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MARKETS

U.S. Sen. Warren: 'Kickbacks' Create Conflicts for Annuity Sales Agents

Report finds biggest life insurers use prizes to reward agents for selling retirement-savings products



U.S. Senator Elizabeth Warren takes part in the Washington Ideas Forum in Washington earlier this month.

PHOTO: JONATHAN ERNST/REUTERS

By LESLIE SCISM

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Capitol Hill's biggest critic of Wall Street is exerting more pressure on a new target: the life-insurance industry.

Sen. Elizabeth Warren said Tuesday in a report released by her office that 13 of the nation's biggest life insurers use vacations and other prizes to reward agents for selling high-cost retirement-savings products. The incentives, she said, are "kickbacks" that "create conflicts of interest."

The findings are based on how the biggest annuities providers responded to letters sent last April by Ms. Warren's office asking whether they offered noncash incentives "such as lavish cruises, luxury car leases, and other perks to annuity sales agents to promote their products." Annuities are tax-deferred savings, investment and lifetime-income products issued by life insurers.

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Industry executives and trade groups say the incentives are a permissible form of compensation, noting that companies must comply with state and federal laws and rules that help protect consumers' interests.

The report "may raise inappropriate and unnecessary worries among retirees and workers considering retirement about an insurance product that can provide financial security and peace of mind," Carl Wilkerson, chief counsel of securities and litigation for industry group American Council of Life Insurers, said in a statement. It "misrepresents the comprehensive regulatory framework that governs conduct in the sale of insurance products and protects consumers' interests."

Ms. Warren has emerged as the leading critic in Washington of the financial-services industry. Companies regularly push back on her attacks as inaccurate and unfair, but she maintains tremendous influence with the Obama administration and Democrats in Congress.

Her scrutiny of the life insurance industry comes as the U.S. Department of Labor has proposed a controversial "conflict of interest" draft rule that could impose stiff rules on sales of at least some types of annuities to retirees involving money in tax-deferred savings plans, among other things. Ms. Warren is a proponent of the proposed rule, while the financial services industry has largely opposed at least parts of it.

Ms. Warren's probe is largely focused on the indexed annuity, widely known within the industry for the perks available to agents, according to industry executives and financial advisers.

An indexed annuity promises a return tied to a stock-market index, while guaranteeing against losses if the market falls. But it has limitations on how much can be earned and long has been controversial because of the many ways consumers can misunderstand it, experts say. Sales of these products have risen in recent years amid ultralow interest rates and a rallying stock market.

Ms. Warren's report concludes the most frequently offered incentives to annuities agents are all-expense-paid trips to vacation destinations such as Aruba and the Bahamas. Insurers also provide golf outings, sporting-event and theater tickets, sports memorabilia and gift cards.

State regulations include disclosure requirements, suitability standards and truth-in-advertising and credentialing provisions, according to industry executives, sales people, state insurance regulators and trade groups.

But Ms. Warren said in her report that existing disclosure rules allow potential rewards to agents to be described "in the broadest and most vague terms" in materials that consumers receive, and "are buried deep" within documents "in complex legalese."

Two of the 15 surveyed companies "reported that they refuse to pay noncash direct or indirect kickbacks," according to the report. That "suggests that it is possible to build a viable business model without offering these inducements to agents."

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