InvestmentNews
The Leading Information Source for Financial Advisers

TIAA exit from life insurance market exposes void for RIAs

Fee-only advisers who want to sell clients life insurance without a commission have few options available

By Greg Iacurci | *June 28, 2019 - 1:52 pm EST*

TIAA's decision to exit the life insurance market by year-end exposes a glaring void, and challenge, for some financial advisers who recommend life insurance to clients.

TIAA, advisers said, is one of the few companies that sells no-load life insurance — basically, insurance sold without a commission. After this year, fee-only advisers will not only lose the biggest brand-name firm in this niche, but they'll have few options remaining.

"Even if they don't know it, I feel like people have lost a little bit from TIAA's exit from the marketplace," said Scott Witt, a fee-only insurance adviser. "It dramatically lessens the visibility and number of options available for those who don't want to go the traditional commission route."

Ameritas Life Insurance Corp. is the one other company advisers could readily point to that currently sells no-load policies. Even then, it sells only one kind, variable universal life insurance.

Since fee-only financial advisers and financial planners can't accept commissions, there appears to be a gaping shortfall in the insurance market from a product-availability perspective — a problem exacerbated by the shift that's occurred among advisory practices toward the fee-only model.

Ameritas spokesman Hunter Reeves said interest in its products has increased over the last 12 to 24 months.

Of course, advisers don't need a no-load policy to give life insurance advice — they could recommend a certain product to a client, who could then purchase it directly from an insurer. But no-load policies come in handy for advisers who bundle the insurance cash value into their assets-under-management compensation model and take an annual fee for their advice.

"If advisers want to be the ones to write the life insurance business, and it doesn't align with their compensation model, it causes a problem for them," Tom Love, vice president of insurance analytics at ValMark Financial Group, said of the challenge created by having few available no-load products.

Structurally, no-load policies have advantages for some clients — which become especially important as lawmakers at the federal and state level continue strengthening investment-advice standards for advisers.

New York state, for example, has a rule going into effect next year requiring life insurance sales to be in clients' best interests. The Certified Financial Planner Board of Standards Inc. also has a new fiduciary standard for financial planners taking effect this October.

No-load, cash-value life insurance avoids some of the traditional "gimmicks" of commission insurance, said Mr. Witt, owner of Witt Actuarial Services. Insurers that pay a commission to insurance agents have mechanisms to recoup this cost and other so-called acquisition expenses. The bulk of a client's first-year premium goes toward these expenses, essentially leaving their cash value at zero. Many companies also inflate cost of insurance charges during a policy's surrender period to recoup costs.

This gives an almost immediate leg up to no-load policies, in which the cash value isn't immediately eroded and has more runway to compound. Plus, there's almost complete liquidity because of the lack of a surrender charge.

(There's one caveat to this advantage, Mr. Witt said: While initial cash value is better in a no-load policy, it may not be if a client holds the policy for decades, depending on the interest that's credited to a no-load vs. commission policy.)

The good news for advisers is that the shifting regulatory environment is causing a few big brand-name insurers to explore offering no-load products, Mr. Love said. He declined to identify the companies due to nondisclosure agreements. TIAA's exit, however, may cause those firms to pump the brakes, Mr. Love said.

Michael Ross, president of advisory firm Financial Connection Inc., expects firms to debut more no-load products in the future as advisers trend more toward the fee-only model.

"There's not a lot of product out there right now — the companies haven't jumped in," Mr. Ross said. "I think as time goes on, they will."