

April 28, 2015

Peter D. Hancock  
Chief Executive Officer  
AIG Companies  
175 Water Street  
New York, NY 10038

Dear Mr. Hancock:

I am writing to seek information on rewards and incentives offered by your company to brokers and dealers who sell annuities to families and small investors. I am particularly concerned about annuities that are sold to individuals on the verge of retirement. Because they have little time or ability to recover potential losses, these retirees are especially vulnerable to poor investment decisions.

A preliminary review by my staff reveals that annuity providers offer a vast range of perks – from cruises to international travel to iPads to diamond-encrusted “NFL Super Bowl Style” rings to cash and stock options – to entice sales of their products. I am concerned that these incentives present a conflict of interest for agents and financial advisers that could result in these agents providing inadequate advice about annuities to investors and selling products that may not meet the retirement investment needs of their buyers.

In 2003, the securities industry ended non-cash compensation arrangements in which brokers and dealers were allowed potential conflicts of interest in the stocks and bonds that they recommended for clients.<sup>1</sup> But the annuity industry has not ended these practices, and public reporting, company disclosures, and new information obtained by my staff indicates that annuity dealers often have significant financial conflicts of interest that could prevent them from offering their clients the best individual options.

This letter provides additional information on the scope of the problem and the information I seek to obtain as part of my investigation.

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## Structure of the Annuities Market

Over \$235 billion worth of annuities are sold to customers each year in the United States.<sup>2</sup> These annuities are sold through a network of individual agents and advisers that work directly with customers. Agents and advisers work with middlemen known as Sales & Marketing Organizations (SMOs) and Field Marketing Organizations (FMOs) that act as distributors or wholesalers of the annuity products created and serviced by annuity carriers or insurers. Both agents and SMOs/FMOs earn commissions and fees from the sale of annuities. One financial analyst described the concerns with this approach:

Because the business is highly profitable, and the product difficult to sell, insurance companies pay obscenely high commissions. These commissions are just the right incentive for highly motivated product salesmen, but may not lead to appropriate recommendations for consumers. It's not an accident that objective, fee-only advisors hardly ever recommend annuities, while commissioned sales people seem to love them.<sup>3</sup>

### Use of Cruises, Vacations and Other Perks for Annuity Agents

Concerns about agents and financial advisers acting in the best interests of their clients are exacerbated by additional perks, such as cruises, luxury vacations, cash and stock awards, iPads, and other gifts that are given by annuity companies and FMOs to agents and advisers.

According to one industry expert:

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These trips are so frequently used as incentives for agents to sell annuities that the same expert noted that FMO's have "turned into glorified travel agencies."<sup>5</sup>

Although these perks are widely known within the industry, there has been little public attention to the extent and type of awards given to agents for selling annuities or the impact that these kickbacks may have on agent behavior. But investigation of publicly available information by my staff reveals scores of cruises, trips, and other rewards for agents. Though marketed as sales incentives, they often appear to be kickbacks directed at annuity agents and brokers. Examples of these rewards include:

- A trip to San Francisco offered by American Equity, that includes a stay "at the world famous Ritz Carlton-San Francisco,<sup>6</sup> and for "upper-most producers ... our most exclusive retreat. ... four days in the heart of California's wine country at the prestigious Calistoga Ranch and Spa."<sup>7</sup> The trips are available to agents with sales that reach an annual "\$3 million annuity premium."
- Cash and stock payouts to American Equity agents that reach "Gold Eagle Elite Level Benefits" by reaching sales goals of \$2 million annually in annuity premiums.<sup>8</sup> Under this program, agents with sales of over \$20 million can receive cash awards of \$80,000 or more, and restricted stock awards in the company worth \$120,000 or more.
- Two trips – one to Oahu for agents with \$165,000 in sales, and one to South Africa to visit "Cape Town and Kruger National Park" for agents with \$420,000 in sales, offered by the Lincoln Financial Group. The company notes in a brochure that "PREMIER PARTNERS qualify for premier destinations."<sup>9</sup>

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- For “the best of the best” agents – those who reach sales goals of \$4 million – the opportunity to “tour the Mediterranean on a private yacht, like royalty, celebrities, and the wealthy elite,” offered by the annuity carrier Annexus.<sup>10</sup>

There are many other incentives offered by annuity carriers and FMOs. The FMO Lineage Partners LLC – noting that “everyone likes to get that little something extra,” offers a variety of incentives, including laptops, Bose sound systems, iPads, a “magnificent award” of a custom Bulova watch, a Mercedes Benz lease, and a diamond-encrusted “NFL Super Bowl Style ring with high quality gold and a Ruby in the middle.”<sup>11</sup> Similarly, Magellan Financial Services offer a “fast-start incentive” of an iPad or iPad Air for agents that meet 30-day sales goals.<sup>12</sup> The same company – alerting agents that they should “get started earning the level of rewards you deserve,” offers agents that meet sales goals up to \$3,500 to “put toward your next workshop, mailer or advertising costs.”<sup>13</sup>

My staff identified these and many other questionable rewards for annuity providers. But it appears that most agents and brokers do not disclose these payments, and that most buyers have no knowledge that their annuity sales agent may be motivated by anything besides their financial interests.

### Summary and Questions

The widespread offers of incentives like luxury cruises and other vacations, cash and stock options, and a range of other rewards – from iPads to Mercedes Benz leases – appears to present a clear and obvious conflict of interest for brokers and agents that sell annuities. One expert concluded:

Agent recommendations are too often motivated by the trip they will go on or the gift they will earn if they sell enough of a particular annuity. This lack of industry regulation obviously fosters inappropriate sales practices...when a trip to France is on the line with an annuity sale, my fear is that some agents lose their client focus and fiduciary responsibility too often takes a back seat.<sup>14</sup>

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I am troubled by this industry incentive system. Annuity agents that are more interested in earning perks than in acting in their clients' best interest can place Americans' savings and retirement security at risk.

