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Retirement Distribution Sales Force Training

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Retirement Distribution Sales Force Training

As the leading edge of the baby boom generation begins to enter retirement, a significant opportunity arises for the financial services industry to provide advice and solutions on how best to preserve retirement assets and to create income in retirement. This Research Briefing survey focuses on methods and topics of distribution training, along with the incentives companies provide to producers to encourage their development of distribution knowledge. Twenty-seven companies participated.

Key Findings

** • Fifty-four percent of the companies strongly agree that providing advice on the distribution of accumulated assets is an integral component of their companies' growth strategies.

** • A majority of companies believe their sales forces are not well trained to advise clients on how to distribute accumulated assets. Only one of the companies surveyed strongly agrees that the producers selling its retirement products are well qualified to advise clients on these issues.

• Companies are using a variety of methods to train producers on the distribution of accumulated assets during retirement; methods include printed materials, online materials, training sessions and seminars, and meetings and conferences.

• Training topics commonly used to educate producers include distribution options, minimum distribution requirements, early withdrawal penalties before age 59 1/2, and retirement risks.

A significant amount of attention has been given to the baby boomers' move toward retirement and the opportunity this shift presents to the financial services industry. July 1, 2005 represented an important milestone: the first of the 78 million* baby boomers turned 59 1/2 and became eligible to take money from qualified retirement plans and IRAs without penalty. Prior to age 59 1/2, a 10 percent early withdrawal penalty is imposed on these distributions under most circumstances. As the leading edge of the baby boom generation passes this milestone, a significant opportunity arises for the financial services industry to provide advice and solutions on how to preserve assets and create income in retirement.

Boomers will require significant help to ensure secure retirements for a variety of reasons:

- Eighty-five percent of boomers nearing retirement do not have formal plans to transform their retirement savings into a steady stream of retirement income.[1]
- Boomers are less likely than their parents to be covered by defined benefit plans (42 percent covered in 1989 versus 24 percent in 2003).[2]
- Boomers will need to plan for longer lives as life expectancy continues to improve and retirement becomes a more active — and more expensive — phase of life.

Many companies are currently developing strategies to capitalize on the retirement distribution market. To be successful in implementing retirement distribution strategies, providers need to implement systems, develop and market products, and prepare their sales forces. This Research Briefing focuses on a factor of growing importance for many financial services firms: producer training.

Boomers' financial needs during retirement will be very different from their financial needs up to this point. Producers will have to balance saving and accumulating retirement assets with critical issues of the retirement phase, including:

* • Creating income by establishing withdrawal and distribution strategies and avoiding tax penalties

[1] Consumer Preferences for Retirement Planning Advice, LIMRA International, 2004.

[2] U.S. Department of Labor, Bureau of Labor Statistics

- Managing new risks in retirement such as those linked to longevity, long-term care, health care, inflation, and other potential challenges
- *Preserving and transferring assets through estate planning*

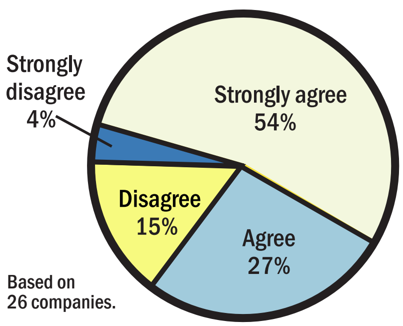
In order to assess how companies active in the retirement market are preparing their sales forces to facilitate distribution planning, LIMRA asked companies for their perspective on the following questions:

- How integral is the distribution of accumulated assets to their companies' growth strategies?
- Do producers understand how to help their clients effectively distribute their assets during retirement?
- What incentives are companies using to develop their producers' knowledge of distribution strategies?
- What are the major challenges they face regarding the baby-boom generation's distribution of accumulated assets?

