ThinkAdvisor

Advisor Questions Some High Annuity Return Projections

Agents who show clients high, stock-market-linked returns should have a securities license, Anil Vazirani says.

By Allison Bell | May 21, 2018

Anil Vazirani, a financial advisor who regularly sells indexed annuities, says some life insurers should be more conservative when they tell consumers about possible returns from indexed annuities that aren't filed as securities.

Anil Vazirani (Photo: AV)

If an issuer wants to show a consumer that an annuity can earn 10% annually, with no risk, the issuer should file that annuity as a security, and an advisor who tells a consumer about the annuity should have a security license, Vazirani said last week in an email interview..

"This is a major consumer protection issue," Vazirani said.

Actuarial Guideline 49 (https://www.thinkadvisor.com/2015/10/05/naifa-speaker-naics-ag-49-is-bad-news-for-indexed/) now limits the kinds of returns agents can include in life insurance performance illustrations.

Regulators may need to develop similar rules for annuity return projections, Vazirani said.

The History

An indexed annuity offers a fixed rate of return that's backed by a state-regulated insurance company. A feature linked to the performance of a stock index, bond index or other investment index can increase the total crediting rate but never reduce the crediting rate below the guaranteed level.

The U.S. Securities and Exchange Commission regulates variable annuities as securities.

In 2009, the SEC classified indexed annuities as securities (https://www.thinkadvisor.com/2010/08/05/rule-151a-is-over-now-what/). Congress blocked that SEC move in 2010, by passing a bill that exempted state-regulated fixed indexed annuities from SEC oversight.

Today, issuers choose to register some indexed annuities with the SEC, but most indexed annuities are not registered with the SEC.

High Hypothetical Returns

Vazirani is the president of Secured Financial Solutions LLC, a Scottsdale, Arizona-based financial planning firm. He has both a Series 65 securities license and a life insurance license. He has argued for years that most financial advisors should have both a life insurance license and a securities license.

(Related: It Takes Two: The Dual-Licensed Advisor** (https://www.thinkadvisor.com/2014/01/02/it-takes-two-the-dual-licensed-advisor-2/)**)

In May 2017, he told the U.S. Department of Labor that he thinks some organizations have designed complex, proprietary indexed annuities to be too much like non-SEC-registered versions of variable annuities.

Vazirani is now trying to persuade the SEC to give more attention to the issue of what he believes to be problems with the hypothetical returns used in marketing efforts for some indexed annuities.

Originally, Vazirani said in the email interview, most indexed annuity issuers linked the contract crediting rates to the performance of established, well-known investment indices, such as the S&P 500 stock index.

Today, he said, some issuers are using relatively new indices with no track record.

A handful of companies are showing consumers high hypothetical returns linked to the performance of the new indices, he said.

"Insurance products are not meant to compete with the stock market and other growth vehicles," Vazirani said. "Being able to show hypothetical [annuity] returns of 9% to 10% annually is setting the wrong expectations for the client."

If an advisor fills holes in a client's retirement plan with high hypothetical returns from an indexed annuity, that advisor is adding uncertainty to the client's retirement plan, Vazirani said.

Regulators should limit the amount of hypothetical annuity growth that an agent can show a client, Vazirani said.

Agents should understand that, if they talk about the future performance of an exotic investment index without a securities license, they are giving investment advice without an investment license, Vazirani said.

If agents have securities licenses, then regulators can hold the agents accountable for what they say about future annuity returns, Vazirani said.

— Read Converting Leads Into Clients (https://www.thinkadvisor.com/2008/04/10/converting-leads-into-clients-2/) ***on ThinkAdvisor.***

— Connect with ThinkAdvisor Life/Health on Facebook (https://www.facebook.com/ThinkAdvisorLifeHealth) ***and Twitter*** (https://twitter.com/Think_Allison).