



Villas, Castles, and Vacations

2017 EDITION

*Americans' New Protections from Financial Adviser
Kickbacks, High Fees, & Commissions are at Risk*



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In April 2016, President Obama and the Department of Labor (DOL) finalized a new rule to curb financial adviser conflicts of interest costing Americans saving for their retirement \$17 billion every year. That's \$17 billion being drained away by investment advisers who put their own financial interests ahead of the retirement security of their clients. Americans overwhelmingly support this new rule and are ready to see these conflicts of interest gone for good.¹

In two months, when this rule takes effect in April, they'll finally get their wish. The rule requires all advisers giving retirement advice to put their customers' interests first: no more kickbacks, fancy vacations, sky-high fees, or products that net the adviser a handsome commission, but hurt investors. Middle-class families will finally be able to trust that their financial advisers are working for their customers, not their own bottom line. That is, unless the giant financial companies who benefit from this corrupt status quo—and their armies of lawyers and lobbyists—successfully persuade President Trump and Republicans in Congress to halt this commonsense protection.

The financial industry and its army of lobbyists are salivating at the chance to delay this rule, the first step in their plan to make sure it never sees the light of day. They are fighting it tooth and nail—and they have 17 billion reasons to do so. So President Trump faces a simple choice: he can stand with the banks and financial advisers who put their own interests ahead of their clients', or he can stand with the millions of middle class Americans trying to build a little economic security for their retirement and put a stop to these conflicts and abuses once and for all.

This report describes and identifies the types of kickbacks and conflicts of interest that will be curbed if this rule goes into effect, as planned, on April 10, 2017. Sen. Warren first identified the scope of this problem in her October 2015 report, "Castles, Villas, and Vacations: How Perks and Giveaways Create Conflicts of Interest in the Annuity Industry," which detailed some of the most egregious forms of kickbacks in the industry. She asked her staff to conduct this latest investigation to determine the extent to which financial firms continue to use these tactics. This new report finds:

- Kickbacks in the financial industry, and particularly in the annuities industry, such as lavish vacations and cash prizes, remain

widespread. Companies are rewarding agents with trips to Playa Del Carmen, Mexico, the Ritz-Carlton Half Moon Bay resort, the "One & Only Palmilla" resort in Los Cabos, and dozens of other luxurious locales.



- The Department of Labor Conflict of Interest Rule will eliminate the worst industry kickbacks when it goes into effect in April, 2017.
- If President Trump delays the implementation of this rule, large financial firms will continue to take advantage of consumers and put perks like cruises and other lavish trips ahead of the retirement security of middle-class investors.

Kickbacks and Rewards for Annuity Sales Agents

In April 2015, Sen. Warren learned of a pernicious and widespread practice that was creating conflicts of interest that were harming many American families. Annuities are common investments made by seniors to ensure that they have a guaranteed income, protected from market risks, for life. These annuities can be good investments for some retirees but the sales practices in this \$225 billion

industry were fraught with problems: annuity providers were offering sales agents a vast range of perks—from cruises to lavish international travel to iPads to diamond-encrusted ‘NFL Super Bowl Style’ rings to cash and stock options—to entice sales of their products—regardless of whether they were the best investment for retirees.

Sen. Warren opened an investigation based on these findings, sending inquiries to the 15 largest annuity companies in the United States. What she learned was alarming. Thirteen of the fifteen companies—87%—offered kickbacks to their agents in exchange for sales to retirees. These kickbacks included luxurious, all-expenses-paid vacations to destinations like Aruba, the Bahamas, Ireland, and South Africa, golf outings, iPads and other electronics, expensive dinners, theatre or professional sports tickets, and sports memorabilia. And they failed to adequately inform consumers about these kickbacks, burying these vaguely phrased disclosures hundreds of pages into their prospectuses.²

These kickbacks create serious conflicts of interest. It’s far too easy for an adviser to sell just one more annuity, regardless of whether it is a prudent choice for the investor, when a free vacation or an international cruise is waiting for him on the other side of the sale. These conflicts can result in devastating consequences for retirees.³ In order to end these conflicts, DOL proposed a rule to require all financial advisers who are selling retirement products to put their customers’ interests first.

The DOL Conflict of Interest Rule Will End the Worst Kickbacks

The Conflict of Interest Rule put in place by DOL will put a stop to these harmful kickbacks. The new

rule prohibits financial firms from compensating their advisers in ways that encourage and reward them for making recommendations that are not in their clients’ best interest. This includes paying bonuses, providing prizes, having sales contests, using sales quotas, or creating other incentives that would cause advisers to put their own interests ahead of their clients’. Providing sales incentives such as luxury cruises and all-expense paid trips to tropical resorts would not be allowed under this standard.

While annuities can still be sold under the new rule and advisers and firms can still be compensated for their services, the sale of annuities must comply with certain conditions that are designed to protect the investor from conflicts of interest. This new standard will ensure that the best products and services thrive, while the worst products, services, kickbacks, and incentives leave the market. And if firms and advisers continue to push harmful products that are not in retirement investors’ interest, retirement investors will be able to hold their advisers and firms legally accountable for their harmful

practices. In short, whenever retirement investors receive recommendations to purchase annuities, these recommendations will be in their best interest, not their advisers’.

This rule is scheduled to be fully implemented on April 10, 2017.⁴ However, reports indicate that President Trump may delay and ultimately dismantle the rule, stripping middle-class families of its important consumer protections.⁵

In an effort to examine the impact of a delay or rollback of the rule, Sen. Warren’s staff investigated the continued use of vacation rewards and other perks by annuity and investment companies.



