

Statutory & Other Deductions	Current	Year to Date
General Withholding	311.17	311.17
Additional Federal Withholding	0.00	*****
State Withholding	135.96	135.96
Additional State Withholding	0.00	*****
SDI	0.00	55.06
Medicare	62.67	75.55
Medicare Buyout	0.00	0.00
State Disability Insurance	0.00	0.00
	351.14	351.14
	0.00	0.00

# Changing Plans

Federal regulation is spurring work-site sales of retirement products. Are insurers ready?

by David Tager

Retirement services providers focused primarily on the short term—just beyond “the hood of the car”—have reason to be depressed. Jobs reports are weak. Employee matches have not yet returned to past levels.

But well-managed companies, focused on the horizon, have many reasons to be optimistic, given the continued push in Washington to facilitate work-site solutions that replicate many of the virtues of defined benefit plans.

Democratic Sens. Jeff Bingaman (N.M.) and John Kerry (Mass.) introduced a bill in August for automatic IRAs as another step to help address the retirement security crisis. This is just the most recent proposal to build on the success of the workplace-based retirement savings model and the positive dynamics of payroll deduction and opt-out inertia, following on the progress of the Pension Protection Act of 2006.

And the Obama administration has also been advocating for lon-

gevity risk solutions in defined contribution plans, based on a bipartisan model that came out of a report issued by The Heritage Foundation and The Brookings Institute.

In the next few years, we are likely to see accelerated uptake of both accumulation and decumulation products sold through the work site channel—an enormous opportunity for providers and distributors.

Which providers end up among the winners remains to be seen, but it will come down to more than just product features, pricing and performance. Winning trust will be essential to getting into sponsors’ plans and keeping employees enrolled. Distributors will need to be armed with the right narrative and supporting materials to make the case with plan sponsors and plan participants.

Sales and market share will be determined by the provider’s reputation and its approach to winning over distributors, employers, employees, retirees, DC opinion leaders and, for publicly traded companies, “the Street.”

That means understanding the true positive differentiation of both the company and its products, and

## Key Points

- ▶ **The Situation:** The slow recovery has kept retirement services providers’ growth at subdued levels.
- ▶ **The Outlook:** Workplace-based retirement solutions should energize the sector’s fortunes in the next few years.
- ▶ **The Next Step:** Companies writing these plans must become proactive with many stakeholders to make these products profitable.

then creating a platform to facilitate a dialogue that resonates with distributors, plan sponsors and plan participants to drive sales.

Companies must tell their stories well. They must educate and persuade each of their constituencies about their strengths and competitive advantages—how they have the right distribution relationships, right suite of products, right infrastructure and scale, right financial strength, right pricing, right approach to transparency, right experience and commitment to the market, the right business strategy and a proven track record of execution.

For providers that have succeeded in individual annuity businesses and intend to pursue the emerging work site opportunity, a different approach is required.

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Annuity providers could be successful in the individual market by focusing only on the distribution channel. They have not needed to spend much time or effort educating the end consumer or the media about their products or companies. In fact, they sold effectively and built thriving businesses despite years of harshly critical media coverage.

### Market Share Targets

The winners of market share will adapt quickly and communicate effectively across each of these priority audiences:

- **Distributors:** As far as importance, distribution tops the list. Providers will need to be especially careful not to antagonize agents responsible for their growth and success to date. If the individual market remains important to the com-

pany's success, then it will need to prove it to existing agents through its actions, not just in words. Providers also will need to educate and persuade new distribution partners as to why the company is easy to work with and why its products are easier to sell. That includes showing that it has 1) the proven experience and commitment to the retirement services business, 2) among the best product offerings, bundled or a la carte, 3) competitive pricing afforded by scale and 4) superior financial strength.

- **Employees:** Given all of the various issues for this particular market, corporate and brand reputation will probably be more important than ever. Employees are among the most valuable brand ambassadors. Leading companies will effectively engage their employees in this effort

by creating platforms for them to demonstrate their pride in what they are doing to address the major national issue of retirement security.

