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# Insight

## Rebuilding Trust with Your Clients

by Michael Maslansky

Your clients don't trust you anymore. Ok, maybe that is a bit strong. If you have spent your career working to build relationships with your clients instead of selling them products, then chances are good that your relationship will outlast the financial crisis. On the other hand, if you are not sure that things are good with a particular client, chances are they are not. The good news is that inertia is a powerful force and client dissatisfaction does not lead directly to client defections. The better news is that now is a great time to hit the reset button with your clients. Client expectations have shifted dramatically from where they were two years ago and they are still in flux. And moments of uncertainty are also great moments of opportunity.

Your challenge then is to understand what your clients are feeling and what messages you need to send in order to rebuild trust and reestablish your relationship. In research conducted over the past five years with more than 5,000 investors, I have seen the changing attitudes of investors toward financial services. Most of this research has focused on how to use your message more effectively to connect with clients and prospects. This research culminated in a recent Instant Response session for the Insured Retirement Institute in Boston with a diverse group of 24 recent and near retirees. Their reactions are illustrative of the shift in attitudes we have seen across all of our research.

For investors who recently retired or thought they were near retirement, the

financial crisis has caused a significant shift in investors' perceptions about their own financial security and retirement. Before the crisis this generation of investors looked forward to retirement; today they worry. Before the crisis, they planned for the future; today they focus more on the present. And before the crisis, they believed investments had only one way to go—up. Today, they doubt promises of growth and are decidedly more pessimistic about the future of the market.



For this generation of investor, the financial crisis was more than a crisis of money. It was a crisis of confidence. Trust, at least as we once knew it, is gone. It is not limited to the financial services sector, but make no mistake about it: The financial services sector is front and center.

We now live in the Post-Trust Era, an era where retirement age investors look at everything in a different light. For financial planners and advisors hoping to work with—or continue working with—these investors, this means a new mind-set and a new approach to communication is necessary. At least if you want them to listen to you.

Here are five keys to building and rebuilding trust with your prospects and clients.

**1. The dream is dead. Long live realism.** The notion of a “dream retirement” was already considered highly unlikely for most people. Now it sounds almost like an insult. In this environment, you need to be very careful about how you talk about the goals and expectations that your clients should have. Set the bar at what is attainable and your messages will be much more credible. Develop a “realistic strategy.” Focus on

achieving a “comfortable retirement,” and talking about “rebuilding their sense of security.” Under-promise and over-deliver.

**2. Plan long term but talk short term.** Even though these investors are at or close to retirement (or were), they used to be able to think long term. But something has changed. They still believe that they will live a long time in retirement, but their investing horizon has become much shorter. They feel like they have no time left. And they feel like they have to recover in the SHORT TERM. “Long term” as a term now means a distant horizon that they cannot afford to focus on. Instead, talk

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## Rebuilding Trust... *continued from cover*

about investing for “now and the future,” or to “rebuild in the short-term as you prepare for the long term.” The key point: Do not focus only on the long term.

**3. Frugality is the new luxury.** It isn't that your clients are poor, but they are behaving as if they are. They have changed the way they SPEND their money. Whether they are holding off on big ticket items or just going out to eat less, there is still a visceral sense that things are simply less stable. Now is the time to be careful with spending because they do not know what is going to happen in the market. The key to building trust is to recognize that this is their reality. Rather than talking about how they are spending their money, talk about how they are saving it.

**4. There is no conservative, no aggressive, only both.** These investors are torn. They are afraid to be aggressive. And scared to be conservative. Both have significant downsides. What they want is to know that they can begin to rebuild what they have lost without putting themselves at risk the way they have in the past. What they want is “a balance” where they have the possibility of “growth” with the security and comfort of “protection.”

**5. Past history is NOT indicative of future results.** One thing is clear: Historical trends no longer carry the same weight as they once did. Investors are much less likely to trust “trends” and “cycles” the way they once did. What is necessary is a deeper emphasis on the investment strategy going

forward and why it makes sense now and in this environment. Fewer charts. More thoughtful discussion.

