KEYPORT LIFE INSURANCE CO.
Publicity Report
March - August 2000

Prepared: September 11, 2000

Publications

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LIFE & HEALTH/FINANCIAL SERVICES EDITION

NATIONAL UNDERWRITER

MAY 1, 2000 WWW.NUNEWS.COM VOLUME 104, NO. 18 • $2.50

Retirement 'Wishful Thinking' Is Widespread

BY TREVOR THOMAS

A new study by Keyport Life Insurance Company, Boston, has found what a top company executive calls "wishful thinking" about retirement among many Americans.

While three-fourths of Americans now working believe that their standard of living in retirement will be the same or higher than what they now enjoy, 52 percent couldn't estimate how much money they would need to retire in the lifestyle they want.

The median amount working Americans thought they'd need to retire was $400,000, found Keyport's survey of 600 individuals over the age of 25, including 322 retirees and 278 full-time workers.

But 26 percent believed they have to save only $100,000 or less to retire and maintain their current lifestyle, a belief that reveals a "disturbing" lack of realism, said Philip K. Polkinghorn, president of Keyport.

"Financial planners and other experts who take inflation, life span and other factors into account when setting retirement savings goals would find that $100,000 is only a fraction of what an individual needs as a retirement nest egg," he said.

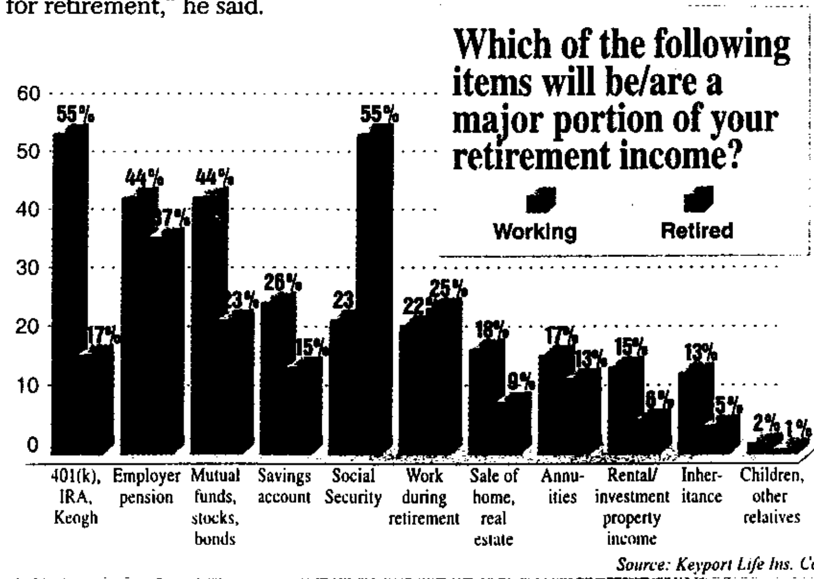
In addition, the survey found that some 62 percent of Americans have not gained much from the long-term stock market surge, and only 10 percent of those now working say their stock market gains will enable them to retire early.

Most of those surveyed who were homeowners did not consider the value of their homes as a major part of their retirement capital, the survey found. Only 18 percent of working people and 9 percent of retirees said the sale of their home would be a major source of retirement money, while 40 percent of working people and 15 percent of retirees said it would be minor. Most of the remainder said their home's value would not be part of their retirement funds.

The survey also found that 58 percent of those working and 64 percent of retirees are "not at all" or "not very" afraid of outliving their retirement nest egg.

Mr. Polkinghorn said the survey findings were cause for concern for America's policymakers.

"We found too much wishful thinking about retirement lifestyles among many working Americans who haven't focused on how much they need to save for retirement," he said.



A new survey from Keyport Life found that many Americans are indulging in 'wishful thinking' when it comes to how much money they will need in retirement. The chart above shows differences between current workers and retirees in the sources of their retirement income.