- **Wall Street:** Public companies will likely need to combat the short-term thinking of Wall Street, which is certain to question whether they are cannibalizing their existing, higher-margin businesses. The Street might be unable or unwilling to look out beyond a couple of quarters to the big-picture opportunity of capturing the huge work site-based opportunity. Following the pain felt by public companies that focused on deferred annuities with guaranteed living benefits, many will question the risks associated with such capital-intensive businesses.

This is yet another issue that must be addressed, underscoring the importance of effective

## Distinct Differences

The evolving work site opportunity is completely distinct. Institutional product features and pricing will be starkly different, but the terminology will be similar enough to cause confusion and invite continued criticism. That's why annuity players must begin to frame the debate today, and get their story out to build a foundation of trust. Providers need to educate and earn the trust of new audiences they did not need to focus on until now—and they must start doing so quickly.

The provider must convince plan sponsors and participants about the virtues of its products and its company—that it has a strong, consistent track record of delivering on its promises. Having been burned for so long by the media, many annuity providers have tried to stay below the radar. But to build a foundation of trust, they must stand up and go on the offensive.

Fortunately, their annuity customers' experiences over the past few years provide powerful ammunition. These companies should be promoting the fact that

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their annuity customers can still afford to retire on time—unlike the many baby boomers who suffered such significant market losses that they have had to postpone their retirements, perhaps indefinitely.

Now is the time to educate the broader public about how annuity providers are still helping their customers prosper through continued uncertain markets, safeguarding and growing people's nest eggs. Now is the time to create issues-based sales and marketing communications platforms that boast the virtues of annuities, from principal protection to longevity risk protection.

Admittedly, while income distribution is different and more complex than asset accumulation, the success of the Pension Protection Act suggests what's likely in store: automatic enrollment with a few qualified default options. We're already seeing significant differences between the annuities of old and the newer institutional offerings, which are much more flexible and liquid for the participant/investor and are priced as low as institutional mutual funds.

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communication to the investment community. In short, Wall Street needs to understand how the company is well-positioned to grow profitably, despite any short-term concerns.

• **Government/DC Opinion Leaders:** With automatic enrollment/opt-out provisions bringing many more people into the system, government officials will likely be very cautious. Expect more scrutiny of providers and their product features, performance and fee transparency to facilitate apples-to-apples comparisons of performance and pricing, following on key learnings related to target-date funds from the past few years. In addition, the financial strength of companies will be particularly important, given portability provisions and the long-term nature of these products, which promise to deliver over decades. Providers with the foresight to address these issues themselves, before having restrictions

imposed on them, have the opportunity to stand out from the pack, to win the trust of sponsors and participants and, as a result, to increase sales preference and inflows.

• **Prospective Customers/Plan Sponsors and Participants:** If they are not doing so already, plan providers need to elevate their visibility and reputation more broadly to reach prospective plan sponsors and participants. Employers must feel comfortable selecting them for the quality and pricing of their products and for their financial strength, and employees must feel comfortable about their plan options, which means name awareness and reputation. In this respect, they need to communicate more like companies that market directly to consumers.

The work site sales opportunity for fund companies and annuity providers will likely grow on a steep trajectory in the coming

years as a result of the positive impact of the Pension Protection Act on participation and deferral rates, emerging initiatives such as automatic IRAs and provisions to facilitate uptake of annuities in DC plans. This market opportunity will be hotly contested across different providers from the funds and insurance industries. Similar to a political candidate, providers must define themselves and their position now, or risk having competitors and critics do it for them. Product features and pricing will be important, but earning the trust of consumers, employers, and government leaders will probably prove a bigger determinant of success.

A comprehensive approach to identifying the provider's strengths and creating effective sales and marketing communications platforms to promote this differentiation will be the key to capitalizing on this unprecedented sales opportunity. **BR**

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