Equity Indexed Annuity Sales: Four Keys to Multimillion-Dollar Sales

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I have some exciting and insightful information to talk about with regard to our topic "Four Keys to Multi-Million Dollar EIA Sales." Of course I am referring to Equity Indexed Annuity Sales.

Now what is an equity indexed annuity? Very simply, an equity indexed annuity is an account that allows a retiree or individual to participate in the increase of the stock market. If the stock market goes up that year, the client's gain will be locked in. If the market goes down, the client will not incur any loss. So it's really a combination of the best parts of a variable annuity and a fixed annuity without upfront fees, loads, charges or other costs.

To give you some background, equity indexed annuities was first introduced in February of 1995 by Keyport Life Insurance Company. They had the first EIA on the market. According to Jack Marrion from the Index Compendium Report, EIA sales in 1995 was $500 Million, last year over $23 Billion dollars went into these equity indexed annuities. Out of over 2,000 insurance companies in the U. S., there are only 31 companies that offer these specialty equity indexed annuities.

Who are these accounts best suited for? Almost any age group although it seems to appeal primarily to people aged 50 and above. They like this account because it gives the client safety of principal, without stock market risk. They will get a percentage of the gain if the market goes up but they will not suffer any loss or decline if the market goes down. In a few short years of its existence, it has proven to be a dynamic and very powerful way for people to participate in the increase of the market without stock market risks.

Let's begin taking a look at what I consider to be the "Four Keys to Multi-Million Dollar EIA Sales."

Key Number 1 is understanding the safety of equity-indexed annuities. With any potential client or prospect to whom you talk about their retirement dollars, the first thing they are interested in want answered is the safety of their money. So we have to be able to illustrate and show our clients and potential clients the safety of fixed annuities and an equity indexed annuity is in fact a fixed

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annuity. There is no prospectus given to clients when they purchase an equity indexed annuity.

Let's talk about the foundations of safety. How many of you know what the legal reserve fund is? It is simply a requirement by the federal government for each insurance company to have on hand better than dollar-for-dollar what our clients give to the insurance company. I like to show a lot of third party material. A book that I like to show clients is entitled "All About Annuities or Getting Started in Annuities", by Gordon Williamson. I recommend you get yourself a copy. . The third chapter talks about the advantages of annuity investing. What he said under safety is amazing. He said, "No one has ever lost a dime in a fixed annuity. The safety record of this conservative vehicle is unequalled. When you purchase a fixed annuity, your principal is guaranteed every day. Not only is your principal in a fixed annuity guaranteed at all times, but the interest rate received or credited to your account is also guaranteed." Here is a reserve requirement comparison that he gives very accurately. "When you deposit a dollar in a bank account, the bank, by law, must keep a certain amount on reserve. That amount depends on the type of account and ranges from 0 to $.10 cents on the dollar. However, when you purchase a fixed annuity, the insurance company by law must set aside over a $1 in reserves. The insurer can only use these reserves to settle the withdrawals and redemptions of the annuity owners. The money cannot be used to settle insurance claims, pay overhead, settle bad debts or take care of any other non-related annuity item.

So the strength of the insurance companies and the safety net for our clients comes from the reserve required on every dollar we give to them. This comes to about $1.03 to $1.07. They cannot use this reserve to pay the employee wages, the light bill, phone bill, president's wages, or anything else.

Another important bit of third party material to further emphasis this came from the Wall Street Journal on December 19, 2002. The article said Conseco's tale of success ends in Chapter 11. Now listen closely. In its bankruptcy filing in Chicago, it listed total debts of $51.2 Billion Dollars and total assets of $52.3 Billion, which would make its bankruptcy petition one of the largest in U. S. corporate history. The actual amount of assets ultimately brought under court protection however, would likely be much smaller than that because significant parts of Conseco, notably it insurance division, aren't part of the Chapter 11 bankruptcy filing. Conseco said that its insurance operations were sound and expected to honor its obligations to all policyholders. So the legal reserve fund is a strong bit of security for our clients to understand.

Again it is important to use good third party material, magazines, books and reports to be able to relay to your clients how and why fixed annuities are so safe today.

Key Number 2 to multi-million dollar EIA sales is knowing the moving parts of every equity-indexed annuity.

Jack Marrion from the Index Compendium says when it comes to equity indexed annuities, that equity indexed annuities are simple to understand but made complicated by insurance companies. That is very true. So we need to understand and know the moving parts of most equity indexed annuities today.