In order for me to fully understand the extent of the use of rewards and incentives by annuity providers, I ask that you provide me with the following information:

1. A list of all incentives – including cash awards, cruises or other vacations, electronics, jewelry, and any other items of value – that are awarded by your company to agents, brokers, FMOs, or other sellers or middlemen involved in sales of your annuity products.
2. Documents and information provided to agents, brokers, FMOs, or other sellers or middlemen involved in sales of your annuity products describing the incentives and the qualifications for earning those incentives.
3. Information on the number of each of these incentives awarded to agents, brokers, FMOs, or other sellers or middlemen involved in sales of your annuity products, and the total value of each of those incentives.
4. A copy of your company policies for disclosing and describing sales incentives and conflicts of interests to annuity purchasers.

Please provide me with this information no later than May 11, 2015. Please contact Brian Cohen or Lindsay Owens of my staff if you have any questions about this letter.

Sincerely,



Elizabeth Warren  
Ranking Member, Subcommittee on Economic Policy

ELIZABETH WARREN  
MASSACHUSETTS

COMMITTEES  
BANKING, HOUSING, AND URBAN AFFAIRS  
HEALTH, EDUCATION, LABOR, AND PENSIONS  
ENERGY AND NATURAL RESOURCES  
SPECIAL COMMITTEE ON AGING

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SPRINGFIELD, MA 01103  
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[www.warren.senate.gov](http://www.warren.senate.gov)

Walter White  
Chief Executive Officer  
Allianz Life Insurance Company of North America  
PO Box 1344  
Minneapolis, MN 55416

Dear Mr. White:

I am writing to seek information on rewards and incentives offered by your company to brokers and dealers who sell annuities to families and small investors. I am particularly concerned about annuities that are sold to individuals on the verge of retirement. Because they have little time or ability to recover potential losses, these retirees are especially vulnerable to poor investment decisions.

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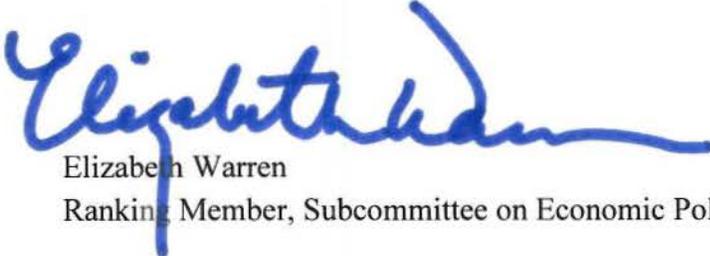
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Sincerely,



Elizabeth Warren  
Ranking Member, Subcommittee on Economic Policy

ELIZABETH WARREN  
MASSACHUSETTS

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BANKING, HOUSING, AND URBAN AFFAIRS  
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ENERGY AND NATURAL RESOURCES  
SPECIAL COMMITTEE ON AGING

## United States Senate

April 28, 2015

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1500 MAIN STREET  
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SPRINGFIELD, MA 01103  
P: 413-788-2690

[www.warren.senate.gov](http://www.warren.senate.gov)

John M. Matovina  
Chief Executive Officer  
American Equity Investment Life  
PO Box 71216  
Des Moines, IA 50325

Dear Mr. Matovina:

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There are many other incentives offered by annuity carriers and FMOs. The FMO Lineage Partners LLC – noting that “everyone likes to get that little something extra,” offers a variety of incentives, including laptops, Bose sound systems, iPads, a “magnificent award” of a custom Bulova watch, a Mercedes Benz lease, and a diamond-encrusted “NFL Super Bowl Style ring with high quality gold and a Ruby in the middle.”<sup>11</sup> Similarly, Magellan Financial Services offer a “fast-start incentive” of an iPad or iPad Air for agents that meet 30-day sales goals.<sup>12</sup> The same company – alerting agents that they should “get started earning the level of rewards you deserve,” offers agents that meet sales goals up to \$3,500 to “put toward your next workshop, mailer or advertising costs.”<sup>13</sup>

My staff identified these and many other questionable rewards for annuity providers. But it appears that most agents and brokers do not disclose these payments, and that most buyers have no knowledge that their annuity sales agent may be motivated by anything besides their financial interests.

### Summary and Questions

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I am troubled by this industry incentive system. Annuity agents that are more interested in earning perks than in acting in their clients' best interest can place Americans' savings and retirement security at risk.

In order for me to fully understand the extent of the use of rewards and incentives by annuity providers, I ask that you provide me with the following information:

1. A list of all incentives – including cash awards, cruises or other vacations, electronics, jewelry, and any other items of value – that are awarded by your company to agents, brokers, FMOs, or other sellers or middlemen involved in sales of your annuity products.
2. Documents and information provided to agents, brokers, FMOs, or other sellers or middlemen involved in sales of your annuity products describing the incentives and the qualifications for earning those incentives.
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4. A copy of your company policies for disclosing and describing sales incentives and conflicts of interests to annuity purchasers.

Please provide me with this information no later than May 11, 2015. Please contact Brian Cohen or Lindsay Owens of my staff if you have any questions about this letter.

Sincerely,



Elizabeth Warren  
Ranking Member, Subcommittee on Economic Policy

April 28, 2015

Mark Wilson  
Chief Executive Officer  
AVIVA  
7700 Mills Civic Parkway  
West Des Moines, IA 50266

Dear Mr. Wilson:

I am writing to seek information on rewards and incentives offered by your company to brokers and dealers who sell annuities to families and small investors. I am particularly concerned about annuities that are sold to individuals on the verge of retirement. Because they have little time or ability to recover potential losses, these retirees are especially vulnerable to poor investment decisions.

A preliminary review by my staff reveals that annuity providers offer a vast range of perks – from cruises to international travel to iPads to diamond-encrusted “NFL Super Bowl Style” rings to cash and stock options – to entice sales of their products. I am concerned that these incentives present a conflict of interest for agents and financial advisers that could result in these agents providing inadequate advice about annuities to investors and selling products that may not meet the retirement investment needs of their buyers.

