

# FINRA and SEC Warn About Annuity Risks

FINRA is looking closely at disclosure, suitability and yield-chasing practices associated with VAs

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Officials from the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA) issued some warnings about annuities on Tuesday.

FINRA views variable annuities (VAs) as complex products, Daniel Sibears, executive vice president of member regulation programs at FINRA, told attendees at the Insured Retirement Institute's (IRI) government, legal and regulatory conference in Washington. VAs today "are more complicated with more riders and features," and like any other complex product that's on FINRA's radar screen, he warned attendees that FINRA is looking closely at disclosure, suitability and yield chasing practices associated with VAs. His advice: make sure you're doing the proper due diligence.

Indeed, Susan Nash, associate director of the SEC's Division of Investment Management, said during her remarks at the conference that despite the fact that sales of variable annuities increased approximately 12% in 2011 from 2010, some of the large, established firms in the VA space have either left the business or curtailed offerings. "The dynamic climate of changing economics and changing participants in the business makes this a time that calls for care in the design of variable products and attention to investor protection," she told attendees.

While living benefits have "figured prominently" in annuity sales in recent years, Nash said, "a central theme of filings" in the SEC's Office of Insurance Products this past year has been the "paring back of living benefits, and repricing of those benefits."

What's more, she said, the SEC staff "continues to see added restrictions on investment choices available to contract owners choosing these benefits. By limiting investments to more conservative portfolios, insurers limit their exposure to market volatility."

However, the problem with more restrictions, she said, is that the investor "may be paying more for a less generous living benefit, and in the bargain he or she has agreed to limit the investment options, thereby restricting the potential for participation in equity market gains."

That's why it's imperative, she continued, "that offering materials clearly highlight the costs and limitations associated with living benefits, so that investors can make an informed decision."

Nash also told attendees to be mindful of disclosures associated with contingent deferred annuities—products that are now being more widely used in defined contribution plans. "Among the innovative products in the marketplace is the minimum withdrawal benefit that is not tied to assets held in a variable annuity contract—often called a contingent deferred annuity," Nash said.

Although only about a dozen of these products have been registered with the SEC, they have generated "a lot of interest," she said, noting that the key concerns regard disclosure for contingent deferred annuities "generally parallel those of the minimum withdrawal benefits offered under variable annuities."

As with a living benefit under a variable annuity, there should be "clear disclosure of the limitations" that come with an investment in a contingent deferred annuity, Nash said.