This information has significant implications for financial services companies. Investors have lost confidence in themselves and their advisors. They know that they need to make decisions but fear doing the wrong thing. In this environment, it is critical to first earn their trust. Rather than focusing on products, features or even benefits, the first and most important challenge is to understand investors, their view of the world and their needs now. Only then can the process of reengaging these clients in a product-focused discussion truly begin. ●

*Michael Maslansky is CEO of Luntz, Maslansky Strategic Research and author of the upcoming book, “The Language of Trust: Selling Ideas in a World of Skeptics,” due out in May.*

## View from the President

by Cathy Weatherford

**“The simpler and more transparent the better.”** That is the new motto for the insured retirement strategies industry and the products coming online reflect that philosophy.

Two things that are certain amidst all the uncertainty of the past couple of years is that people want guarantees and they want to easily understand what those guarantees are. And the industry has responded. We are moving from the days where complex products sometimes confused even the savviest investor or, for that matter, the most informed financial advisor.

The changing times have also resulted in consumers being increasingly self reliant to finance their retirement years. With the near disappearance of DB plans, diminishing contributions and matches in DC plans, and coupled with the uncertain future of Social Security (it's running out of money four years earlier than anticipated and there was no COLA last year for the first time ever), investors believe they alone are mainly responsible for a sound financial retirement.

This newfound self reliance is actually an opportunity for all of us. That is because consumers are increasingly relying on insured retirement strategies found outside the traditional workplace savings mechanisms and they also are interested in learning about what's new and what may be of most benefit to them.



**“As we work with consumers to rebuild their portfolios, let's not forget that we are working with folks who are risk adverse and looking for guarantees.”**

Recent research from the AARP shows that, while Boomers might “shop around” more for a product, they are consistently loyal to a financial services firm. And with that in mind, it is interesting to learn that more of a third of Boomers have no retirement savings.

That's right, 33% of Boomers haven't yet thought about retirement —but they are most loyal to financial services firms. In fact, they have

more loyalty to financial services firms than Ford, Kellogg's or Kraft. What an opportunity we have to help fill a critical void for millions of Boomers who lack retirement security.

As our industry marches forward to best address the needs of consumers, it is important to keep in mind that we are in a new age of retirement planning. As we work with consumers to rebuild their portfolios, let's not forget that we are working with folks who are risk adverse and looking for guarantees. And that is

where insured retirement strategies like annuities can play a role, particularly as we continue to transform and evolve the products.

I believe that as we broaden the messaging around insured retirement strategies to highlight their critical role as an anchor for retirement planning, a vital complimentary piece as part of a comprehensive savings approach, the overall appeal of products like annuities will also increase. ●

# Proper Treatment of Annuities in Roth Conversions

This year financial advisors will doubtless have many conversations with high-income clients about whether—and to what extent—to take advantage of the lifting of income restrictions for Roth conversions. The decision on the appropriate strategy will often hinge on the amount of the tax liability that will be incurred. In the course of these conversations, special attention must be given to the proper treatment of annuities held in traditional IRAs, a topic that is often overlooked in articles about Roth conversions.

Many planners may be unaware of an August 2005 ruling issued by the Treasury that governs how to determine the fair market value of an annuity for tax purposes when doing a Roth conversion. This ruling gains particular relevance as Roth conversions become available to a wider audience. Prior to the ruling, when converting a traditional IRA funded with a variable annuity, the taxable amount would simply be the cash value of the contract. Unfortunately, there were instances perceived as abusive, in which annuities that had substantial in-the-money living or death benefits were able to pass tax free into the Roth.

For example, take Client A with a traditional IRA funded by an annuity with a contract value of \$10,000 and a death benefit of \$75,000. If he or she converted to a Roth, Client A would pay ordinary income tax on only the \$10,000, essentially getting a free pass on the \$75,000. This amounted to a substantial loophole, which was closed by the 2005 ruling.

Under the current rule, the taxable amount is determined based on the fair market value of the annuity, which is defined as the sum of the cash value of the contract on the day of the conversion, plus the actuarial net present value of the living or death benefits. This means that the fair market value of the qualified annuity may be higher than the current value. It is the responsibility of the insurance company to provide the fair market value, which must be determined according to a “reasonable” actuarial formula based on life expectancy and other factors. As an advisor, your job is to obtain the proper information from the insurance company, and then work closely with the client’s CPA to be sure all the tax implications are clearly understood.

