



Insured Retirement Institute

IRI and Cerulli Associates

2010 Annuity Distribution Survey

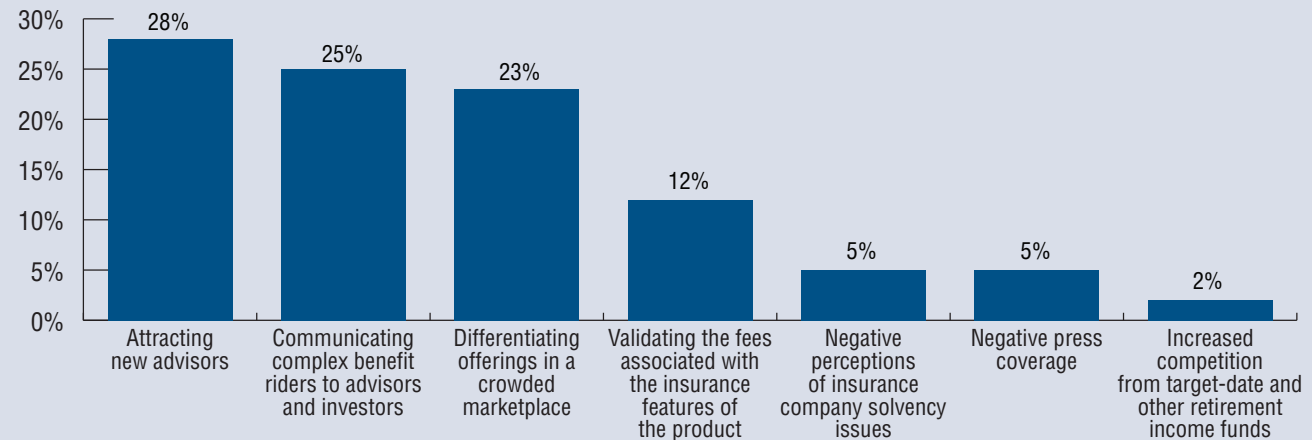
Key Findings

January 2011

For more information on
*The Cerulli Report—
Variable Annuity
Distribution Opportunities:
Broadening Appeal and
Attracting New Advisors
2010*, please contact:

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Exhibit 1: Greatest Challenge in Marketing Variable Annuities, 2010

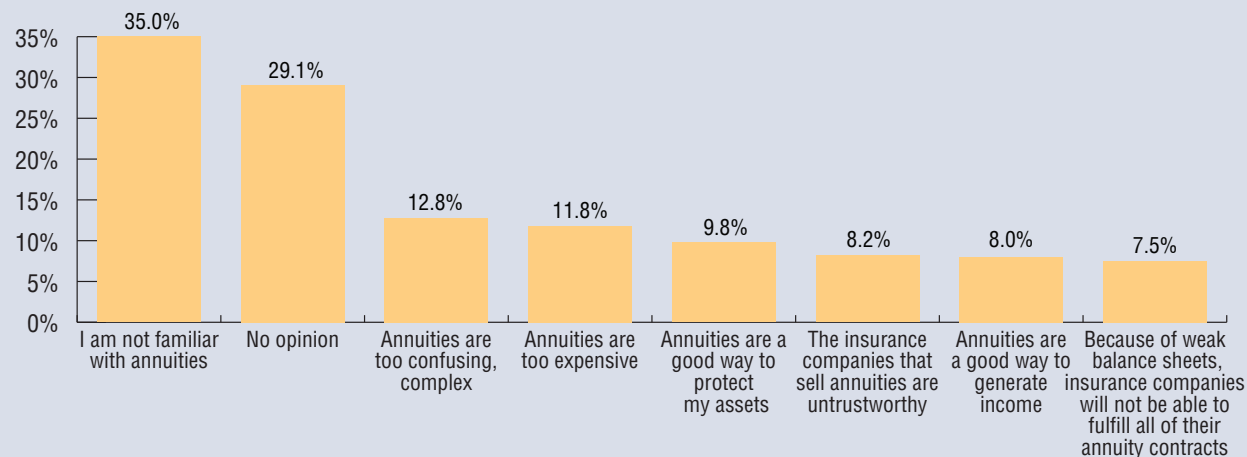


Source: Cerulli Associates in partnership with IRI

The greatest challenge in marketing variable annuities is attracting new advisors at 28%.

Key Implication: Attracting new advisors to the business must be a top priority because without these new advisors, sales in the annuity industry will remain stagnant. Communicating complex benefit riders to advisors and investors is the second greatest challenge. Many new advisors do not have the incremental learning benefit of having tracked changes to these products. Annuities have evolved and product features have changed greatly over the years and without having followed that change, it will make it difficult to understand the many features to the product.