Survey Results

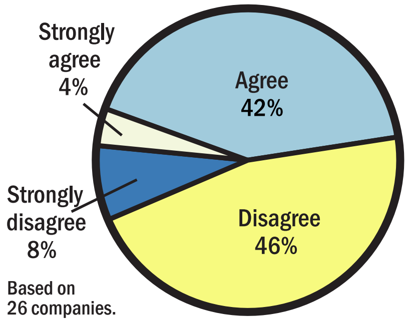
Gap Between Companies' Growth Strategies and Sales Force Expertise: Fifty-four percent of the responding companies strongly agree that advising on the distribution of accumulated assets is an integral component of their growth strategies (Figure 1). This result is not surprising given the number of companies currently developing retirement strategies for this market. Only 19 percent of the companies indicate that the distribution of accumulated assets is not an integral component of their growth strategies.

FIGURE 1
Distribution of Accumulated Assets Is Integral to Company Growth Strategy
Percent of Companies



Based on 26 companies.

FIGURE 2
Producers are Well Trained to Advise Clients on How to Distribute Accumulated Assets
Percent of Companies



Based on 26 companies.

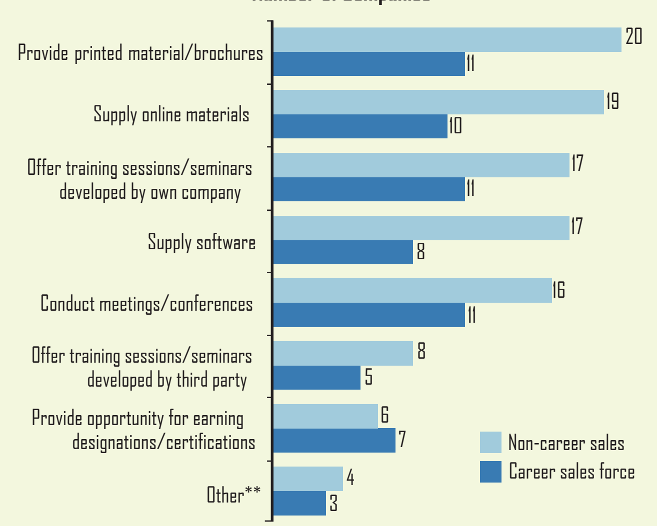
A majority of companies believe their sales forces are not well trained to advise clients on how to distribute accumulated assets: 54 percent of the companies either disagree or strongly disagree that their sales forces are well-trained (Figure 2). Only one of the companies strongly agrees that its producers are adequately trained for providing this kind of advice.

A gap exists between some of the companies' growth strategies and the level of expertise among the producers selling their retirement products. Many of the companies are developing strategies for the distribution market, but their producers have yet to go beyond their familiar accumulation strategies; they are not developing expertise in distribution issues and strategies. Companies will need to bridge this gap to effectively implement their growth initiatives.

Increasing producers' knowledge of various distribution strategies will improve their comfort level when offering distribution services and solutions to their clients. Clients will more likely consider these solutions if they feel they are receiving guidance from a knowledgeable professional. Companies can increase producers' knowledge through a variety of methods:

Training Methods: Companies commonly provide both career and non-career producers with brochures, printed and online materials, training sessions or seminars developed internally, and meetings and conferences to help develop their knowledge (Figure 3). Among

FIGURE 3
Methods Used to Train Sales Forces on Distribution of Accumulated Assets During Retirement
Number of Companies*



