MARKETS

Steak Dinner and Annuities: Retirement Product Surges After Fiduciary Rule's Demise

Annuity sales were $59.5 billion from April to June, the highest since late 2015

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A retirement investment product associated with steak-dinner sales pitches is flourishing thanks to the death of a regulation once expected to curtail it.

Annuity sales totaled $59.5 billion in the April-to-June period, the highest since late 2015, according to the Limra Secure Retirement Institute. Sales are expected to remain strong through at least the rest of the year.

The boom shows how Washington's push to roll back financial regulations is giving new life to products that industry watchdogs say aren't always good for investors. The annuities resurrection stems from the demise of the Labor Department's fiduciary rule, an Obama-era proposal that would have required brokers who oversee retirement savings to act in their clients' best interests.

Annuities protect customers from losing principal, and they are typically sold to retirees or those close to retirement. Customers pay a lump sum to an insurance company, then can effectively get back their money plus a potential return for a set number of years or their lifetime in regular payments. In some cases, buyers can win if they live longer than expected but lose if they don't. They can also pay hefty penalties if they withdraw money early.

Lawmakers have panned the product's high commissions, and Sen. Elizabeth Warren (D., Mass.) has criticized the prizes given to sales agents, like expensive vacations. The estimated average commission received by agents selling certain types of annuities is more than 6%, according to Wink Inc., an industry market-research firm. In those cases, if a customer buys an annuity for $150,000, the agent would make around $9,000 in commission.

Eloise Prevost of Peoria, Ariz., invested much of her savings in annuities several years ago, after getting a flier in the mail for dinner at a nice local restaurant with an annuity salesman. With the financial crisis on her mind, she liked the idea of not losing principal. The salesman sent her chocolates and invited her to holiday and Valentine's Day parties.

"He was offering a meal," Ms. Prevost said, "and I thought, 'Knowledge is power.'"

Eloise Prevost, a 65-year-old retiree, now has a new investment portfolio that includes several annuities. PHOTO: CAITLIN O'HARA FOR THE WALL STREET JOURNAL

But Ms. Prevost, a 65-year-old retired tour-bus driver, recently attended a dinner with another salesman and decided to switch. At his encouragement, she paid steep penalties to withdraw her money and invest in a new portfolio that included, among other things, several annuities.

Both advisers have blemishes on their record, according to the Financial Industry Regulatory Authority's BrokerCheck records. One was banned for 10 years from securities sales in Canada; the other has multiple customer complaints concerning annuity and life insurance recommendations, as well as criminal charges.

Ms. Prevost said she deems her current adviser's blemishes less worrisome, as some of them were personal in nature and not relating to his job.

Some types of annuities can be big moneymakers for the industry. Insurance companies get a bundle of cash to invest for profit, and extra revenue from withdrawal fines or fees for add-ons. Sales agents typically get commissions from the insurance companies.

The fiduciary rule wouldn't have prevented all unscrupulous sales practices. But it could have forced brokers to be more transparent about their commissions and constrained them from putting customers in high-fee annuities if similar low-fee products were available.

Executives and brokers have cheered the reversal of the fiduciary rule, and analysts say it has already been a boon to the industry.

"Our regulatory environment has really changed," said Todd Giesing, director of annuity research at Limra, which is funded by the insurance industry. "It takes away a lot of uncertainty."

The annuities job market is also booming. The number of posts on Indeed.com targeting annuity specialists climbed 29% in the six months after the fiduciary rule was thrown out in March versus the same period a year earlier, according to data from the nation's biggest online job board.

But consumer protections remain in flux. Companies involved with annuities say they welcome a potential alternative regulation from the Securities and Exchange Commission, but it wouldn't go into effect for several years and would likely be less restrictive than the fiduciary rule. States have historically regulated insurance sales, and some have recently moved to tighten standards on brokers and insurance sellers.

Investor advocates and attorneys say annuity sales practices are as aggressive as ever. "The door has opened for bad brokers to have more free rein with these things," said Michael Lynch, an attorney in Winter Park, Fla.

Sen. Elizabeth Warren has criticized the prizes given to annuity sales agents, such as expensive vacations. PHOTO: ELISE AMENDOLA/ASSOCIATED PRESS

Rising interest rates are also driving some annuity sales. Fixed annuities, which pay out regular interest, had their largest volume of sales in more than two years in the second quarter.

Indexed annuities, whose returns are tied to a benchmark like the S&P 500, had record sales. Variable annuities, whose returns are based on the performance of an investment, have also been up.

The gains are trickling through the financial system. Athene Holding Ltd. , a big provider of annuities often sold through independent agents and brokers, said retail annuity revenue climbed 25% in its second quarter from a year earlier. At LPL Financial, one of the nation's largest networks of independent brokers, commission revenue from both fixed and variable annuities rose 17%. Brokers at LPL and other firms earn commissions on annuities they sell from companies like Athene.

Annuities carry tax advantages, and some customers prefer a guaranteed payment over the big gains—and losses—of other investments. But they often don't know the right questions to ask about what they're buying.

Jen Winterberg, 38, of Bismarck, N.D., went to a dinner seminar this summer at the suggestion of her father. Before the chicken and steak entrees arrived, she and the other attendees, most of whom were near retirement age, listened to a 40-minute presentation about indexed annuities.

She said that when she later tried to get the salesman to answer questions via email, he refused to do so unless she made an appointment to come to his office. A series of tense exchanges followed, and she decided against investing.

"I felt bullied personally into doing something that I wasn't ready to do," Ms. Winterberg said.

Her father still works with the adviser and holds the type of indexed annuity she was pitched, she said.

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