Exhibit 2: Household Opinion of Annuities, 2009

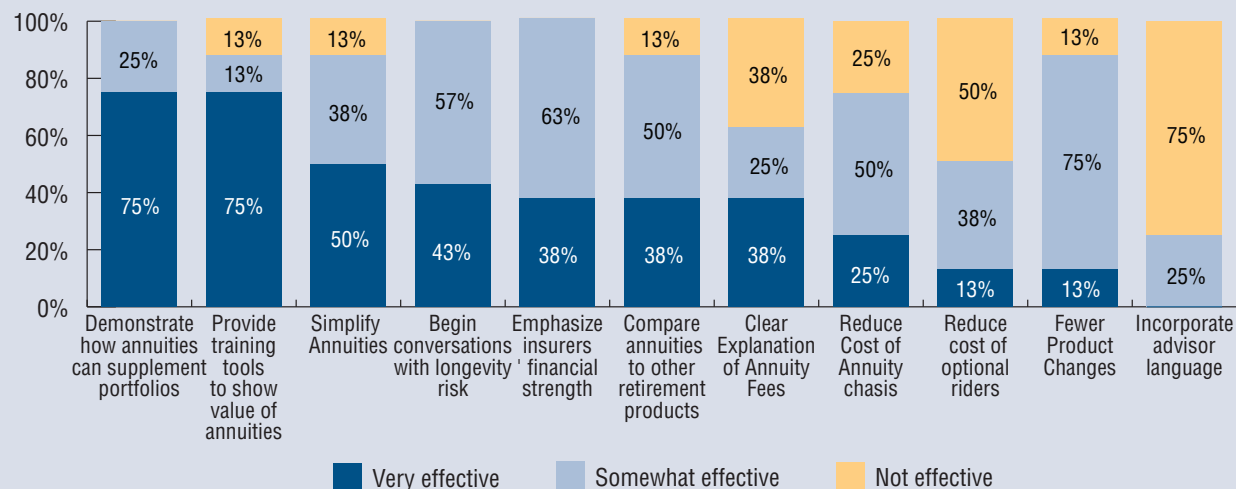


Sources: Cerulli Associates, Phoenix Marketing International

Consumers are mostly unfamiliar (35%) with or have no opinion (29.1%) of annuities.

Key Implication: While it may be difficult to explain the features of an annuity, this unfamiliarity presents an opportunity for annuity companies to educate investors of the benefits that an annuity can provide for them. Of the consumers that do have an opinion, 12.8% find that annuities are too complex and 11.8% find that annuities are too expensive. These negative feelings may be more difficult to change, however most of these negative feelings could be slightly appeased with continued education. Instead of competing over product features that are not understood, insurers could educate investors to make informed decisions to better their financial future.

Exhibit 3: Effectiveness of Strategies Insurers Use to Gain Interest of Advisors New to Annuity Business, 2010



Source: Cerulli Associates in partnership with IRI

Demonstrating how annuities can supplement portfolios, and providing training tools to show the value of annuities are the top two ways in which to attract new advisors to the annuity business. Incorporating advisor language is not very effective to gaining the interest of new advisors.

Key Implication: In order to gain interest of new advisors and attract them to the annuity business the most effective way to do so would be to demonstrate how annuities can supplement portfolios. In addition, providing training tools to show the value of annuities is also a effective way of attracting new advisors. The practices of the best advisors in the industry are moving away from annuities traditional positioning. Demonstrating how an annuity can create a better client outcome, rather than pitching a new feature or benefit will help to broaden the appeal of variable annuities.



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Exhibit 4: Factors Impacting the Decision to Place Client Assets into an Annuity by Channel, 2010