In 2003, the securities industry ended non-cash compensation arrangements in which brokers and dealers were allowed potential conflicts of interest in the stocks and bonds that they recommended for clients.<sup>1</sup> But the annuity industry has not ended these practices, and public reporting, company disclosures, and new information obtained by my staff indicates that annuity dealers often have significant financial conflicts of interest that could prevent them from offering their clients the best individual options.

This letter provides additional information on the scope of the problem and the information I seek to obtain as part of my investigation.

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## Structure of the Annuities Market

Over \$235 billion worth of annuities are sold to customers each year in the United States.<sup>2</sup> These annuities are sold through a network of individual agents and advisers that work directly with customers. Agents and advisers work with middlemen known as Sales & Marketing Organizations (SMOs) and Field Marketing Organizations (FMOs) that act as distributors or wholesalers of the annuity products created and serviced by annuity carriers or insurers. Both agents and SMOs/FMOs earn commissions and fees from the sale of annuities. One financial analyst described the concerns with this approach:

Because the business is highly profitable, and the product difficult to sell, insurance companies pay obscenely high commissions. These commissions are just the right incentive for highly motivated product salesmen, but may not lead to appropriate recommendations for consumers. It's not an accident that objective, fee-only advisers hardly ever recommend annuities, while commissioned sales people seem to love them.<sup>3</sup>

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Concerns about agents and financial advisers acting in the best interests of their clients are exacerbated by additional perks, such as cruises, luxury vacations, cash and stock awards, iPads, and other gifts that are given by annuity companies and FMOs to agents and advisers.

According to one industry expert:

[A]gent recommendations are too often motivated by the trip they will go on or the gift they will earn if they sell enough of a particular annuity. ... the annuity industry isn't just fixated on trips to Europe or Cabo for their best-selling agents. I've also seen recent incentives for motorcycles and exotic cars — and iPads are given away like candy for just a few annuity sales.<sup>4</sup>

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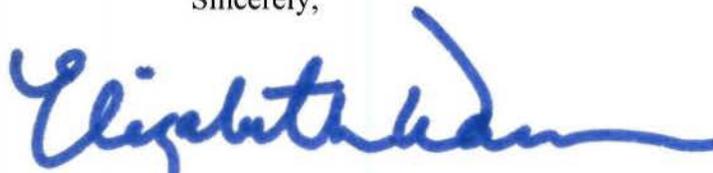
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Elizabeth Warren  
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ELIZABETH WARREN  
MASSACHUSETTS

COMMITTEES

BANKING, HOUSING, AND URBAN AFFAIRS

HEALTH, EDUCATION, LABOR, AND PENSIONS

ENERGY AND NATURAL RESOURCES

SPECIAL COMMITTEE ON AGING

United States Senate

April 28, 2015

UNITED STATES SENATE  
WASHINGTON, DC 20510-2105  
P. 202-224-4543

7400 JFK FEDERAL BUILDING  
15 NEW SUDBURY STREET  
BOSTON, MA 02203  
P. 617-565-3170

1500 MAIN STREET  
SUITE 406  
SPRINGFIELD, MA 01103  
P. 413-788-2690

[www.warren.senate.gov](http://www.warren.senate.gov)

Mark Pearson  
Chief Executive Officer  
AXA Equitable  
1290 Avenue of the Americas  
New York, NY 10104

Dear Mr. Pearson:

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## **Structure of the Annuities Market**

Over \$235 billion worth of annuities are sold to customers each year in the United States.<sup>2</sup> These annuities are sold through a network of individual agents and advisers that work directly with customers. Agents and advisers work with middlemen known as Sales & Marketing Organizations (SMOs) and Field Marketing Organizations (FMOs) that act as distributors or wholesalers of the annuity products created and serviced by annuity carriers or insurers. Both agents and SMOs/FMOs earn commissions and fees from the sale of annuities. One financial analyst described the concerns with this approach:

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Please provide me with this information no later than May 11, 2015. Please contact Brian Cohen or Lindsay Owens of my staff if you have any questions about this letter.

Sincerely,



Elizabeth Warren  
Ranking Member, Subcommittee on Economic Policy

April 28, 2015

Michael A. Wells  
Chief Executive Officer  
Jackson National Life Insurance Company  
1 Corporate Way  
Lansing, MI 48951

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There are many other incentives offered by annuity carriers and FMOs. The FMO Lineage Partners LLC – noting that “everyone likes to get that little something extra,” offers a variety of incentives, including laptops, Bose sound systems, iPads, a “magnificent award” of a custom Bulova watch, a Mercedes Benz lease, and a diamond-encrusted “NFL Super Bowl Style ring with high quality gold and a Ruby in the middle.”<sup>11</sup> Similarly, Magellan Financial Services offer a “fast-start incentive” of an iPad or iPad Air for agents that meet 30-day sales goals.<sup>12</sup> The same company – alerting agents that they should “get started earning the level of rewards you deserve,” offers agents that meet sales goals up to \$3,500 to “put toward your next workshop, mailer or advertising costs.”<sup>13</sup>

My staff identified these and many other questionable rewards for annuity providers. But it appears that most agents and brokers do not disclose these payments, and that most buyers have no knowledge that their annuity sales agent may be motivated by anything besides their financial interests.

### Summary and Questions

The widespread offers of incentives like luxury cruises and other vacations, cash and stock options, and a range of other rewards – from iPads to Mercedes Benz leases – appears to present a clear and obvious conflict of interest for brokers and agents that sell annuities. One expert concluded:

Agent recommendations are too often motivated by the trip they will go on or the gift they will earn if they sell enough of a particular annuity. This lack of industry regulation obviously fosters inappropriate sales practices...when a trip to France is on the line with an annuity sale, my fear is that some agents lose their client focus and fiduciary responsibility too often takes a back seat.<sup>14</sup>

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I am troubled by this industry incentive system. Annuity agents that are more interested in earning perks than in acting in their clients' best interest can place Americans' savings and retirement security at risk.