Mr. Polkinghorn pointed to U.S. Census data showing that more than half of Americans who have reached the age of 65 live beyond the average life expectancy.

A similar Keyport survey conducted in 1995 found that 43 percent of Americans didn't know how much they would need for retirement compared with 52 percent of those recently surveyed.

The new survey also found that half of those working today expect to work when retired, and 56 percent of these individuals say they will do so because they will need the money.

In contrast, only 22 percent of today's retirees are working, although this is up from 13 percent in 1995.

The increase is expected because older Americans are healthier and more active today than ever before, and a tight labor market has created more employment opportunities for retirees, Mr. Polkinghorn added.

When asked to identify major sources of retirement income, 55 percent of retirees cited Social Security, while only 23 percent of working individuals believe it will be a major source of income when they retire. This is down from 35 percent of those working in the 1995 Keyport survey.

Conversely, 55 percent of today's working Americans expect a major portion of their retirement income to come from 401(k)s, IRAs and Keoghs. Seventeen percent of working people and 13 percent of retired people said annuities will be or already are a major part of their retirement income. (See chart on page 1.)

The survey also revealed that most working individuals are worried about health care costs in retirement. Some 72 percent of them are "very" or "somewhat" concerned about the costs of catastrophic illness in retirement. Among those actually retired, 60 percent showed similar concern.

"This is yet another potentially significant retirement expense for which few people are sufficiently saving while they are working," said Mr. Polkinghorn.

"Our survey shows a dramatic shift in the traditional U.S. retirement model," said Mr. Polkinghorn. "While in the past, Americans have relied on Social Security, employer pensions and personal savings as the primary sources of retirement income, we will see increasing reliance on self-directed, tax-advantaged investments, as well as working for pay, as the largest sources of income for future retirees." NU

Most Americans Were 'Bystanders' In Stock Market Boom

To what extent have you financially benefited from the stock market's climb during the past decade?

	Working	Retired
Not at all	39%	53%
To a small extent	23%	8%
To a moderate extent	24%	21%
To a great extent	13%	9%
Don't know/Refused	2%	9%

To what extent have you used your gains from the stock market's climb over the past decade to increase your retirement nest egg?

	Working	Retired
Not at all	42%	56%
Only a little	11%	8%
Somewhat	24%	15%
A lot	20%	11%
Don't know/Refused	3%	10%

Do you expect to retire early because of recent gains you have made in the stock market?

	Working	Retired
Yes	10%	3%
To a small extent	87%	88%
Don't know/Refused	2%	9%

Source: Keyport Life Ins. Co.

SIMS & ASSOCIATES, INC.

AMERICAN demographics

August 2000

Retire with Style

More Americans are stashing money away for retirement than ever.

Ever since government officials started telling Americans there wouldn't be enough money left in the Social Security pot to fund their retirement years, many have begun stashing cash with serious intent to build their nest eggs. But do Americans feel they are saving enough? Will they be swinging seniors leading lives of leisure or still toiling just to make ends meet?

More workers today—26 percent—are very confident they'll have enough dough to live comfortably during their golden years, compared with the 19 percent who felt that way in 1993, according to the "2000 Retirement Confidence Survey" (RCS), co-sponsored by the Employee Benefit Research Institute (EBRI), the American Savings Education Council (ASEC) and Matthew Greenwald & Associates (MGA). Perhaps that's because 76 percent of workers surveyed say they are saving for retirement today, compared with 61 percent who said they did so in 1994.

The fact that more working folk have recognized the value of saving has led to an increase in the number who calculate, strategize, and save for retirement, says Dallas L. Salisbury, president and CEO of the EBRI. Accordingly, 53 percent of participants in this year's study say they actually sat down with their bankbooks to calculate their retirement finances, compared with 35 percent who did so in 1993. And 51 percent of the devoted number crunchers decided to do something about it, either by socking away more cash or rethinking their investments.