What are the three or four most popular interest crediting methods that insurance companies use today with regard to equity indexed annuities? Number one is the point-to-point method. Number two is monthly average. Number three is daily average and number four is monthly point-to-point. Ninety Percent of EIA sales today are in the first three methods, so let's cover each of these very quickly so you have a good handle on how interest could be credited to an equity indexed annuity.

Point-to-point, what does that mean? It means there is a beginning point and an ending point that follows, in most cases, an index such as the S&P 500, which is the Standard and Poor's 500. It may track the Dow Jones Industrial Average; it could track the NASDAQ or bond index or many other indices.

Now there are two different types of point-to-point strategies. One is an annual point-to-point that begins one year and ends the following year on the same day or there is an end of term point-to-point that goes over 7 or

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9 years as a point-to-point process. Which do you think that most clients, especially seniors, are most interested in today?

Yes, the annual point-to-point. They want to know every year if they earned interest and how much they earned, the fact that it will be locked in. That's called an annual reset. So that is the annual point-to-point.

The second design that we've touched on is the monthly average. Now what does monthly average mean? Well it simply means if your policy went into effect on June 27th the company would take a look at what the S&P 500 closed at on the 1st of each month thereafter for the next year. So if on June 27th it closed 1,000 points, they write that down. If on July 27th it closed at 1,020, they record that. If August 1st it closed at 1,030 they record that and so the next 12 months they record what the index closed at on that particular day each month. After 12 months they add all these 12 figures together and they have one big total and divide it by 12. That then gives you the monthly average gain or monthly average loss for that particular year.

Now our third potential crediting method was the daily average. How does that work? Yes, the company records what the market closed at, the S&P 500, every day for the next year. There is approximately 253 days that the market is open. So the company simply adds up the total of all of 253 days that the index closed at and then divides by 253. That then gives us the daily average gain or daily average loss.

But of these three potential interest crediting methods, which would you guess is the easiest to explain to a potential client? Yes, the annual point-to-point. And just guess historically which crediting method has given the best return to clients overall? Yes, the annual point-to-point.

Let me share with you some historical S&P 500 data since 1970 through the end of last year. You'll see that we have the annual point-to-point, the monthly average and the daily average and you can see that with all things being equal, which we'll talk about that in just a moment, that the annual point-to-point has out performed monthly average in some cases 2-1. The monthly average in almost all cases has outperformed the daily average. So you may want to consider really specializing and focusing on the annual point-to-point crediting method.

I said this was true if everything was equal and of course everything is not equal with EIAs. What are the three moving parts of every equity indexed annuity you have to be aware of? Yes, the first one is the participation rate. Number two is the spread, or they call it the fee or index margin and number three is the cap.

So take a look at this from the client's perspective. The participation rate, which is the percentage that the client will participate in the increase of the market. Do you want that to be high or low? Of course you want it to be high. How high do you want it? 100%, that makes sense. Would you want it to be 100% just for the first year or guaranteed for all years? Sure guaranteed for all years, let's write that down.

Number two is the spread or index margin. That is the amount the insurance company would deduct from the gain if there was a gain that year. Now for the client you would want that spread or index margin to be high or low? Low. Right, how low do we want it? 0%, that makes sense to me. Do we want it guaranteed just for the first year or guaranteed for all years? Yes, guaranteed for all years. That would be the perfect design for a client.

The third moving part is the cap. That is the maximum a client could earn in a year's time. So do we want that cap to be high or low for our clients? We want it to be high. Yes. How high would we like it? Oh, yes. We'd like it to be 20% but being realistic if you have 100% participation rate and zero spread guaranteed for all years, your maximum cap might be around 8% or perhaps 9%. With 100% participation rate and zero spread, the company is going to have a current cap and a minimum cap that they could implement in the future. Currently most of the better companies, the minimum cap seems to be ranging between 4% and 5%.

So we do want to be aware of what has performed the best for our clients and what the moving parts are. You may want to have as few moving parts as possible and I have found that if you just simply have a cap that can go

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higher or lower each year, it's much easier to explain than participation rates that spreads that might change. Now there are some new designs with products today that offer bi-annual re-set or tri-annual re-set, where it locks gains in every 2 or 3 years. I have found that all of my clients really are more interested in the annual re-set or annual lock-in than waiting 2 - 3 years.

The second key to multi-million dollar EIA sales is knowing the moving parts of an EIA and being able to explain it simply and effectively to your clients.

Key Number 3 is using good probing and trial closing questions. Now it's been said that we have two ears and one mouth. So we need to listen twice as much as we talk but that is sometimes hard for most agents or sales people, isn't it? We want to just do all the talking and convince our clients that we can do the right thing for them. But the only way that we can bring clients along, logically, and emotionally, is to ask the right questions in a way that will tell us what their interests are and their concerns and hot buttons are then we'll know how to address those concerns. We'll also know if we have in fact a qualified prospect.