Companies Offering Incentives for Annuity and/or Insurance Sales in 2016 or 2017

CPS Insurance Services	“Vacation in the Vineyard,” “Power Producer Conference in Los Cabos, Mexico,” and more. ¹¹
American National Insurance	Five days and four night at “The One & Only Palmilla, Los Cabos, Mexico” ¹²
Legacy Marketing Group	Cash rewards ¹³
Assurity Life Insurance Company	“Ireland Leaders’ Conference” at the Westbury Hotel in Dublin, Ireland ¹⁴
American Equity Investment Life Insurance Company	“A Time to Remember” at the Walt Disney World Resort ¹⁵
Athene Annuity and Life Insurance Company	“Leaders of Olympus Explore Program” in Prague, Czech Republic ¹⁶
Forethought Life Insurance Company	“Elite Agent Bonus Program’ (cash rewards) ¹⁷
National Western Life Insurance Company	“Sales Conference” and “Champions Club” in Puerto Rico ¹⁸
Oxford Life Insurance Company	Choice of leads, travel, and cash rewards up to \$10,000 per year ¹⁹
Sentinel Security Life	“President’s Club Adventure” at the Banyan Tree Mayakoba resort in Playa Del Carmen, Mexico ²⁰
Davis Life & Annuity	5 nights and 6 days at “the exquisite” Fairmont le Chateau Frontenac in Quebec City, Canada ²¹
Americo Financial Life and Annuity Insurance Company	5 nights and 6 days at the Four Seasons Resort Maui at Wailea in Maui, HI ²²
Mutual of Omaha	Several days and nights at the Montage Laguna Beach in Laguna Beach, CA ²³
National Life Insurance Company	“Conference of Champions” at The Ritz-Carlton in Naples, FL ²⁴
Insurance Network America	“2017 INA Top Producer Cruise” on The Harmony of the Seas in the Caribbean ²⁵
Companion Life	“2017 Leaders Conference” at the Four Seasons Resort Nevis in Charlestown, St. Kitts & Nevis ²⁶
Gradient Annuity Brokerage	“Gradient Gala & Grand Gala” in Ireland and the “Gradient Summit” at the Ritz-Carlton in Amelia Island, FL ²⁷
First Annuity & Insurance Marketing	4 nights and 5 days at the Wailea Beach Marriott Resort & Spa in Maui, HI or at the Sonnenalp Hotel & Spa in Vail, CO ²⁸
Brokers Alliance	Depending on sales, several thousands of dollars in “travel credit” ²⁹
Royal Neighbors of America	“Agent Sales Trip” to the Four Seasons Jackson Hole in Jackson Hole, WY ³⁰
Liberty Bankers Life	“Viking Ocean Cruise” from Venice, Italy to Athens, Greece ³¹
North American Company for Life and Health Insurance	Cash rewards ³²
CreativeOne	Week-long trip to Ireland ³³
AIG Partners Group	“Leaders Development Conference” at The Ritz-Carlton in San Francisco, CA and the “Elite Leaders Development Conference” at The Ritz-Carlton in Half Moon Bay, CA ³⁴

Agents with even higher sales volumes are also invited to the three-day “Elite Leaders” event at the Ritz-Carlton Half Moon Bay resort.⁷

- The American National company offers its “top 80 qualifiers and their guest” a five day stay at “The One & Only Palmilla” resort in Los Cabos, Mexico in May 2017.⁸
- Assurity Life Insurance Company is offering a June 2017 trip – for agents and a guest - to the Westbury Hotel in Dublin, Ireland for its “Leaders’ Conference.” The company is explicit about its desire to keep the agency incentives hidden from consumers, advertising it to agents with a flyer that warns, “NOT TO BE FORWARDED TO CONSUMERS.”⁹
- The Legacy Marketing Group offers cash bonuses to agents who meet annuities sales targets.¹⁰
- Many other companies and third-party agent representatives offer similar travel and other

Continued Use of Kickbacks and Lavish Rewards by Annuity Companies

This new investigation provides important updates on the October 2015 investigation and demonstrates that, in the final months before the Conflict of Interest Rule goes into effect, annuity companies continue to offer lavish rewards to agents in exchange for sales, creating conflicts of interest that could harm consumers. For example:

- Sentinel Security Life’s “Top 15 Annuity Agents” can qualify for a May 2017 week-long trip to Playa Del Carmen, Mexico, known for its “palm-lined beaches, coral reefs, and scuba-diving.” Agents will stay at a resort “bringing you high-class hospitality and the finest experience of pristine coastlines and natural surroundings.”⁶
- AIG Partners Group, in order to “renew and strengthen bonds with our most valued distribution partners,” offers its top-selling annuity agents a May 2017 four-day stay—with a guest—at the Ritz-Carlton in San Francisco.

incentives to agents. Staff identified at least 25 companies that continued to offer these incentives in the months before the conflict of interests rule is set to go into effect.

The implication of the continued prevalence of these sales practices is clear: the financial industry will not get rid of these incentives on their own. If President Trump delays the rule's April 10th effective date, large financial firms will continue to take advantage of consumers and put perks like cruises and lavish vacations ahead of the retirement security of middle-class investors.

Conclusion

This investigation reveals that, even after Sen. Warren publicly identified the widespread use of travel incentives and other giveaways by annuity companies, and the ways in which these perks incentivize agents to offer products that are not in the best interest of consumers, they continue to be widely used. These gross abuses will be curbed by the DOL Conflict of Interest Rule that takes effect in April 2017. President Trump should stand up to the financial industry and assure the millions of hardworking Americans who are trying to save a little money for their retirement that he will not delay this rule.

Endnotes

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