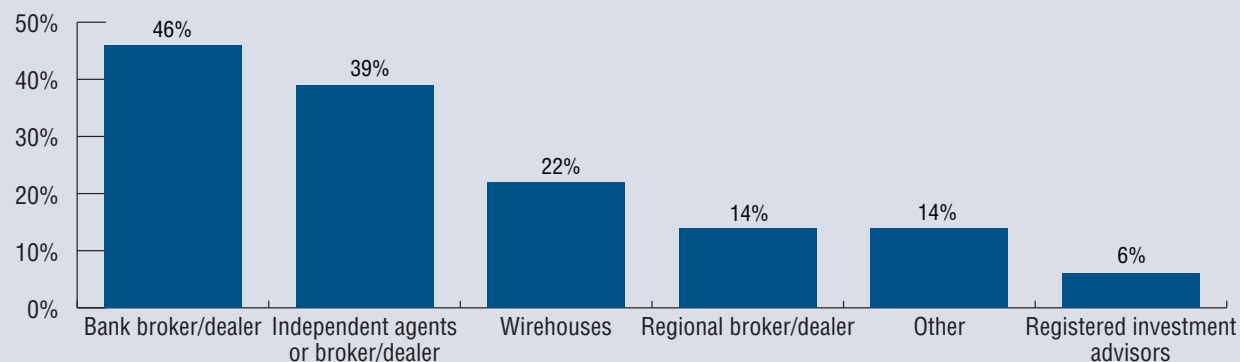
	Wirehouse	Regional	IBD/Insurance	Dually Registered	RIA	All Advisors
Retirement Income	70%	64%	75%	86%	47%	67%
Principal protection	61%	57%	63%	68%	41%	58%
Tax deferral	30%	43%	43%	41%	27%	37%
Portfolio diversification	32%	43%	40%	50%	18%	35%
Client request	13%	7%	22%	45%	24%	23%
Growth	17%	14%	27%	23%	10%	20%
Other	0%	0%	0%	14%	26%	13%
Advisor Compensation	9%	0%	2%	5%	5%	4%

Sources: Cerulli Associates, in partnerships with the College for Financial Planning, the Financial Planning Association, the Investment Management Consultants Association, Morningstar, and Advisor Perspectives

The primary factor for all advisors when deciding to place client assets into an annuity is retirement income.

Key Implication: Retirement income is of greatest importance for advisors in the dually registered and IBD/Insurance channels at 86% and 75% respectively. Principal protection follows retirement income in importance when determining to place a client assets into an annuity. Annuities can provide for a guaranteed stream of income which when approaching retirement can be very beneficial. Differences in advisor opinions around annuities can provide guidance for how these products should be positioned in different channels and, in some cases, whether specialized products should be developed.

Exhibit 5: Total Annuity Sales by Channel, 2010

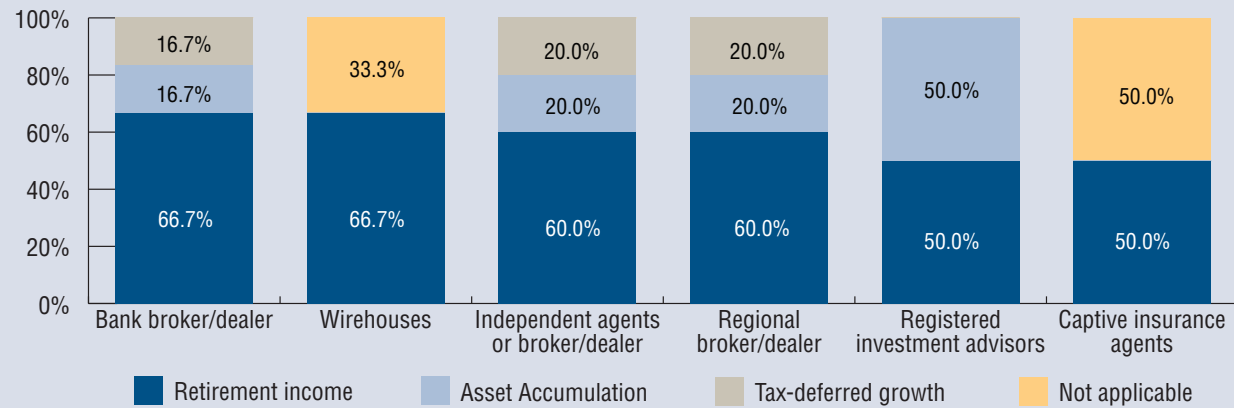


Source: Cerulli Associates in partnership with IRI

Insurers named bank broker/dealers (46%) and independent channels (39%) are the top two channels for annuity sales. Registered investment advisors (RIAs) ranked the lowest at 6%.

Key Implication: Although reported sales in our survey differ from Morningstar estimates, they do paint a picture of the types of advisors who typically sell variable annuities. Bank channels traditionally have clients that are conservative in nature, presenting as an ideal environment to propose the option of an annuity. The independent channel is comprised of independent broker/dealers, whose advisors are independent contractors. The middle market clientele and commission pricing commonly seen in this channel creates an environment for annuities to thrive in. Of note, regardless of channel, is the advisor transition to fee-based pricing which could represent a challenge for annuities.