Now, how would you define a qualified prospect? Let me ask all of you, if you were sitting across the table from a husband and wife who had $500,000 in investments or assets, is that a qualified prospect? It's really not. That's just what I call somebody with money. A qualified prospect is someone who has money and a sincere interest in making a potential change. The only way of finding that out is by asking proper trial closing questions.

So here are four basic outlines of proper probing and trial closing questions. Number one is fact -finding questions. Number two is qualifying questions. Number three is open-ended questions and four is alternate of choice questions.

But let's talk about a couple of important qualifying questions that I have used throughout my career so that I know if 1) a potential client really has an interest in my services and 2) if they are qualified for me to spend my time with them. We don't want to chase people who are not sincerely interested. So we have to know if we are going to spend our time with a qualified prospect that we may possibly have the chance or opportunity to turn into a client.

I give senior seminars, free senior financial workshops and seminars. I have the attendees come to my office the following week and they bring all of their materials to see me. When they're sitting at my desk and before I review any other information, I have two very important trial closing questions that I want to ask them. Let me share with you what my two trial closing questions are.

Number one -- I look at them and all I have on my desk by the way is a yellow pad of paper, my pen and telephone. I don't even have a computer on my desk. But I'll ask them a very important question. I'll say, "Bob and Mary, what caused you folks to want to visit with me today? What are some of the interests and concerns that you had after attending our workshop?" Now why is that question so important? It's going to tell me if I really have some qualified people who have an interest or a need. If they're just here to gain some free information or because I offered an hour of free consultation, that's not really a good enough reason for me to spend my time with them.

But if they say, "I'm interested, Matt, in reducing taxes, protecting myself from nursing homes, Medicaid spend down," or "I want to shield my heirs and my children from going through probate of my estate," or "I'm interested in that equity indexed annuity that you touched on at the workshop or my certificate of deposits at the bank are not paying much interest and I'd like to get higher interest and reduce taxation," if they said any or all of these ideas, I know I really have a beginning of a qualified prospect who is here for some specific reasons.

Next I really want to find out if my specialty and expertise is of real interest to them and if they're open to making a change. So the second question I ask is a bit lengthier. But it really draws out of them whether my particular expertise or service is going to be of interest and if they are willing to make a change. I actually take my service away for a moment and then give it back to them if I decide to work with them. So the take away close is very effective as we know.

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Here is what I say.

"Bob and Mary, let me start off by mentioning that I realize that our firm is not for everybody. We're really only interested in working with those individuals who fall within a certain niche, so to speak. That niche is that they are 60 years of age or older, and retired, or at least getting close to retirement. It looks like both of you do fit that category pretty well.

(Oh, yes, we sure do.)

"Because of this, we're able to offer a unique experience to our clients, compared to the majority of other firms that try to be all things to all people.

"Now the workshop that you attended, we have one just like that in a different area of Nashville about every month. It's normally attended by 100 people between the morning and the afternoon workshop. Of those 100 people, we usually book about 30 to 40 appointments within the next week or two thereafter, to visit with those people one-on-one like we are with you folks today. But of those 30 to 40 appointments, I really only take on about 8 to 10 new clients. So I like to say that while you're looking across the desk today to see if I'm the kind of individual whom you would like to work with and take advice from . . . I'm also looking across the desk to see if you're the kind of folks I would like to take on as new clients and work with. So it really does go both ways.

"And I really look for clients who see the value of working with a senior financial advisor, someone who really understands their interests, concerns, problems and potential pitfalls of being retired and a senior citizen in this country.

"Now, if you two do happen to become one of my 8 to 10 new clients that I take on at this time, here is what I'll be able to help you to accomplish and it's in four areas:

1) Reduce or eliminate taxes – in the areas that we covered at the workshop: income taxes, social security taxes, capital gains taxes, estate taxes, and even the IRA tax.

2) Earn better interest rates on your savings and investment dollars without risking any of your principal. Or if you have too much money in the good old stock market, I'll help you to eliminate some of that risk yet still receive better than average rates of return.

3) Protect your life savings from nursing homes and Medicaid spend-down, as we discussed briefly at the workshop

4) Whatever you don't spend and enjoy during your lifetime, I'll help you to quickly and efficiently pass along the rest of your estate to your children or heirs, without the probate courts, attorneys, the federal government or the state getting a nickel of your money.