Be sure to ask the following questions of the annuity provider:

- What is the fair market value?
- How long will it take to calculate and deliver that value?
- Does the value have an expiration date?
- If the conversion is not completed before the value expires, how can it be updated?
- How will the valuation be documented for my client’s records?

There are several reasons why it is essential to obtain the fair market value for the client early in the process of doing a Roth conversion. In some cases it could be that, based on the value, the conversion may no longer make sense for the client. If a client has multiple IRAs containing different types of investments, the fair

market value of the annuities in the accounts may determine which one(s) to convert. If a large conversion is being considered, it’s even possible that the additional taxable amount from an annuity could inadvertently push a client into a higher tax bracket.

## Use Caution With Partial Roth Conversions

Another important tax consequence specific to variable annuities comes into play when doing a partial Roth conversion. If you have a traditional IRA funded by a variable annuity, and you convert the IRA in its entirety, the process can be fairly straightforward based on each carrier’s procedures: Essentially, the IRA changes its tax status to a Roth, while the variable annuity remains intact and whole. There is no withdrawal from the annuity.

However, if you convert only part of an IRA that is funded by a variable annuity, the workflow is more complex. In essence, you must create a second IRA (the Roth), and break off a portion of the annuity in order to fund it. In other words, you must take a withdrawal from the annuity in the traditional IRA. The risk here is, in creating a withdrawal, you may also be triggering certain provisions of the annuity. By taking a withdrawal you could, for example, be locking in a living benefit payout percentage. Or you could trigger a stop in a guaranteed growth account.

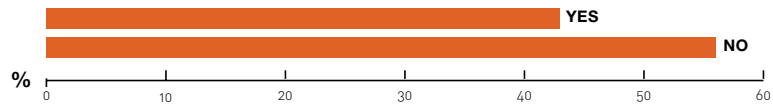
In a worst case scenario, the consequences of the withdrawal could go unnoticed by either the planner or the client, and cause an unpleasant surprise in years to come. Imagine helping a client in her 50s do a partial conversion and accidentally locking in a payout percentage of 4% on her living benefit, instead of her planned payout percentage of 5% at age 60 after another decade of growth. When doing a partial conversion that involves annuities, be sure to use extra care so there are no unfortunate surprises for your clients down the road. ●

TO ACCESS ADDITIONAL EDUCATIONAL RESOURCES, VISIT [IRIONLINE.ORG](http://IRIONLINE.ORG) AND JOIN THE INSURED RETIREMENT INSTITUTE TODAY.

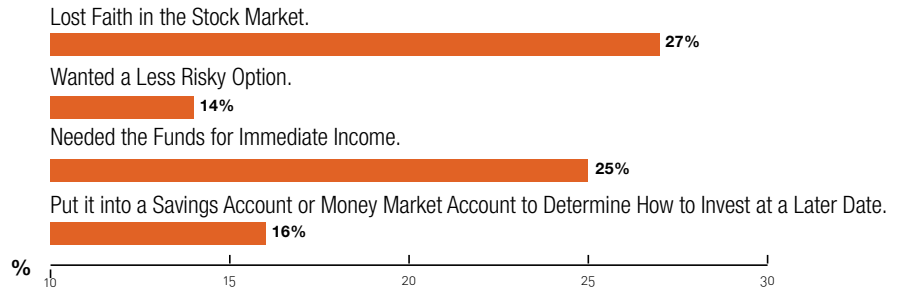
# Money on the Sidelines

In early December 2009, ICR conducted a poll on behalf of IRI of investors age 50+ to find out their sentiments on the stock market. The results showed a real opportunity for financial advisors to help this market-weary demographic review their long-term investment goals to make sure they are on the right track.