In a separate RCS study of minorities, the percentage of Asian Americans who say they are "very confident" that they'll have enough money to live comfortably throughout retirement was 31 percent, five percentage points more than the average worker. The percentage of African Americans who say they are "very confident" is slightly lower than the average: 24 percent. Just 19 percent of Hispanics reported being "very confident" and they are the group doing the least amount of saving today, according to Salisbury.

"Hispanics have the least confidence in financial institutions and are reluctant to work with them," says Salisbury. "There is clearly a need for financial institutions to build public confidence that they're secure."

In a separate survey, Keyport Life Insurance Company in Boston pinpointed yet another problem. Philip Polkinghorn, president of Keyport, says that most people run out of money within four to five years of retiring. The Keyport study found that 26 percent of working Americans think they will need less than $100,000 to retire, but Polkinghorn says this figure seems a paltry amount of money for most. And 52 percent say they can't estimate the amount of money they need to save for retirement. Still, 77 percent of current laborers think their post-retirement standard of living will be the same or better than it is today, while 66 percent of retirees say their current standard of living is at least on par with what they had in their salaried lives. Perhaps that's because 50 percent of workers today expect to continue punching the clock after "retirement," whereas just 22 percent of today's retirees still have some sort of gig.

So, maybe the best advice for would-be retirees is: Don't quit your day job just yet.

For more information about the "2000 Retirement Confidence Survey," visit www.asec.org. For information on the Keyport retirement survey, visit www.keyport.com.

—*Gerda Gallop-Goodman*

Savings Vehicles

Thirty-eight percent of current retirees rely on Social Security for living expenses, whereas only 11 percent of current workers expect to benefit from it when they retire.

	CURRENT WORKERS	CURRENT RETIREES
Personal savings (net)	53%	20%
Money respondent put into a retirement plan at work	32	5
Other personal savings, not including work-related retirement plans	20	15
Employer-funded plans	19	29
Social Security	11	38
Employment	7	2
Sale of home or business	4	3
Other government programs	3	3

Source: 2000 Retirement Confidence Survey

AMERICAN BANKER

AUGUST 16, 2000

Bank Annuity Sales' Top 2 Running Neck and Neck

BY DAVID REICH-HALE

By the thinnest of margins, Hartford Life edged American General in annuity sales through banks in Kenneth Kehrer Associates' second-quarter sales tally.

Hartford Life, in Simsbury, Conn., sold $1.139 billion in annuities through banks, to $1.083 billion for Houston-based American General Financial Corp.,

"Banks are our largest distribution channel," accounting for 40% of all annuity sales, said Bruce Ferris, vice president of investment products sales for Hartford Life. "We got involved in bank distribution ahead of most. In 1989, when we sold $15 million through banks, it was still called an alternative distribution channel, so we've come a long way."

American General, however, is closing in on the top spot.

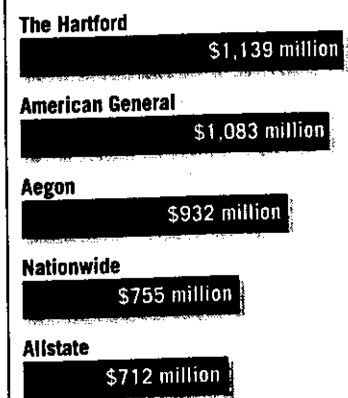
"For six years our goal was to beat Hartford," said Bruce Abrams, executive vice president of sales for American General. "We have had strong growth and I am optimistic that it will continue. Hopefully next quarter we can overtake them."

American General has been

KEHRER

The Leaders

Top insurers in second quarter annuity premiums sold through banks



Source: Kenneth Kehrer Associates

Insurance companies in all sold $4.346 billion in variable annuities and $4.169 billion in fixed annuities through the bank channel in the second quarter, according to the Kehrer report. Variable annuities outsold fixed annuities in the first quarter as well, but fixed annuities outsold variables in the fourth quarter of 1999.