In order for me to fully understand the extent of the use of rewards and incentives by annuity providers, I ask that you provide me with the following information:

1. A list of all incentives – including cash awards, cruises or other vacations, electronics, jewelry, and any other items of value – that are awarded by your company to agents, brokers, FMOs, or other sellers or middlemen involved in sales of your annuity products.
2. Documents and information provided to agents, brokers, FMOs, or other sellers or middlemen involved in sales of your annuity products describing the incentives and the qualifications for earning those incentives.
3. Information on the number of each of these incentives awarded to agents, brokers, FMOs, or other sellers or middlemen involved in sales of your annuity products, and the total value of each of those incentives.
4. A copy of your company policies for disclosing and describing sales incentives and conflicts of interests to annuity purchasers.

Please provide me with this information no later than May 11, 2015. Please contact Brian Cohen or Lindsay Owens of my staff if you have any questions about this letter.

Sincerely,



Elizabeth Warren  
Ranking Member, Subcommittee on Economic Policy

ELIZABETH WARREN  
MASSACHUSETTS

COMMITTEES:  
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ENERGY AND NATURAL RESOURCES  
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## United States Senate

April 28, 2015

UNITED STATES SENATE  
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2400 JFK FEDERAL BUILDING  
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BOSTON, MA 02203  
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1500 MAIN STREET  
SUITE 406  
SPRINGFIELD, MA 01103  
P: 413-788-2690

[www.warren.senate.gov](http://www.warren.senate.gov)

Dennis R. Glass  
Chief Executive Officer  
Lincoln Financial Group  
1300 South Clinton Street  
Fort Wayne, IN 46802

Dear Mr. Glass:

I am writing to seek information on rewards and incentives offered by your company to brokers and dealers who sell annuities to families and small investors. I am particularly concerned about annuities that are sold to individuals on the verge of retirement. Because they have little time or ability to recover potential losses, these retirees are especially vulnerable to poor investment decisions.

A preliminary review by my staff reveals that annuity providers offer a vast range of perks – from cruises to international travel to iPads to diamond-encrusted “NFL Super Bowl Style” rings to cash and stock options – to entice sales of their products. I am concerned that these incentives present a conflict of interest for agents and financial advisers that could result in these agents providing inadequate advice about annuities to investors and selling products that may not meet the retirement investment needs of their buyers.

In 2003, the securities industry ended non-cash compensation arrangements in which brokers and dealers were allowed potential conflicts of interest in the stocks and bonds that they recommended for clients.<sup>1</sup> But the annuity industry has not ended these practices, and public reporting, company disclosures, and new information obtained by my staff indicates that annuity dealers often have significant financial conflicts of interest that could prevent them from offering their clients the best individual options.

This letter provides additional information on the scope of the problem and the information I seek to obtain as part of my investigation.

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## **Structure of the Annuities Market**

Over \$235 billion worth of annuities are sold to customers each year in the United States.<sup>2</sup> These annuities are sold through a network of individual agents and advisers that work directly with customers. Agents and advisers work with middlemen known as Sales & Marketing Organizations (SMOs) and Field Marketing Organizations (FMOs) that act as distributors or wholesalers of the annuity products created and serviced by annuity carriers or insurers. Both agents and SMOs/FMOs earn commissions and fees from the sale of annuities. One financial analyst described the concerns with this approach:

Because the business is highly profitable, and the product difficult to sell, insurance companies pay obscenely high commissions. These commissions are just the right incentive for highly motivated product salesmen, but may not lead to appropriate recommendations for consumers. It's not an accident that objective, fee-only advisors hardly ever recommend annuities, while commissioned sales people seem to love them.<sup>3</sup>

### **Use of Cruises, Vacations and Other Perks for Annuity Agents**

Concerns about agents and financial advisers acting in the best interests of their clients are exacerbated by additional perks, such as cruises, luxury vacations, cash and stock awards, iPads, and other gifts that are given by annuity companies and FMOs to agents and advisers.

According to one industry expert:

[A]gent recommendations are too often motivated by the trip they will go on or the gift they will earn if they sell enough of a particular annuity. ... the annuity industry isn't just fixated on trips to Europe or Cabo for their best-selling agents. I've also seen recent incentives for motorcycles and exotic cars — and iPads are given away like candy for just a few annuity sales.<sup>4</sup>

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## United States Senate

April 28, 2015

UNITED STATES SENATE  
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1500 MAIN STREET  
SUITE 406  
SPRINGFIELD, MA 01103  
P: 413-788-2690

[www.warren.senate.gov](http://www.warren.senate.gov)

Steven A. Kandarian  
Chief Executive Officer  
MetLife  
1095 Avenue of the Americas  
New York, NY 10036

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Please provide me with this information no later than May 11, 2015. Please contact Brian Cohen or Lindsay Owens of my staff if you have any questions about this letter.

Sincerely,



Elizabeth Warren  
Ranking Member, Subcommittee on Economic Policy

ELIZABETH WARREN  
MASSACHUSETTS

COMMITTEES:  
BANKING, HOUSING, AND URBAN AFFAIRS  
HEALTH, EDUCATION, LABOR, AND PENSIONS  
ENERGY AND NATURAL RESOURCES  
SPECIAL COMMITTEE ON AGING

## United States Senate

April 28, 2015

UNITED STATES SENATE  
WASHINGTON, DC 20510-2105  
P: 202-224-4543

2400 JFK FEDERAL BUILDING  
15 NEW SUDBURY STREET  
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1500 MAIN STREET  
SUITE 406  
SPRINGFIELD, MA 01103  
P: 413-788-2690

[www.warren.senate.gov](http://www.warren.senate.gov)

Stephen S. Rasmussen  
Chief Executive Officer  
Nationwide Financial  
One Nationwide Plaza  
Columbus, OH 43215

Dear Mr. Rasmussen:

I am writing to seek information on rewards and incentives offered by your company to brokers and dealers who sell annuities to families and small investors. I am particularly concerned about annuities that are sold to individuals on the verge of retirement. Because they have little time or ability to recover potential losses, these retirees are especially vulnerable to poor investment decisions.