**Are you currently investing in the stock market, either through a work-sponsored retirement savings plan or privately?**



**If you decreased your investing, or stopped investing in the stock market completely, was it because you:**



# Communication Keeps Clients Invested During Volatile Markets

In periods of market crisis, many individual investors tend to do the wrong thing at the wrong time. Those who sell stocks at the bottom of the market may be locking in a loss and losing sight of their long-term goals. And those with cash to invest may be hesitant to buy stocks when prices are low and represent attractive values. For even the most successful financial advisors, keeping clients engaged and invested in assets other than cash during periods of volatility can be challenging.

Among advisors who have been successful at keeping their clients' financial plans on track over the past two years, a common thread has been aggressive and proactive communication. Taking the time to increase client communication during a market crisis often requires extra hours at the office, while creating both an emotional and physical strain on advisors. But maintaining a robust communications program also has the potential to yield stronger client relationships and help advisors position their businesses for growth as markets recover.

## Taking a Leadership Role

*Kelly Campbell, founder of Campbell Wealth Management in Fairfax, Va.,* says increased communication helped clients avoid making rash decisions during the market crisis. "Toward the end of 2008, we held four town-hall style meetings for our clients during a four-month period," says Campbell. "And we continued to hold meetings into early 2009, when market volatility was still very high." In addition, Campbell notes that he and his team sent regular email communications to investors, explaining any significant market events, including both spikes and drops in daily stock prices.

"We felt it was important for our clients to stay fully invested during the market crisis, provided that they were still working toward the same long-term goals" says Campbell. "The trouble with trying to time the market is that you have to be right twice—first about when to get out and second about when to get back in," he adds. "Most people can't be perfect on one of those, much less both."

To help manage volatility in client portfolios, Campbell and his team are increasingly taking a global approach to diversification.



"Every time you add a new market, you reduce volatility," says Campbell. He believes that even though some international markets may be more volatile than U.S. markets on their own, adding them to a diversified portfolio has the potential to decrease an investor's overall risk. "By taking a more globally diversified approach to portfolio construction, we hope to help our clients minimize the impact of market swings in any one geographic region, including the U.S.," says Campbell.

The firm's communication strategies seem to be highly effective. The company, which uses LPL Financial as their broker-dealer, reports having a record year in production in 2008 and only a slight decline in production in 2009. "As a result of our communication programs, most of our clients feel very comfortable with their portfolios and with staying invested in the market," says Campbell. "In addition, many new clients we've brought on board tell us the major reason they left their former advisors was a lack of communication about what was going on in the market and their individual portfolios," Campbell notes. "Investors today expect a high level of communication and leadership," he concludes.

## Understanding Clients' Tolerance for Risk

**Randy Bowker, an Edward Jones financial advisor working in Decatur, Texas,** noticed that some of his clients' appetite for risk had changed dramatically since the market peak in October 2007. "A client's risk tolerance often reflects his or her feelings at the current time," says Bowker. "It's hard for people to look at questions on a risk tolerance questionnaire and truly understand the emotional impact they may experience if their portfolio suffers a 20% to 30% decline," he adds. Because every client brings different life experiences to the table, Bowker feels that financial advisors need to use more than just a questionnaire to establish risk parameters for individual clients.

As a starting point, Bowker typically discusses different market performance scenarios with new clients, giving them an historical perspective about some of the peaks and troughs in the market over the past several decades. "I like to illustrate to clients with their current portfolio what a potential market decline could mean in terms of dollars," says Bowker. "This helps them frame the question of risk in a way that relates to their own portfolios," he notes. "When you are talking about a percentage rather than a dollar amount, it can be hard for some investors to picture what that means," he continues. "I want to help clients align their portfolios with their goals, time frames and actual risk tolerance."



With a clear understanding of his clients' attitudes about risk, Bowker notes that most of his clients made relatively few changes in their portfolios during the recent bear market. He believes that communication played a big role in keeping his clients invested. "Most people simply need to talk to somebody when markets are volatile," says Bowker. "They want to be reassured and reminded that they are doing the right thing," he continues. Common discussion topics during client meetings include diversification and the quality of investments that clients own. "When you bring people back to the reasons they are saving and investing in the first place—whether it's retirement, or college or a new house—their long-term goals often remain the same," he concludes.