"Now, having said all of that, does this sound like the type of help and expertise that you two could benefit from?" (Yes!)

When they answer yes to that, I know I have a qualified prospect, somebody who has money and really a sincere interest in making a sincere change. Now, I'm going to spend the next hour going through their financial statements and see where their real interest and concerns lie and see if I can really help them.

Key Number Four, effective sales presentation skills. Selling is really what you say and how you say it. You want to be sure to use the K.I.S.S. theory. <u>K</u>eep <u>I</u>t <u>S</u>hort and <u>S</u>imple. EIAs are simple to understand but made complicated by insurance companies. We want to be sure that we explain it in a way that is clear, understandable but powerful. It helps motivate the prospects to take action. So in my presentation, after reviewing the insurance company's brochure quickly, I put it aside and use my yellow legal pad right here and I write my outline on paper so they can see it. Because clients, and seniors especially, are very visual, once they can see it, it helps them to understand it. They don't want to just hear you reading off of the brochure. So let me give you an example of how I would give an equity indexed annuity presentation using a four point presentation ledger that I developed.

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So at the top of the sheet I may write the insurance company, it could be any company that you particularly like or recommend for the client. I'll just kind of role play with you on what I would say to folks who were in front me.

"All right, Bob and Mary, I want to be sure that as I go through this outline if either of you aren't clear on what I'm saying or how it works, please stop me and ask me to explain it to you in more detail. The first step to understanding how this works is this equity indexed annuity uses the annual point-to-point method that follows the S&P 500 index. Now do you folks know what the S&P 500 is? And the husband usually says yes and the wife says I'm not sure, so I always explain.

You may have heard of the Dow Jones before. On television you may have heard the newscaster say, the Dow Jones is up 200 points or it's down 300 points this day. The Dow Jones consists of 30 companies that together make up of the Dow Jones Industrial Average. Now they're very large companies but there are only 30. The S&P 500 stands for the Standard and Poor's 500. It literally is 500 of the largest companies in America in their particular industries that are a part of this huge index.

It's really the benchmark that every stockbroker or financial planner uses when clients own a mutual fund or a stock, they always compare it to the benchmark which is the S&P 500. So let's not just use the S&P 500 as a benchmark. Lets use it as a means and the mechanism for you to receive interest on your money in this particular annuity. So let's just use an example here. The annual point-to-point simply means there is annually, every year, a beginning point and an ending point which follows the S&P 500. Let's use today's date as an example.

Let's say this was June 27th of 2005 and let's just say the S&P 500 closed today at 1,000 points. Now it may be higher or lower than that right now, but let's just say it closed at an even 1,000 points just to show you an illustration of how this might work. Now, Bob and Mary you know every day, every stock, mutual fund or bond or index can go up or down. And we don't know what it's going to do in the next twelve months, it's going to do whatever it wants to do over that period. Up and down, up and down for the next twelve months. But what we want to know is a year later on June 27th of 2006 what did the index close at on that particular date. And let's just say that it closed at 1,080 points. So it went from 1,000 to 1,080 in one year. That's called the annual point-to-point, looking at it from one point and then the ending point is a year later.

Well in our example here if the S&P 500 went from 1,000 to 1,080 points, that was an increase of an even 8%. What this insurance company is going to do for you is give you 100% of that gain with zero administrative charge or fee. Now, Bob and Mary, many mutual funds or variable annuities that you might own, could charge a fee as high as 2% or 3%. But there is no fee charged whatsoever with this equity indexed annuity with the ABC company. So your net gain then would be the full 8%. No let's put a figure here to all of this, Bob and Mary. Let's just say that you started off with $100,000 on June 27th and a year later the crediting interest amount was 8%. How much interest would you gain that year? Yes, $8,000. So now, at the end of year one in your account, you have locked in $108,000, ready to compound for year two. Now that is the annual point-to-point method.

Let me just stop here and see if you have any questions on how that really does work? Normally they say it's very clear, beginning point, ending point.

Now, point number two here is equally as important if not more exciting that the first one. This annual point-to-point process, the beginning point, ending point starts over every year. So every June 27th, there is a beginning point, ending point. Next year, beginning point, ending point. That's what is called the annual re-set. It re-sets, locks in the gain and starts over again for the next year. So your gains really are locked in.