A preliminary review by my staff reveals that annuity providers offer a vast range of perks – from cruises to international travel to iPads to diamond-encrusted “NFL Super Bowl Style” rings to cash and stock options – to entice sales of their products. I am concerned that these incentives present a conflict of interest for agents and financial advisers that could result in these agents providing inadequate advice about annuities to investors and selling products that may not meet the retirement investment needs of their buyers.

In 2003, the securities industry ended non-cash compensation arrangements in which brokers and dealers were allowed potential conflicts of interest in the stocks and bonds that they recommended for clients.<sup>1</sup> But the annuity industry has not ended these practices, and public reporting, company disclosures, and new information obtained by my staff indicates that annuity dealers often have significant financial conflicts of interest that could prevent them from offering their clients the best individual options.

This letter provides additional information on the scope of the problem and the information I seek to obtain as part of my investigation.

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## Structure of the Annuities Market

Over \$235 billion worth of annuities are sold to customers each year in the United States.<sup>2</sup> These annuities are sold through a network of individual agents and advisers that work directly with customers. Agents and advisers work with middlemen known as Sales & Marketing Organizations (SMOs) and Field Marketing Organizations (FMOs) that act as distributors or wholesalers of the annuity products created and serviced by annuity carriers or insurers. Both agents and SMOs/FMOs earn commissions and fees from the sale of annuities. One financial analyst described the concerns with this approach:

Because the business is highly profitable, and the product difficult to sell, insurance companies pay obscenely high commissions. These commissions are just the right incentive for highly motivated product salesmen, but may not lead to appropriate recommendations for consumers. It's not an accident that objective, fee-only advisors hardly ever recommend annuities, while commissioned sales people seem to love them.<sup>3</sup>

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Concerns about agents and financial advisers acting in the best interests of their clients are exacerbated by additional perks, such as cruises, luxury vacations, cash and stock awards, iPads, and other gifts that are given by annuity companies and FMOs to agents and advisers.

According to one industry expert:

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These trips are so frequently used as incentives for agents to sell annuities that the same expert noted that FMO's have "turned into glorified travel agencies."<sup>5</sup>

Although these perks are widely known within the industry, there has been little public attention to the extent and type of awards given to agents for selling annuities or the impact that these kickbacks may have on agent behavior. But investigation of publicly available information by my staff reveals scores of cruises, trips, and other rewards for agents. Though marketed as sales incentives, they often appear to be kickbacks directed at annuity agents and brokers. Examples of these rewards include:

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There are many other incentives offered by annuity carriers and FMOs. The FMO Lineage Partners LLC – noting that “everyone likes to get that little something extra,” offers a variety of incentives, including laptops, Bose sound systems, iPads, a “magnificent award” of a custom Bulova watch, a Mercedes Benz lease, and a diamond-encrusted “NFL Super Bowl Style ring with high quality gold and a Ruby in the middle.”<sup>11</sup> Similarly, Magellan Financial Services offer a “fast-start incentive” of an iPad or iPad Air for agents that meet 30-day sales goals.<sup>12</sup> The same company – alerting agents that they should “get started earning the level of rewards you deserve,” offers agents that meet sales goals up to \$3,500 to “put toward your next workshop, mailer or advertising costs.”<sup>13</sup>

My staff identified these and many other questionable rewards for annuity providers. But it appears that most agents and brokers do not disclose these payments, and that most buyers have no knowledge that their annuity sales agent may be motivated by anything besides their financial interests.

### **Summary and Questions**

The widespread offers of incentives like luxury cruises and other vacations, cash and stock options, and a range of other rewards – from iPads to Mercedes Benz leases – appears to present a clear and obvious conflict of interest for brokers and agents that sell annuities. One expert concluded:

Agent recommendations are too often motivated by the trip they will go on or the gift they will earn if they sell enough of a particular annuity. This lack of industry regulation obviously fosters inappropriate sales practices...when a trip to France is on the line with an annuity sale, my fear is that some agents lose their client focus and fiduciary responsibility too often takes a back seat.<sup>14</sup>

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I am troubled by this industry incentive system. Annuity agents that are more interested in earning perks than in acting in their clients' best interest can place Americans' savings and retirement security at risk.

In order for me to fully understand the extent of the use of rewards and incentives by annuity providers, I ask that you provide me with the following information:

1. A list of all incentives – including cash awards, cruises or other vacations, electronics, jewelry, and any other items of value – that are awarded by your company to agents, brokers, FMOs, or other sellers or middlemen involved in sales of your annuity products.
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MASSACHUSETTS

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Theodore A. Mathas  
Chief Executive Officer  
New York Life  
51 Madison Avenue  
New York, NY 10010

Dear Mr. Mathas:

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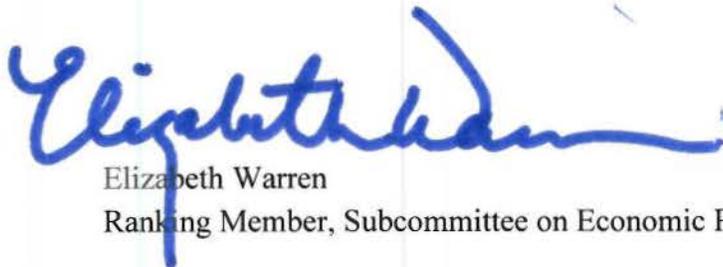
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Elizabeth Warren  
Ranking Member, Subcommittee on Economic Policy

ELIZABETH WARREN  
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[www.warren.senate.gov](http://www.warren.senate.gov)

James T. Morris  
Chief Executive Officer  
Pacific Life  
PO Box 9000  
Newport Beach, CA 92660

Dear Mr. Morris:

