What Ohio National's End of Annuity Trails Means for Advisors, BDs

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Cutting off advisors servicing variable annuity products they have sold to clients is anti-fiduciary and harmful to policyholders.

After an extended period of failing to get results out of buyout offers on its variable annuities, Ohio National has decided to stop paying trailing commissions on some variable annuities. Going one step further, the firm will also stop the data feed to advisors, leaving clients to fend for themselves.

We checked with several broker-dealers on the matter and heard some contradictory feedback. One mid-size broker-dealer commented that its reps would continue to receive trails and data feed, so no change; another mid-size firm, though, said it would not get trails but could continue to service the Ohio National products.

Besides the inconsistencies, many broker-dealers will be out of the loop on both trails and data feeds. Group VAs and life insurance were excluded from any restrictions.

Ohio National is not going to make any change on trails or servicing ability for its own advisors at Ohio National Equity – essentially making those advisors captive – for fear of losing VA trails and the ability to service those products if they were to leave for another firm.

Insurance companies have been on a slippery slope in terms of advisor relations, starting with MetLife back in September 2017. At that time, MetLife cut compensation on fixed and variable annuities trails sold by former advisors who moved to broker-dealers other than the firm they sold to, Mass Mutual Life Insurance Company.

MetLife cut trails to 27% of current levels; if advisors were receiving a 1% trail, they would now get only 27 basis points. This cut in trails also applied to any MetLife advisor that left Mass Mutual, which like Ohio National, makes advisors captive to the broker-dealer if they have sizable MetLife annuity products.

Ohio National has gone one step further than MetLife by not only getting rid of the trail all together, but also by cutting off the data feed so the advisor will be unable to service the variable annuity product.

MetLife’s motive was to punish those advisors who did not go along with the sale of MetLife representatives to Mass Mutual. However, Ohio National is making this move out of financial hardship, as it pockets the trails to offset losses on its VA product.

Ohio National told the press, “The firm’s new strategy of focusing on its life insurance and disability income insurance is consistent with our fiduciary duty to policyholders.”

Impact of Ohio National’s Moves

The irony is that cutting off advisors servicing VA products they have sold to clients is anti-fiduciary *and* harmful to policyholders.

Without advisors being able to protect their clients’ best interests, clients will need to go to the insurance company for advice on issues such as buyout offers, which would be a conflict of interest — with the fox in charge of the hen house.

Advisors hearing about these moves will be more apt to take the full upfront commission, feeling that they may never see any trail or may be turned off to the VA product all together by such tactics.

Insurance companies could very well end up shooting themselves in the foot as trust in product predictability erodes.

By cutting advisors out of the servicing loop on VAs, legal repercussions are likely to follow, and then we may see back peddling by Ohio National.

The takeaway for broker-dealers would be to pull the selling agreement on any insurance carrier attempting to do buyouts of a VA product. That could help keep the broker-dealer from accumulating too large a position that later might prove problematic.