## Giving Clients Choices

**Anthony Parr, a partner in a Minneapolis-based advisory team at Wells Fargo Advisors,** notes that during the most volatile periods of the market crisis, many investors were looking for ways to regain a sense of control. "When the market kept going down in late 2008 and early 2009, 'stay the course' became an extremely unpopular phrase with investors," notes Parr. "So we really put ourselves in a position where the conversation centered on giving clients choices," he adds.

For more aggressive investors, the choices included using the market decline as a buying opportunity to purchase securities that had gone on sale, as well as rebalancing their portfolios to maintain their target asset allocation to stocks. For more con-



servative investors, the choices included keeping their current, more conservative asset allocation (without rebalancing, as a decline in stock prices resulted in higher bond exposure, making some clients' asset allocation naturally more conservative) or selling down to their "sleep level" if they truly felt they could not handle the volatility.

"The most successful individual investors are those who behave like institutional investors," says Parr. "Pensions, endowments and foundations tend to have investment policy statements and stick to their investment strategies in all market conditions." To help encourage their clients to think more like institutions, Parr and his team create written asset allocation recommendations for all clients, which could range from one to 10 pages in length, depending on the complexity of clients' assets and goals.

"Getting individual investors to act like institutions involves a lot of listening and understanding their personal emotional makeup," says Parr, while encouraging clients to be very methodical in their investment choices. "We can't control the market, but clients can at least control the decisions they make," he adds. "Knowing that they have choices can help clients gain more peace of mind."

## Customizing Portfolios

**Sean Fitzpatrick, a partner in a Houston-based advisory team for Raymond James,** notes that his clients run the gamut from aggressive to conservative in terms of risk tolerance. "One of the keys to our success has been our ability to customize portfolios for different investor objectives," says Fitzpatrick. "We don't group everyone together and I think our clients have appreciated that over the years," he continues. For example, Fitzpatrick notes that, in his experience, higher-net worth clients often have a better understanding of risk and reward. "Many of our clients with large portfolios said, 'It's a recession, it's cyclical and we've seen this before, so let's figure out how we're going to make money through the crisis,'" he reports.

Meanwhile, other clients wanted to move to slightly more conservative portfolios. "In 2008, some clients started to realize they didn't have the same appetite for risk they once thought they did," notes Fitzpatrick. "On a scale of one to 10, with 10 being the most aggressive, clients who once saw themselves as an eight realized they are really more of a six," he adds. Working with a broad range of clients, Fitzpatrick's team felt it was important to stay in regular communication with clients to assess their comfort level with their current investment strategies and to customize portfolios for each individual client's risk tolerance and financial objectives.

"During the market crisis, we were doing regular lunches and phone calls with clients," says Fitzpatrick. He and his partner were also going to see their out-of-town clients in person, scheduling special visits in addition to their regular, annual meetings. "Some of our clients even told us to stop calling them so much, but I think they appreciated the fact that we made ourselves available and took the time to understand their goals and concerns in both up and down markets," he adds. "In times like these, you really need to be proactive and keep open great lines of communication with your clients," says Fitzpatrick. ●



# Upon Further Review...Taking a Closer Look at Product Development in the Variable Annuity Industry

by Kevin Loffredi, CFP

The past year was one of the most dynamic for variable annuity product development we have seen since 2002. As a result, the pace of change has been steady since December '08, with one of the busiest May prospectus filing seasons to date. Now at year's end, things are back to normal, but it is worth taking a look at what happened during the full cycle in between.

Overall, the theme for 2009 was "simplicity." As the chart shows, much product development happened during 2009. If one over-arching theme could be identified, it was the strong push by carriers to simplify benefits and reduce clutter. A few items in particular stand out:

**John Hancock Annuity Note:** Time will tell if this simplified variable annuity, with an all-in-one lifetime GMWB and an all-in fee structure, will take hold. Hancock's offering guarantees 5% for life in the form of automatic monthly withdrawals after five years. The benefit cost is rolled into the cost of the contract. Hancock was the first to take the leap into simplicity, and the jury is still out on whether the marketplace will embrace the move.