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- For “the best of the best” agents – those who reach sales goals of \$4 million – the opportunity to “tour the Mediterranean on a private yacht, like royalty, celebrities, and the wealthy elite,” offered by the annuity carrier Annexus.<sup>10</sup>

There are many other incentives offered by annuity carriers and FMOs. The FMO Lineage Partners LLC – noting that “everyone likes to get that little something extra,” offers a variety of incentives, including laptops, Bose sound systems, iPads, a “magnificent award” of a custom Bulova watch, a Mercedes Benz lease, and a diamond-encrusted “NFL Super Bowl Style ring with high quality gold and a Ruby in the middle.”<sup>11</sup> Similarly, Magellan Financial Services offer a “fast-start incentive” of an iPad or iPad Air for agents that meet 30-day sales goals.<sup>12</sup> The same company – alerting agents that they should “get started earning the level of rewards you deserve,” offers agents that meet sales goals up to \$3,500 to “put toward your next workshop, mailer or advertising costs.”<sup>13</sup>

My staff identified these and many other questionable rewards for annuity providers. But it appears that most agents and brokers do not disclose these payments, and that most buyers have no knowledge that their annuity sales agent may be motivated by anything besides their financial interests.

### Summary and Questions

The widespread offers of incentives like luxury cruises and other vacations, cash and stock options, and a range of other rewards – from iPads to Mercedes Benz leases – appears to present a clear and obvious conflict of interest for brokers and agents that sell annuities. One expert concluded:

Agent recommendations are too often motivated by the trip they will go on or the gift they will earn if they sell enough of a particular annuity. This lack of industry regulation obviously fosters inappropriate sales practices...when a trip to France is on the line with an annuity sale, my fear is that some agents lose their client focus and fiduciary responsibility too often takes a back seat.<sup>14</sup>

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I am troubled by this industry incentive system. Annuity agents that are more interested in earning perks than in acting in their clients' best interest can place Americans' savings and retirement security at risk.

In order for me to fully understand the extent of the use of rewards and incentives by annuity providers, I ask that you provide me with the following information:

1. A list of all incentives – including cash awards, cruises or other vacations, electronics, jewelry, and any other items of value – that are awarded by your company to agents, brokers, FMOs, or other sellers or middlemen involved in sales of your annuity products.
2. Documents and information provided to agents, brokers, FMOs, or other sellers or middlemen involved in sales of your annuity products describing the incentives and the qualifications for earning those incentives.
3. Information on the number of each of these incentives awarded to agents, brokers, FMOs, or other sellers or middlemen involved in sales of your annuity products, and the total value of each of those incentives.
4. A copy of your company policies for disclosing and describing sales incentives and conflicts of interests to annuity purchasers.

Please provide me with this information no later than May 11, 2015. Please contact Brian Cohen or Lindsay Owens of my staff if you have any questions about this letter.

Sincerely,



Elizabeth Warren  
Ranking Member, Subcommittee on Economic Policy

ELIZABETH WARREN  
MASSACHUSETTS

COMMITTEES:  
BANKING, HOUSING, AND URBAN AFFAIRS  
HEALTH, EDUCATION, LABOR, AND PENSIONS  
ENERGY AND NATURAL RESOURCES  
SPECIAL COMMITTEE ON AGING

## United States Senate

April 28, 2015

UNITED STATES SENATE  
WASHINGTON, DC 20510-2105  
P: 202-224-4543

2400 JFK FEDERAL BUILDING  
15 NEW SUDBURY STREET  
BOSTON, MA 02203  
P: 617-565-3170

1500 MAIN STREET  
SUITE 406  
SPRINGFIELD, MA 01103  
P: 413-788-2690

[www.warren.senate.gov](http://www.warren.senate.gov)

John R. Stangfeld  
Chief Executive Officer  
Prudential Annuities  
1 Corporate Drive  
Shelton, CT 06484

Dear Mr. Stangfeld:

I am writing to seek information on rewards and incentives offered by your company to brokers and dealers who sell annuities to families and small investors. I am particularly concerned about annuities that are sold to individuals on the verge of retirement. Because they have little time or ability to recover potential losses, these retirees are especially vulnerable to poor investment decisions.

A preliminary review by my staff reveals that annuity providers offer a vast range of perks – from cruises to international travel to iPads to diamond-encrusted “NFL Super Bowl Style” rings to cash and stock options – to entice sales of their products. I am concerned that these incentives present a conflict of interest for agents and financial advisers that could result in these agents providing inadequate advice about annuities to investors and selling products that may not meet the retirement investment needs of their buyers.

In 2003, the securities industry ended non-cash compensation arrangements in which brokers and dealers were allowed potential conflicts of interest in the stocks and bonds that they recommended for clients.<sup>1</sup> But the annuity industry has not ended these practices, and public reporting, company disclosures, and new information obtained by my staff indicates that annuity dealers often have significant financial conflicts of interest that could prevent them from offering their clients the best individual options.

This letter provides additional information on the scope of the problem and the information I seek to obtain as part of my investigation.

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## **Structure of the Annuities Market**

Over \$235 billion worth of annuities are sold to customers each year in the United States.<sup>2</sup> These annuities are sold through a network of individual agents and advisers that work directly with customers. Agents and advisers work with middlemen known as Sales & Marketing Organizations (SMOs) and Field Marketing Organizations (FMOs) that act as distributors or wholesalers of the annuity products created and serviced by annuity carriers or insurers. Both agents and SMOs/FMOs earn commissions and fees from the sale of annuities. One financial analyst described the concerns with this approach:

Because the business is highly profitable, and the product difficult to sell, insurance companies pay obscenely high commissions. These commissions are just the right incentive for highly motivated product salesmen, but may not lead to appropriate recommendations for consumers. It's not an accident that objective, fee-only advisors hardly ever recommend annuities, while commissioned sales people seem to love them.<sup>3</sup>

### **Use of Cruises, Vacations and Other Perks for Annuity Agents**

Concerns about agents and financial advisers acting in the best interests of their clients are exacerbated by additional perks, such as cruises, luxury vacations, cash and stock awards, iPads, and other gifts that are given by annuity companies and FMOs to agents and advisers.