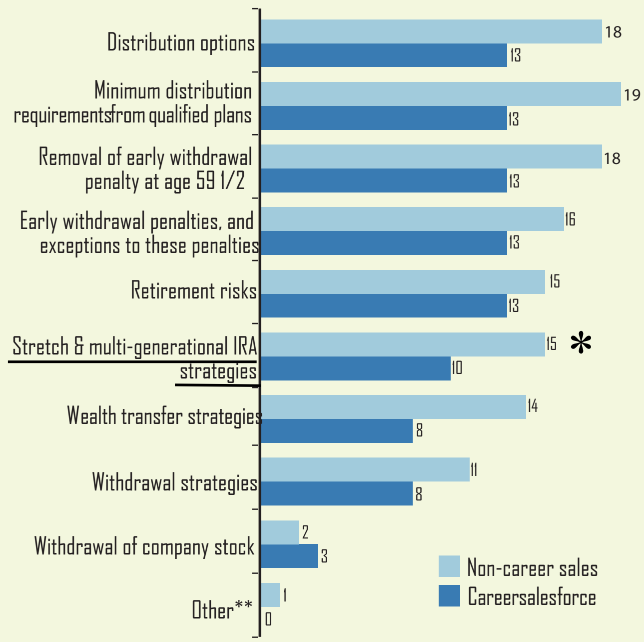
* Based on 27 companies. Two companies do not provide producers with any training on distribution-related issues. Seven of the companies indicate that they do not sell through the career channel and three of the companies indicate that they do not sell through non-career channels.

** "Other" includes: producer study groups; access to attorneys, advanced market counselors; advanced marketing team to help with qualified plans; formal classroom training for new reps; teleconferences; computer-based training.

companies offering training sessions or seminars, companies are twice as likely to offer their own training as they are to offer third-party training. Companies are also commonly providing non-career producers with software to help develop this knowledge.

Topics: Most companies provide education on topics specific to income generation and the tax implications associated with different withdrawal strategies (Figure 4). Penalties on early withdrawal from qualified retirement plans and the removal of these penalties at age 59 1/2 are commonly included. However, surveyed companies are less likely to offer education on actual strategies. Companies may be letting individual producers weigh the pros and cons of different approaches as they affect specific clients.

FIGURE 4
Topics of Education Offered to Producers
Number of Companies*



* Based on 27 companies. One company does not provide producers with any education on distribution. Seven of the companies indicate that they do not sell through the career channel and three of the companies indicate that they do not sell through non-career channels.

** "Other" includes: assistance of legal and other professional experts and field staff.

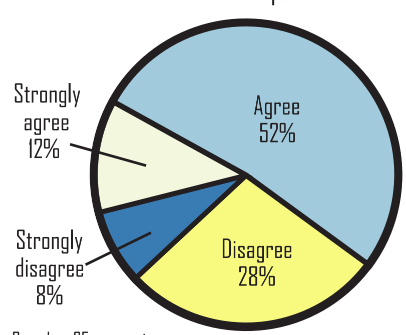
Managing retirement risks is a frequently offered topic. Producers need to be knowledgeable about the increasing risks retirees face in retirement to demonstrate the benefits that various retirement income products can provide. These risks include those associated with health, inflation, longevity, spousal survivor, investment, and long-term care.

Few companies offer producers educational training on the withdrawal of company stock from qualified retirement plans. With about 4 in 10 profit sharing/401(k) plans with company stock as an investment option,[3] it is important that producers understand the tax implications and how the distribution of stock can be best integrated when withdrawing other accumulated assets.

Incentives: In an effort to encourage career producers to develop their knowledge of distribution strategies, surveyed companies commonly cover the cost of various training and designation programs. A few of the companies also offer career producers cash incentives and bonuses for the completion of designations.

The majority of companies do not provide incentives to non-career producers to develop their knowledge of distribution strategies. Only a few companies offer CE credits to non-career producers to develop their distribution expertise. Some companies feel that producers should be sufficiently motivated to expand their knowledge of distribution strategies because it will increase their business, offer them additional assets, and allow them to differentiate themselves in the marketplace. One likely reason companies are reluctant to offer non-career producers incentives for this training is that these producers can apply it to sell products and services of other companies. The lack of incentives for non-career producers creates a dilemma for companies looking to expand their retirement distribution business using non-career channels.

FIGURE 5
The Industry Needs to Adopt Standard Qualifications For Producers Providing Retirement Distribution Advice
Percent of Companies



Based on 25 companies.

One possible solution: The industry can adopt a set of standard qualifications for producers who provide retirement distribution advice. The majority of companies surveyed — almost two thirds — either agree or strongly agree that the industry should adopt a set of standard qualifications (Figure 5).