In the second quarter American General sold $228 million in variable annuities, a 107% increase from the year-earlier

they're going to have to sell more of what they aren't selling much of right now," Mr. Kehrer said. "That means more fixed annuities for The Hartford and more variable annuities for American General."

Fixed annuities guarantee repayment of invested principal plus interest, while variable annuities, devised as an inflation hedge, pay an amount based on capital appreciation of a portfolio.

Hartford Life remained on

LIFE & Health Advisor

June · 2000

Few retirement savers benefit from market boom, study reveals

Nearly two-thirds of Americans have not gained substantially from the long-term stock market surge and only 10 percent of individuals now working say their stock market gains will enable them to retire early.

This according to a survey by Keyport Life Insurance Co. The survey also reveals contradictory attitudes and expectations regarding retirement financial needs and lifestyles: while three-fourths of Americans now working believe that their standard of living in retirement will be the same or higher than what they enjoy currently, 52 percent cannot estimate how much money they will need to retire in the lifestyle they want. Twenty-six percent of the survey respondents believe that they have to save only $100,000 or less to retire and maintain their current lifestyle.

"This lack of financial realism is very disturbing," said Philip K. Polkinghorn, President of Keyport Life Insurance Company. "Financial planners and other experts that take inflation, life span and other factors into account when setting retirement savings goals would find that $100,000 is only a fraction of what an individual needs as a retirement nest egg."

The survey also "defies the conventional perception that the stock market boom has put many Americans in a better financial position for retirement. The reality is that relatively few people have used significant stock market gains to grow their retirement nest egg, and too many Americans still grossly underestimate how much they will need to retire in comfort," said Polkinghorn.

"The perception that the boom stock market is a 'rising tide that is lifting all boats' is not realistic," warned Polkinghorn, "and the U.S. savings rate remain at a historic low, another indication that too many people are ignoring the need to prepare financially for retirement."

The Keyport Survey found that Americans are optimistic about their finances in retirement: 58 percent of those working and 64 percent of actual retirees are "not at all afraid" or "not very afraid" of outliving their retirement nest egg.

"We're concerned about this low level of awareness of the need for financial planning and saving for retirement. We found too much wishful thinking about retirement lifestyles among many working Americans who haven't focused on how much they need to save for retirement."

Polkinghorn said that this is "particularly disturbing since more than half of Americans live beyond the average life expectancy. One in three live more than five years past the average life expectancy and one in seven live more than 10 years past it."

The survey also found that half of those working today expect to work for pay when retired, and 56 percent of these individuals say they will do so because "they need the money." in contrast only 22 percent of today's retirees are working, although this is up from 13 percent in 1995

"Older Americans are healthier and more active today than ever before, a trend that is very likely to continue. In addition, the very tight labor market in the U.S. creates more employment opportunities for retirees," he added.

When survey participants were asked to identify' major sources of retirement income, Social Security was cited by 55 percent of retirees, while only 23 percent of working individuals believe it will be a major source of income when they retire. This is down from 35 percent of those working who expected Social Security to be a major source of retirement income in the 1995 survey.

Conversely, 55 percent of today's working American's expert a major portion of their retirement income to come from 401(k)s, IRAs and Keoghs.

The survey also revealed that most working individuals are worried about health care costs in retirement. Nearly three-fourths of working Americans are "very" or "somewhat" concerned about the costs of catastrophic illness in retirement.▲

BESTLINE

Survey Reveals Misconceptions in Retirement Planning

BOSTON 04/25/2000 (BestWire)-Although most Americans aren't making major gains in the booming stock market, most think they will enjoy a standard of living in retirement that's the same or better than they now have.

Those are a few of the findings of a survey done by Keyport Life Insurance Co., which involved 600 phone interviews of people age 25 and older. Although only 10% of people now working say their stock gains will help them to retire early, 52% can't estimate how much they will need to retire. More than one-quarter of the respondents believe they have to save $100,000 or less to retire and maintain their lifestyle. A lack of awareness in such matters isn't new, but it's growing, according to the survey. In 1995, 43% of Americans didn't know what they needed to retire.