According to one industry expert:

[A]gent recommendations are too often motivated by the trip they will go on or the gift they will earn if they sell enough of a particular annuity. ... the annuity industry isn't just fixated on trips to Europe or Cabo for their best-selling agents. I've also seen recent incentives for motorcycles and exotic cars — and iPads are given away like candy for just a few annuity sales.<sup>4</sup>

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These trips are so frequently used as incentives for agents to sell annuities that the same expert noted that FMO's have "turned into glorified travel agencies."<sup>5</sup>

Although these perks are widely known within the industry, there has been little public attention to the extent and type of awards given to agents for selling annuities or the impact that these kickbacks may have on agent behavior. But investigation of publicly available information by my staff reveals scores of cruises, trips, and other rewards for agents. Though marketed as sales incentives, they often appear to be kickbacks directed at annuity agents and brokers. Examples of these rewards include:

- A trip to San Francisco offered by American Equity, that includes a stay "at the world famous Ritz Carlton-San Francisco,<sup>6</sup> and for "upper-most producers ... our most exclusive retreat. ... four days in the heart of California's wine country at the prestigious Calistoga Ranch and Spa."<sup>7</sup> The trips are available to agents with sales that reach an annual "\$3 million annuity premium."
- Cash and stock payouts to American Equity agents that reach "Gold Eagle Elite Level Benefits" by reaching sales goals of \$2 million annually in annuity premiums.<sup>8</sup> Under this program, agents with sales of over \$20 million can receive cash awards of \$80,000 or more, and restricted stock awards in the company worth \$120,000 or more.
- Two trips – one to Oahu for agents with \$165,000 in sales, and one to South Africa to visit "Cape Town and Kruger National Park" for agents with \$420,000 in sales, offered by the Lincoln Financial Group. The company notes in a brochure that "PREMIER PARTNERS qualify for premier destinations."<sup>9</sup>

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## United States Senate

April 28, 2015

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1500 MAIN STREET  
SUITE 406  
SPRINGFIELD, MA 01103  
P: 413-788-2690

[www.warren.senate.gov](http://www.warren.senate.gov)

John Robert Woerner  
Chief Executive Officer  
RiverSource Life Insurance  
829 Ameriprise Financial Center  
Minneapolis, MN 55474

Dear Mr. Woerner:

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## Structure of the Annuities Market

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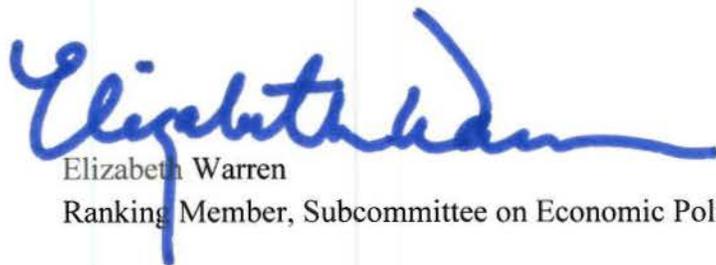
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Sincerely,



Elizabeth Warren  
Ranking Member, Subcommittee on Economic Policy

## United States Senate

April 28, 2015

Roger Ferguson  
Chief Executive Officer  
TIAA-CREF  
730 Third Avenue  
New York, NY 10017

Dear Mr. Ferguson:

I am writing to seek information on rewards and incentives offered by your company to brokers and dealers who sell annuities to families and small investors. I am particularly concerned about annuities that are sold to individuals on the verge of retirement. Because they have little time or ability to recover potential losses, these retirees are especially vulnerable to poor investment decisions.

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Because the business is highly profitable, and the product difficult to sell, insurance companies pay obscenely high commissions. These commissions are just the right incentive for highly motivated product salesmen, but may not lead to appropriate recommendations for consumers. It's not an accident that objective, fee-only advisors hardly ever recommend annuities, while commissioned sales people seem to love them.<sup>3</sup>

## Use of Cruises, Vacations and Other Perks for Annuity Agents

Concerns about agents and financial advisers acting in the best interests of their clients are exacerbated by additional perks, such as cruises, luxury vacations, cash and stock awards, iPads, and other gifts that are given by annuity companies and FMOs to agents and advisers.

According to one industry expert:

[A]gent recommendations are too often motivated by the trip they will go on or the gift they will earn if they sell enough of a particular annuity. ... the annuity industry isn't just fixated on trips to Europe or Cabo for their best-selling agents. I've also seen recent incentives for motorcycles and exotic cars — and iPads are given away like candy for just a few annuity sales.<sup>4</sup>

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These trips are so frequently used as incentives for agents to sell annuities that the same expert noted that FMO's have "turned into glorified travel agencies."<sup>5</sup>

Although these perks are widely known within the industry, there has been little public attention to the extent and type of awards given to agents for selling annuities or the impact that these kickbacks may have on agent behavior. But investigation of publicly available information by my staff reveals scores of cruises, trips, and other rewards for agents. Though marketed as sales incentives, they often appear to be kickbacks directed at annuity agents and brokers. Examples of these rewards include:

- A trip to San Francisco offered by American Equity, that includes a stay "at the world famous Ritz Carlton-San Francisco,<sup>6</sup> and for "upper-most producers ... our most exclusive retreat. ... four days in the heart of California's wine country at the prestigious Calistoga Ranch and Spa."<sup>7</sup> The trips are available to agents with sales that reach an annual "\$3 million annuity premium."
- Cash and stock payouts to American Equity agents that reach "Gold Eagle Elite Level Benefits" by reaching sales goals of \$2 million annually in annuity premiums.<sup>8</sup> Under this program, agents with sales of over \$20 million can receive cash awards of \$80,000 or more, and restricted stock awards in the company worth \$120,000 or more.
- Two trips – one to Oahu for agents with \$165,000 in sales, and one to South Africa to visit "Cape Town and Kruger National Park" for agents with \$420,000 in sales, offered by the Lincoln Financial Group. The company notes in a brochure that "PREMIER PARTNERS qualify for premier destinations."<sup>9</sup>