Exhibit 6: Primary Positioning of Variable Deferred Annuities by Channel, 2010

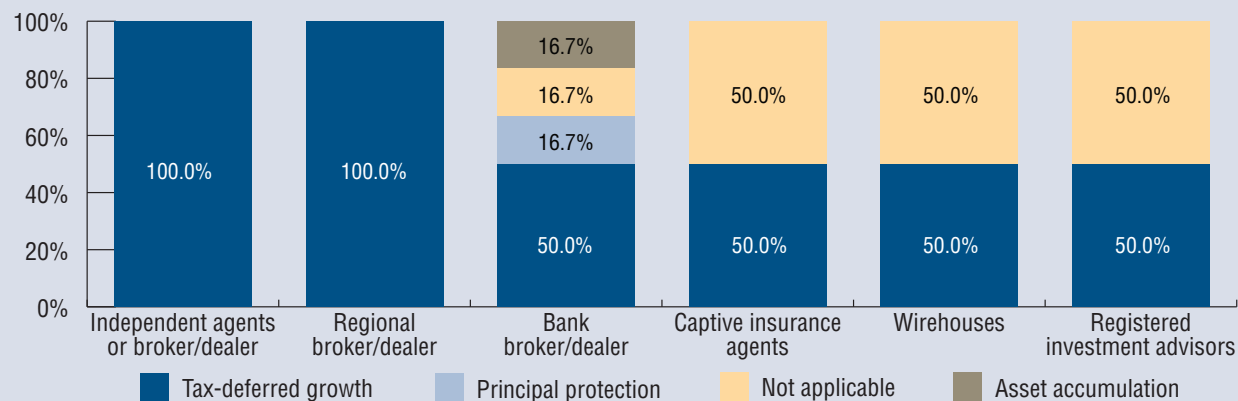


Source: Cerulli Associates in partnership with IRI

Retirement income is the predominant primary positioning of variable deferred annuities across channels, ranking highest in the bank broker dealer and wirehouse channels. Registered investment advisors are the channel with the greatest emphasis placed on asset accumulation.

Key Implication: Simply positioning variable annuities as a retirement income solution is not enough. Rather, insurance companies should make an effort to understand advisors' retirement income methodology and fit the product within it. Insurance companies should view a variable annuity as a component of a retired investors portfolio rather than as the sole solution.

Exhibit 7: Primary Positioning of Fixed Deferred Annuities by Channel, 2010

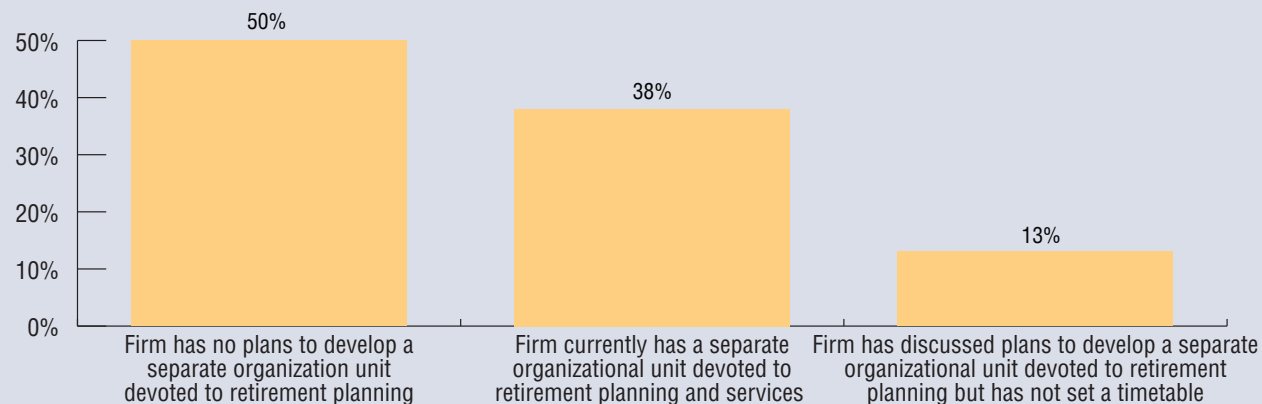


Source: Cerulli Associates in partnership with IRI

Tax-deferred growth is the most widely used positioning method for fixed deferred annuities.

Key Implication: While tax deferral is an important component of fixed annuity positioning, Cerulli believes the appeal of these products owes more to principal protection and guaranteed rates of return. To wit, the product set sales records at the nadir of the bear market as investors fled the equity markets for safe havens. However, the tax-deferred nature of this product helps to increase rates of return on an after-tax basis.

