy of EVERYTHING you show a client or have them sign. One agent I know said they tape record every "signing" meeting while he covers all the pertinent information and has the client verbalize their understanding. I think that is going a bit too far, but the fact is that no matter how thorough and careful you are "buyer's remorse" (or worse) will occur at least once in your career with annuity sales.

It does take a small investment of your time to make copies and file them away, but like any good preventative measure, when you need it – *really* need it – the time spent will seem miniscule.

- Keep a copy of your **client pre-screening notes** (handwritten is okay)
- Keep a copy of your **research and comparisons of different IA's**
- Keep a copy of **company materials or brochures** used
- Keep a copy of your **credit method analysis**
- Keep a copy of your **income presentations or hypothetical growth scenarios**
- Keep a copy of the **application** and any "Statements of Understanding" or transfer forms
- Keep a copy of the check used for the **initial premium deposit**
- Keep notes on **anything else pertinent** – where you met, how many meetings you had together, who was with them, whether or not they were interested in speaking to a financial advisor – everything!

Don't feel overwhelmed if you haven't been doing this. Simply start with your current prospect or next client meeting. It's important to make it a habit, and starting is the first step.

Then, when things are slow, start going back over your sales. Pull out a commission statement if you need to refresh your memory. Get a note pad and start a new page for each sale. Write down everything you remember.

If you want to really get into it – and impress your client in the process – write a simple letter thanking them again for doing business with you, and oh by the way, you wanted to reiterate all the benefits of the annuity they purchased. You can even attach one or two of the reports from the new software you bought.



**Stop and look around your office. Are there enough file folders, labels, and file cabinets? Do you have your own copy machine or a scanner? If not, RUN to your nearest office supply store. Start protecting yourself NOW. (It's tax deductible, too.)**

### ***FINAL THOUGHTS.***

Maybe you hate software. Or you're always in a hurry. Or all your clients want you to "keep it simple" and you believe software will complicate things. Or you're just on a tight budget. NONE of these are good excuses (and you'll kick yourself when facing a formal inquiry), if you haven't followed the five steps above. This INCLUDES getting yourself some software. You don't have to choose my company, but MCP Premium does offer several different programs:

- **EIA Credit Method Rating Service;** \$9.95 per month (internet tool)
- **EIAAnalyst2007-Lite** hypotheticals, \$50 per quarter (internet tool)
- **Income Planning Suite;** two types of EIA income plans, \$70 per quarter (internet tool)
- **MCP Suite 2007 Basic;** all of the above and more, \$450 per year (Windows software)

***Learn more!*** Register for a Live Demo Webinar or view sample reports at the MCP Premium website, [www.mcppremium.com](http://www.mcppremium.com)

### ***About the Author.***

Dorice Maynard has been active in the insurance and financial services industry since 1991. As assistant to a top annuity producer, she learned first-hand about product selection, preparing for appointments and meeting client needs. Dorice has weathered several inquiries by regulatory divisions, and so knows personally the value of selling only suitable products, keeping good records, and being able to demonstrate to *anyone* how the client's needs were placed first.

Now solely focused on helping other agents and consumers make good EIA choices, Dorice currently writes articles for an indexed-annuity Blog ([www.mcppremium.blogspot.com](http://www.mcppremium.blogspot.com)) and is in charge of customer service and sales for MCP Premium Software.

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