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- For “the best of the best” agents – those who reach sales goals of \$4 million – the opportunity to “tour the Mediterranean on a private yacht, like royalty, celebrities, and the wealthy elite,” offered by the annuity carrier Annexus.<sup>10</sup>

There are many other incentives offered by annuity carriers and FMOs. The FMO Lineage Partners LLC – noting that “everyone likes to get that little something extra,” offers a variety of incentives, including laptops, Bose sound systems, iPads, a “magnificent award” of a custom Bulova watch, a Mercedes Benz lease, and a diamond-encrusted “NFL Super Bowl Style ring with high quality gold and a Ruby in the middle.”<sup>11</sup> Similarly, Magellan Financial Services offer a “fast-start incentive” of an iPad or iPad Air for agents that meet 30-day sales goals.<sup>12</sup> The same company – alerting agents that they should “get started earning the level of rewards you deserve,” offers agents that meet sales goals up to \$3,500 to “put toward your next workshop, mailer or advertising costs.”<sup>13</sup>

My staff identified these and many other questionable rewards for annuity providers. But it appears that most agents and brokers do not disclose these payments, and that most buyers have no knowledge that their annuity sales agent may be motivated by anything besides their financial interests.

### Summary and Questions

The widespread offers of incentives like luxury cruises and other vacations, cash and stock options, and a range of other rewards – from iPads to Mercedes Benz leases – appears to present a clear and obvious conflict of interest for brokers and agents that sell annuities. One expert concluded:

Agent recommendations are too often motivated by the trip they will go on or the gift they will earn if they sell enough of a particular annuity. This lack of industry regulation obviously fosters inappropriate sales practices...when a trip to France is on the line with an annuity sale, my fear is that some agents lose their client focus and fiduciary responsibility too often takes a back seat.<sup>14</sup>

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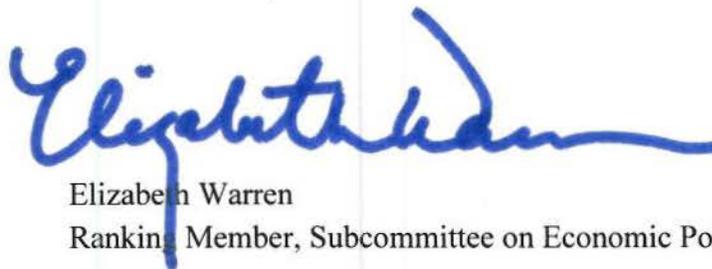
I am troubled by this industry incentive system. Annuity agents that are more interested in earning perks than in acting in their clients' best interest can place Americans' savings and retirement security at risk.

In order for me to fully understand the extent of the use of rewards and incentives by annuity providers, I ask that you provide me with the following information:

1. A list of all incentives – including cash awards, cruises or other vacations, electronics, jewelry, and any other items of value – that are awarded by your company to agents, brokers, FMOs, or other sellers or middlemen involved in sales of your annuity products.
2. Documents and information provided to agents, brokers, FMOs, or other sellers or middlemen involved in sales of your annuity products describing the incentives and the qualifications for earning those incentives.
3. Information on the number of each of these incentives awarded to agents, brokers, FMOs, or other sellers or middlemen involved in sales of your annuity products, and the total value of each of those incentives.
4. A copy of your company policies for disclosing and describing sales incentives and conflicts of interests to annuity purchasers.

Please provide me with this information no later than May 11, 2015. Please contact Brian Cohen or Lindsay Owens of my staff if you have any questions about this letter.

Sincerely,



Elizabeth Warren  
Ranking Member, Subcommittee on Economic Policy

ELIZABETH WARREN  
MASSACHUSETTS

COMMITTEES:  
BANKING, HOUSING, AND URBAN AFFAIRS  
HEALTH, EDUCATION, LABOR, AND PENSIONS  
ENERGY AND NATURAL RESOURCES  
SPECIAL COMMITTEE ON AGING

## United States Senate

April 28, 2015

UNITED STATES SENATE  
WASHINGTON, DC 20510-2105  
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BOSTON, MA 02203  
P: 617-565-3170

1500 MAIN STREET  
SUITE 406  
SPRINGFIELD, MA 01103  
P: 413-788-2690

[www.warren.senate.gov](http://www.warren.senate.gov)

Mark W. Mullin  
Chief Executive Officer  
Transamerica  
4333 Edgewood Road NE  
Cedar Rapids, IA 52499

Dear Mr. Mullin:

I am writing to seek information on rewards and incentives offered by your company to brokers and dealers who sell annuities to families and small investors. I am particularly concerned about annuities that are sold to individuals on the verge of retirement. Because they have little time or ability to recover potential losses, these retirees are especially vulnerable to poor investment decisions.

A preliminary review by my staff reveals that annuity providers offer a vast range of perks – from cruises to international travel to iPads to diamond-encrusted “NFL Super Bowl Style” rings to cash and stock options – to entice sales of their products. I am concerned that these incentives present a conflict of interest for agents and financial advisers that could result in these agents providing inadequate advice about annuities to investors and selling products that may not meet the retirement investment needs of their buyers.

In 2003, the securities industry ended non-cash compensation arrangements in which brokers and dealers were allowed potential conflicts of interest in the stocks and bonds that they recommended for clients.<sup>1</sup> But the annuity industry has not ended these practices, and public reporting, company disclosures, and new information obtained by my staff indicates that annuity dealers often have significant financial conflicts of interest that could prevent them from offering their clients the best individual options.

This letter provides additional information on the scope of the problem and the information I seek to obtain as part of my investigation.

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<sup>1</sup> FINRA, Notice to Members: Non-Cash Compensation (Sep. 2003) (online at <https://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/notices/p003169.pdf>).

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Ranking Member, Subcommittee on Economic Policy