Exhibit 8: Insurance Firms approach to holistic retirement planning

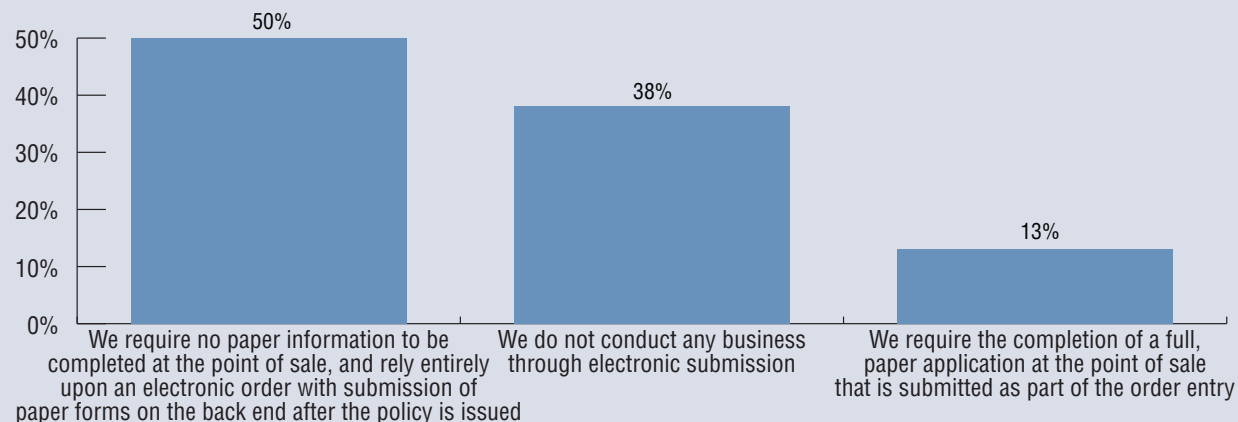


Source: Cerulli Associates in partnership with IRI

Half of firms have no plan to develop an separate unit to devote to retirement planning.

Key Implication: Those firms that have developed separate retirement planning units have done so in hopes of capturing their fair share of the assets of retiring Baby Boomers. However, insurance companies and other product manufacturers hoping to capitalize on the retirement income boom are faced with a tricky conundrum. For the wealthiest retirees, who also control the lion's share of assets, there is often an intermediary involved who is giving advice and recommending products. Although consumer awareness is important, often the gatekeeper to a sale is a retail financial advisor. Firms must have an understanding of advisors, their practices, and their needs if they wish to be successful as a retirement income provider.

Exhibit 9: Insurers Annuity Business Conducted Through Electronic Submission, 2010

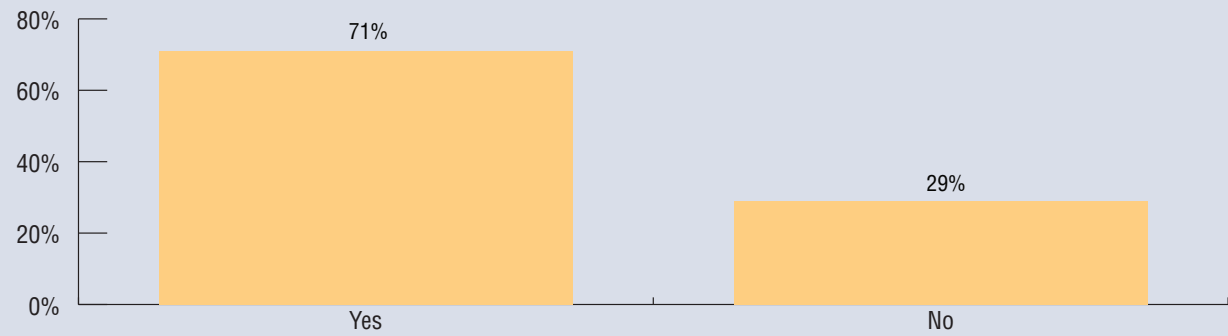


Source: Cerulli Associates in partnership with IRI

Half of firms require no paper to be completed when selling an annuity, while nearly 40% do not conduct any business electronically.

Key Implication: Despite significant education, almost 40% of insurance companies do not conduct business through electronic submission. This remains an important initiative to bring the annuity industry into the 21st century by submitting new business similar to other products, such as mutual funds. However, insurance companies should not view straight-through processing as the cure to all of their ills. Work must still be done on the positioning of annuities in order to broaden the product's appeal.

Exhibit 10: Insurers Awareness of the Insured Retirement Institute (IRI) Straight Through Processing Standards, 2010



Source: Cerulli Associates in partnership with IRI

Approximately 70% of insurance companies are aware of IRI's straight through processing standards.