Philip Polkinghorn, president of Keyport, said financial planners who take inflation, lifespan and other factors into account would say $100,000 is just a fraction of what a nest egg would require. The respondents' lack of "financial realism is very disturbing," he said in a statement.

The survey also shows a possibly unrealistic optimism over financial planning and saving for retirement, with 58% of those working and 64% of retirees "not at all afraid" or "not very afraid" of outliving their nest eggs.

When asked to name the major sources of expected income upon retirement, Social Security was named by 55% of retirees, while only 23% of those currently working think it will be a major source of income when they retire. On the other hand, 55% of those working today expect a major part of their retirement to come from 401(k)s and individual retirement accounts.

In addition, nearly three-quarters of Americans who work are "very" or "somewhat" concerned about the costs of catastrophic illness in retirement--what Polkinghorn called a "potentially significant retirement expense for which few people are sufficiently saving" while still working.

(By Caroline Saucer, managing editor, BestWeek: saucerc@ambest.com)

BOSTON HERALD

BUSINESS

SURVEY: MARKET BOOM BENEFITED FEW

Thursday, April 27, 2000

The ups and downs of the stock market continue to be deadline news, but for most Americans the fortunes of the Dow and the Nasdaq remain a purely spectator sport, a new survey says.

Nearly two-thirds of Americans - 61 percent - say they have gained little or no financial benefit in the past decade from the stock market's rise.

Two out of five - or 41 percent - say they have ``not benefited at all,'' while the figure among retirees is much higher, at 53 percent.

Only 12 percent, or fewer than one person in eight, says they have benefited financially ``to a great extent,'' while only 10 percent of those working plan to retire early because of their market gains.

This follows a decade when the Dow Jones industrial average quadrupled and the technology-rich Nasdaq Composite Index soared more than ninefold.

The surprising findings come from telephone interviews with 600 people over the age of 25 carried out last December by Cambridge-based Axiom Research on behalf of Keyport Life Insurance, a fund manager with $17 billion in assets that is part of Liberty Financial Companies.

``The perception that the boom on the stock market is a `rising tide that is lifting all boats' is not realistic,'' said Philip K. Polkinghorn, Keyport's president. ``The reality is that relatively few people have used significant stock market gains to grow their retirement nest egg.''

FINANCIAL SERVICES MARKETING

May/June 2000 Finding, Keeping and Profiting from the Right Customers Volume 2 • Number 4

RETIREMENT PLANNING

New Fear and Hope Gives Entree to Firms with Retirement Expertise

Surveys show a fixation on retirement savings, but a gulf of knowledge on what exactly to do

VIRTUALLY NO ONE under 41 years of age believes that Social Security will be a primary source of retirement income, and half believe Social Security will contribute nothing at all, according to a recent survey by Charles Schwab of its customers.

Despite this decidedly negative sentiment toward one of America's most treasured entitlement programs, 70 percent of the 735 surveyed expect to retire before 60 years of age. And they plan to accomplish this, in large part, by their investment in mutual funds.

That's good news, of course, for Schwab, which couldn't ask for more than young, extremely motivated, informed investors. "I've read that more GenXers believe in UFOs than believe in Social Security," says Rene Kim, vp of retirement products at Schwab, in disbelief. "But the bottom line is we approach this very positively; it just means a person is going to be that much more responsible to insure that they can do what they want when they retire. To us the survey just refocuses everyone's attention on retirement planning and retirement investing, and that's a good thing."

For instance, Kim says, it's critically important investors understand the implications of dipping into their 401ks. The average worker changes jobs 11 times in their career, she says, and each time they have the option of either rolling their 401k into another tax-deferred growth vehicle, or cashing out and buying that new car or new boat. "We want them to understand that between taxes and the cost of not having tax-deferred growth that that $30,000 car is going to cost a lot more if they're using their 401k money. It's making sure we have the tools out there for people as they are changing jobs to know what the impact will be down the road."