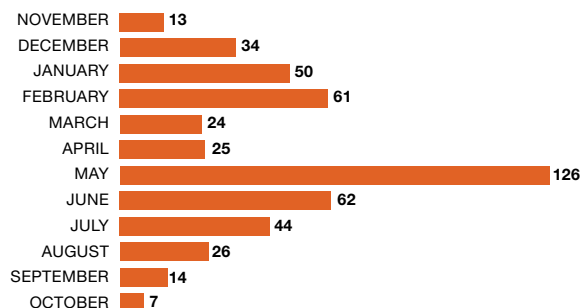
**MetLife Growth & Guaranteed Income:** Available in some distribution systems, this new single-premium, B-share contract is notable for its one-piece chassis. It has a five-year surrender schedule (a low 2% each year). The contract includes a lifetime withdrawal benefit and return-of-premium death benefit baked in. The fee is 2.05% (1.90% for the single-annuitant contract). The one-size-fits all nature of this product is yet to be tested.

**Hartford Personal Pension:** This unique, no-fee benefit offers a minimum income in the form of fixed annuitization tied to amounts allocated to the benefit bucket. When the first contribution is made, the owner locks in a yearly income for life, so long as the payments are started during the period from three years prior to three years after

## Variable Annuity Product Changes

### Nov. '08 to Oct. '09

The variable annuity industry experienced one of the most dynamic and tumultuous years in recent memory, with the product development cycle coming full circle.



SOURCE: ANNUITY INTELLIGENCE REPORT DATABASE AS OF NOV. 17, 2009.

that target age. As of this writing, the annual increase rate is 3% (the minimum is 1.5%). The present value of the income stream can be taken in a lump sum, and liquidity is limited to 4% withdrawals of the benefit base each year. The benefit does not invest in the subaccounts of the annuity. There is no charge for this optional benefit.

**PacLife CoreIncome Advantage:** This simple, cheap, easy-to-understand lifetime income guarantee offers 4% withdrawals yearly for life (of the older owner) when the first withdrawal or step-up takes place at age 65 or older. Only 40 basis points, the benefit steps up the benefit base automatically each year if the current account value is greater. This might be a great opportunity for reps who generally use mutual funds to dip their toes into the variable annuity pool.

In looking back over the past three years, several significant developments emerged that will likely continue the focus on simplification and risk reduction. Among the key areas:

**1.** More lifetime guaranteed withdrawal benefits are restricting investment options. Currently, over 90% of contracts in our database have a lifetime GMWB rider that restricts investment options. This is up from only 62% three years earlier. The goal of the carriers is to better manage risk. In a variation on the theme of investment restrictions, some carriers move VA subaccount money into the general account, or to a bond subaccount, to reduce exposure.

**2.** The guaranteed amounts are changing as well. In 2009, carriers are giving themselves much more flexibility by tiering the withdrawal percentages based on age. More than 81% of lifetime GMWB riders have age-banded withdrawal percentages, compared to 31% three years ago. Back then, 70% of lifetime withdrawal riders in our database were fixed at 5% for anyone. Now, rates generally vary from 4% to 5%.

**3.** One trend from 2009 stands out: Currently, the GMWB rider is less popular. Due to lower sales, there is a significant decrease in availability of the regular guaranteed withdrawal benefit. Over the last three years the GMWB rider has gone from being available on 82% of contracts to now being available on only 48% of contracts. All other living and death benefits showed no significant changes in availability.

The dynamic nature of variable annuity product development in 2009, defined by the paring back by carriers, should not have a direct impact on VA sales. Variable annuities, like mutual funds, tend to get shunned during market downturns. However, the benefits offered by the many variable annuity providers do provide something that few investments can—security, in the form of lifetime income, a return of principal guarantee or simply a death benefit. Scrutiny or no scrutiny on the part of the financial media, without the changes made by the carriers, that "security" would have been in jeopardy. ●

Kevin Loffredi is senior vice president at Advanced Sales Corporation, creators of the Annuity Intelligence Report.

# Thorough Due Diligence Deepens Network of Trust

The thorough due diligence process that broker-dealers employ to vet insurance products provides a solid foundation for advisors to use when building portfolios for their clients.