Let me give you a scenario of what could happen, so you understand how this works. Let's just say again on June 27th, the S&P 500 was at 1,000 and it went up to 1,080. This represented an 8% increase. So if you started with $100,000 in your account, and if the interest earned was 8%, that's $8,000. At the end of year one, you have $108,000.00 locked in. Now the S&P 500 closed at

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1,080 points. That was the ending value of year one. That now becomes the beginning value for year two, it re-sets. Now let's just be negative here for a moment. Let's just say the S&P 500 goes down drastically from 1,080 points to 900 points. That's a decline of almost 17%. If you still have money in the stock market at risk, such as stocks, mutual funds or variable annuity, your account could go down 17% in this example and your statement would reveal that. However in your equity indexed annuity here, guess how much you would have lost that particular year? That's right, zero. This is because you only participate in the gains, not the declines. So you didn't make any money that particular year, but the most important thing is you didn't lose any money either. If you had $108,000.00 at the end of year one, guess how much you have at the end of year two? That's right, you have $108,000.

Let's just say that in the third year, the S&P 500 rebounds a little bit and goes from 900 points back up to 1,000. That's an increase of about 11%. The increase will be locked in and compounded on your $108,000. Let's assume that in year four the S&P 500 goes from 1,000 points back up to 1,080 where it was a couple of years earlier. Well, for that individual year from 1,000 to 1,080, again the increase was 8%. This would be locked in and compounded on your money from the prior year. So in this example you would have 1, 2, 3 years of positive growth out of 4 and the one year when the index went down in this example by 17%, you would have lost no interest and no value of your account. That's called the annual re-set where it locks in your gain and re-sets every year. Do you have any questions right now on how that works. And usually they say, no they don't.

The third point, Bob and Mary, is when I show folks this wonderful formula, they are always amazed and say, Matt, this is phenomenal, I love it. It sounds so good. It almost sounds too good to be true and that comes to point number three. I always tell my clients that there is a limitation to this formula. It's not a bad limitation, but this is how the company makes money and can continue to offer it to you and all of my good clients. That's what's called an earnings cap.

Number three is an earnings cap. The earnings cap is currently 8%. So if this next year the index earned 10%, how much will you make? 8%, right. If the index earned 12%, how much would you get - 8%, right! Now if the index only went up 6%, guess how much you made. The full 6% because you earn all of the interest up to the cap. Now every year the insurance company can raise or lower the cap for the next year. If they raise it, of course, that's fine with us. But if they lower it, I always want to know what the minimum cap that they can institute. I'm happy to mention to you that the minimum cap this company can institute is 5%. That's the very lowest it could ever go. Not that they have ever gone that low, but that's the lowest they can go in the future.

The final point, that I will mention to you, Bob and Mary, is that this company offers a bonus. In this example I may use a company that has a 5% or 10% bonus. That means they are going to give you a 5% or 10% bonus on your first year deposit. There are very few companies that offer this type of a bonus. This company does. Bob and Mary, do you have any questions at all on how any of this works. And usually they say no.

Key Number 4 to Multi-Million Dollar EIA Sales is effective sales presentations, to help prospects make good decisions. I remember years ago, hearing Tommy Hopkins say, that closing the sale is really defined as helping people make decisions that are good for them. We really want to have the client's best interest at heart. We never want to sell any product based on the commission that we earn. You don't want to be commission driven, you want to be client driven.

We also need to understand that we have to effectively reach people logically and emotionally to help them make good decisions. It has also been said by Tommy Hopkins that people buy emotionally and then defend the sale with logic. So they have to feel excited, they have to feel that what you're offering is really going to enhance their lifestyle. Not just logically, but emotionally.

If you will follow these important four keys to multimillion dollar EIA sales, I can almost guarantee that you

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will at least double your closing ratio. Again, key number 1, understanding the safety of equity-indexed annuities. Very important for clients to know. Key number 2, knowing the moving parts of an equity indexed annuity, a goal for you to know as well as to simply explain to the client. Key number 3, using good probing and trial closing questions. It is extremely important to know if you have a qualified prospect you're spending time with and if you really understand the needs and concerns of the client. And key number 4 is effective sales presentations skills where you will give a presentation using the K.I.S.S. theory. Keeping It Short and Simple but making it complete. Helping them to feel that you have the right answers and solutions to what they are looking for and they're getting excited about it and willing to take your advice as their trusted advisor.

I hope this information has been valuable to you as it has been to me personally as a top producer. I want to close with the way I close every one of my Senior Financial Workshops. I didn't make this up, but it's a business philosophy I've used for years. I saw it outside a church many years ago and I pulled over to the side of the road and wrote this down. It simply says this. "You make a living by what you get, but you make a life by what you give." Hopefully I've given you some good information, ideas and suggestions that can help you better serve your clients, and also allow you to earn a greater income and be more effective in the marketplace.