** Challenges:*

Lack of Expetise: Not surprisingly, a common challenge facing companies involves the producers' lack of expertise regarding distribution strategies. Producers lack adequate training on annuitization and retirement risks. As a

3 Company Stock 2002: Examining Company Stock in Profit Sharing/401(k) Plans, Profit Sharing/401(k) Council of America, 2002.

result, the producers are uncomfortable presenting distribution strategies and solutions to their clients. Further, companies acknowledge that producers do not realize the opportunities and unique needs of the distribution market — thereby leaving business on the table. * *

Low Compensation and Loss of Control: Companies report that it is difficult to motivate producers to sell income products because the compensation provided is lower than that offered with accumulation products. LIMRA research indicates that the initial base compensation rates on immediate annuities range from 3 to 3.6 percent,[4] while the initial base compensation rate on variable deferred annuities is generally around 6 percent.[5] While all of the companies provide compensation on subsequent money paid into deferred variable annuities, only one third pay compensation on annuitization. To better align their compensation practices with their growth strategies, companies might consider increasing compensation on immediate annuities and providing compensation on annuitization.

Some of the responding companies report that producers fear they will lose control of the assets if they sell income products. Compensation structures should reflect the fact that representatives no longer have an opportunity to earn compensation from money invested in immediate annuities after the initial sale. LIMRA research indicates that sales representatives' loss of control over assets is the top compensation factor inhibiting sales growth of immediate annuities.[6] Offering asset-based (trail) compensation could help mitigate their concern.

Client Education: Most clients do not understand the importance of managing and protecting their accumulated assets. Clients are often unaware of the risks they face in retirement and how these risks can be managed. Therefore, they are less likely to seek out advice on these topics than on accumulation-based planning concerns. Producers must take the initiative and emphasize the importance of not outliving assets. Recent press regarding the privatization of Social Security should improve awareness of the need for other guaranteed sources of income during retirement. Companies and producers can leverage this opportunity by heavily promoting how income products provide guaranteed lifetime income.

For more infomation, go to Online With LIMRA (OWL) to view the following:

Research Briefings: Distribution Support Strategies in the Retirement Market (2005)
This Research Briefing investigates whether companies have created distribution support strategies for pursuing the retirement market, how they are supporting distributors, and what the industry considers the key factors for gaining a competitive advantage. Twenty-seven companies responded to the survey.

http://www.limra.com/members/abstracts/4831.aspx

Compensation Practices for Immediate Annuities (2005)
This study examines several key drivers of immediate annuity sales, including distribution, compensation, and sales and marketing tools. Fifty-eight companies provided data on 76 immediate annuities.

http://www.limra.com/members/abpdf/4823a.pdf

LIMRA thanks the following companies for participating in the survey:

AIG VALIC	Genworth Financial	Penn Mutual Life
AEGON-Transamerica Capital	Guaranty Income Life	Physicians Mutual
AEGON-Western Reserve Life	Integrity Companies	Presidential Life
American Equity Investment	John Hancock Annuities	Principal Financial Group
American Fidelity Assurance	Mennonite Mutual Aid	Shenandoah Life
Americo	Minnesota Life (Securian Financial)	The Hartford
Ameritas Acacia	Northwestern Mutual	Thrivent Financial for Lutherans
Cincinnati Life	Old Mutual Financial Network	TIAA-CREF
CUNA Mutual Life	OppenheimerFunds	Union Central Life

4 Compensation Practices for Immediate Annuities, LIMRA International, 2005.

5 Compensation Practices for Deferred Variable Annuities, LIMRA International, 2005.

6 Compensation Practices for Immediate Annuities, LIMRA International, 2005.

LIMRA's Retirement Research Center

LIMRA is the foremost authority helping financial services companies capitalize on the trends in the pre-and post-retirement planning market by:

- Integrating market and product data for all phases of retirement planning
- Providing ongoing and in-depth analyses of annuities and retirement plans
- Helping companies educate distributors and clients, as well as develop and implement retirement market strategy

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