Broker-dealers understand how important the due diligence process is, and how this fundamental layer of vetting provides a strong jumping off point for advisors. In addition to the meticulous quantitative research conducted on each product, the broker-dealer can tap the experience within the firm to provide deeper vantage points for selecting products.

“Due diligence is an enterprise-wide endeavor, and that provides value to the process and the advisor,” says Brian Sward, assistant vice president, due diligence for the National Planning Holdings (NPH) based in Denver.

After all, options are not added to a product menu just because they seem like a good idea for clients. Sward’s team of six analysts, including himself, start by looking at ratings on each product. Then his group widens their research, examining other data such as the underlying subsidiaries that pay insurance claims.

In addition, NPH turns to its own people, mining the points of view of others within the broker-dealer—from senior level managers up to its presidents. As they interact with advisors and partners in a different way, the perspectives from these executives can enhance, and complement, the outside research.

“The key is to supplement the information you get from ratings agencies, with added outside resources,” says Sward. “This creates as robust a due diligence process as possible.”

And that level of due diligence is essential, believe industry experts, as advisors need to understand how well vetted the products are that they offer to clients who trust their judgment.

Certainly clients are asking more questions than they have in the past, even of advisors whom they trust, given the economic environment. So for advisors, familiarity with the research behind each insurance product makes them better prepared when sitting down with investors.

That’s not to say, of course, that advisors shouldn’t do their own legwork, say industry experts. Not every product

is right for every client. Plus questions come sometimes come up quickly, as circumstances around a company—even one well checked—can change. A vetting process can only look at a product at a particular moment; if news breaks about a firm or circumstances change, advisors who have done their own due diligence as well will be best prepared.

“Advisors are the ones on the front lines so they take more calls from clients,” says Sward. “And if an insurance company is in the news, advisors need to be ready for questions that may or may not come, and need to have done their own research as well.”

So while the vetting process is not the final stage in a successful relationship between insurance firms, advisors, broker-dealers and clients, proper due diligence can make a significant difference. This process can build the stable bridge between a slew of products that advisors know have been well researched and the opportunity to build solid plans for clients—along with solid relationships as well. ●

## IRI LAUNCHES ADVISOR FORUMS — *On Proven Retirement Income Planning Strategies*



INSURED RETIREMENT INSTITUTE

The Insured Retirement Institute (IRI) will host its inaugural Advisor Forum at the New York Hilton on February 23, 2010. During this one day program financial advisors will learn proven retirement income planning strategies, discover new techniques, tools and tips and find out what resonates with your clients.

### PROGRAM HIGHLIGHTS:

- ▶ **Keynote: Dan Gilbert, Bestselling Author and Professor of Psychology at Harvard University** - Hear how we mis-predict what will make us happy and its dramatic impact on business strategy, sales & marketing and understand consumers.
- ▶ **What Message Resonates with Consumers?** - Discover a better way to communicate with clients in the current recession – what works and what does not.
- ▶ **Keynote: Marci Rossell, Former Chief Economist for CNBC and Co-host of Squawk Box** - Learn how the media influences investor behavior and the economy.
- ▶ **Income Strategy for Advisors** - Become skilled in “The 4 Box Strategy for Retirement Income” that will enable you to take your clients through a proven approach that results in an income plan that will position you as the “go to person” for their financial needs.
- ▶ **Advisor Case Studies** - Listen and share with a panel of advisors that will discuss how they approach retirement income planning and if they have re-thought the role of annuities in their practice.
- ▶ **The Role of Annuities in Retirement Planning** - Become better educated in the one product that offers guaranteed lifetime income by a panel of experts who will discuss the latest trends and the popular products.

IRI exists to vigorously promote consumer confidence in the value and viability of insured retirement strategies. For more information on the IRI 2010 Advisor Forum visit the IRI website at [www.irionline.org](http://www.irionline.org), email [conferences@IRIonline.org](mailto:conferences@IRIonline.org) or call (202) 469-3016.

## Government and Regulatory Affairs Update

**W**e can expect a busy 2010 for the Congress and the Administration as well as the usual flurry of legislative activity at the beginning each session of Congress.

The first issue that is likely to be addressed this year is healthcare reform. The House and Senate have each passed their own versions, which must now be combined into one final “conference report,” and pass each Chamber again before it is sent to the president to sign.

Financial regulatory reform legislation remains a high priority for President Obama. In December, the House passed the Wall Street Reform and Consumer Protection Act by a vote of 223 to 202. The legislation includes a broad range of financial regulatory reform measures: the creation of a Consumer Financial Protection Agency (CFPA); systemic risk controls and resolution authority for entities that are seen as “too big to fail”; investor protection measures including a harmonization of the fiduciary standard for investment advisors and broker-dealers; derivatives market regulations; and a number of other measures intended to

prevent a repeat of the market meltdown.

IRI was able to work closely with our sister trade organizations to ensure that the insurance industry was exempted from the new CFPA agency. The House recognized the significant regulation already in place for the industry and rightly understood that adding another layer would only hurt consumers.

In the Senate, Sen. Christopher Dodd (D-CT), Chairman of the Senate Banking Committee, has made it clear that he would like to proceed in a bipartisan manner. He has appointed bipartisan working groups to address key elements of financial regulatory reform package. These working groups are expected to negotiate details of the various sections of the legislation and then report back to the full Committee. Sen. Dodd and Sen. Richard Shelby (R-AL), the ranking Republican on the Committee, continue to express optimism that they can complete their version of the bill in February. IRI will continue to work with Committee members and staff to ensure that our member’s interests—and the interests of consumers—are protected in the final legislation.

At the state level, during the first quarter of

2010, the National Association of Insurance Commissioners (NAIC) is expected to adopt a revised Suitability in Annuity Transactions Model Regulation based on FINRA Rule 2821. In states that adopt this new suitability regulation, insurance companies, broker dealers and financial advisors will be subject to new requirements. Most notably, sales of all types of annuities will now be required to undergo a pre-issuance secondary suitability review by someone other than the selling financial advisor before an insurer will be able to complete the transaction. Also, financial advisors will be required to take a one-time approved, four-hour annuities course and meet other training requirements to be able to continue selling annuities in the future. Financial advisors currently selling both variable and fixed products through a broker dealer may see little change in the way business is conducted. This is because variable products are already subject to FINRA suitability rules, and the NAIC’s new regulation permits fixed product transactions to be processed through the same compliance system used for variable products. ●

## PPA Changes Favor LTC Planning

**T**he projections for seniors are stark. By the time a married couple reaches age 65, there is a 70% chance that one spouse will require long-term care—with the average care period being 3.7 years for a woman, and 2.2 years for a man. By the year 2030, the annual cost of long-term care will reach a whopping \$300,000, according to a recent study by Milliman. Clients worried about planning for long term care costs will be interested in two provisions of the Pension Protection Act (PPA) that went into effect January 1.

One change is of benefit to clients who have used life insurance, endowment or nonqualified annuity contracts to accumulate money for retirement. Under the new rules, cash values from such contracts can be transferred through a 1035 exchange to

standalone long-term care contracts, without incurring tax on the contract gains. For example, suppose a client enters his 50s and begins to plan for long-term care needs. He decides to use \$100,000 accumulated in a nonqualified annuity to purchase a long-term care policy. Under the previous law, he would have to withdraw the entire cash value of the investment. If his basis was \$50,000, he would realize a \$50,000 gain, which would be taxable at his ordinary income tax rate. If the client was in the 25% tax bracket, he would be left with only \$87,500 to spend on a LTC policy.

But in 2010, the same transaction is much more attractive. The client is allowed to take the full \$100,000 from the annuity and put it directly into the long-term care policy, tax free, paying nothing other

than any potential surrender charges on the annuity.

A second change in the PPA strengthens the attractiveness of annuities with LTC riders. Prior to the tax law change, if a client owned an annuity with an LTC rider and triggered her benefits, the benefits paid would be taxable as ordinary income. By contrast, many standalone LTC offerings pay tax-free benefits.

Under the new law, benefits from a rider on an annuity contract will also be paid income tax free. This change makes annuity products more appealing, especially to younger clients who wish to buy an annuity to provide a retirement income stream, but also hope to use the same “bucket of money” to provide some security in case they need long-term care. ●