While the people in the Schwab survey, 59 percent of whom save more than 10 percent of their income, are clearly in tune with how to save, recent surveys by other companies indicate that Schwab's investors are the cream of the population. They are definitely not the the norm.

For instance, a Keyport Life Insurance Co. survey found that just 10 percent of the 600 participants say their stock market gains will enable them to retire early, and 23 percent of working individuals in the study believe Social Security will be a major source of income when they retire. And while the survey found that 55 percent of workers expect a major portion of retirement income to come from tax-deferred accounts, fully 26 percent believe they have to save $100,000 or less to retire and maintain their current lifestyle. That figure, by the standards of most retirement specialists, is significantly less than required.

Overall, however, people are generally coming to realize they must do more to ensure their retirement is a happy, well-financed one. And that provides opportunities for places like Schwab and Keyport to reach out to people either already involved in retirement planning or just awakening to the necessity. Surprisingly, young professionals have been relatively neglected in this Internet financial services age, some say.

According to a 1999 Fidelity Investments study, only half of those between 20 and 29 who are eligible for a company-sponsored retirement plan actually enroll. A Stern Marketing Group study found 61 percent of those 22 to 34 of age were are very concerned about saving for retirement. All this would seem to add up to a clear opportunity for financial planning if ever there was.

That sentiment is echoed by Schwab's Kim. People under 41 are paying more attention now, Kim says, and thinking about retirement at a point in their life earlier than those who are older them than did.

—*michael.sisk@tfn.com*

SIMS & ASSOCIATES, INC.

NATIONAL UNDERWRITER

April 17, 2000

Bank Annuity Sales Up 38% In '99, Gained Market Share

BY KENNETH KEHRER

Banks and thrifts sold $26.5 billion in annuities in 1999, a 38 percent increase over 1998, according to the *Kehrer Report* quarterly survey of insurance companies that sell through banks. In a change from recent years, both fixed and variable annuities contributed to the surge in sales. Fixed annuity sales were up a huge 54 percent to $12.5 billion, while variable annuity sales increased 25 percent to over $13.9 billion.

Variable annuity sales led the way during the first quarter, but fixed annuity sales spurted in the second and third quarters. VAs tapered off in the second quarter and actually declined in the third and fourth quarters. Bank VA sales were down 2 percent in the fourth quarter, while the growth in fixed annuities tapered off to 9 percent.

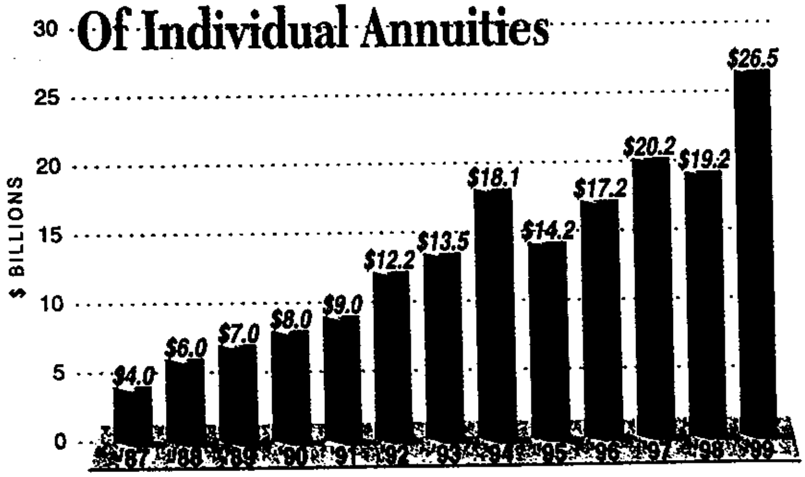
Variable annuities were helped by the run-up in the equities markets during the early months of the year, while subsequent market volatility and a steeper yield curve led many investors back to fixed annuities during the rest of the year. The recent enhancements in variable annuities—aggressive dollar cost averaging rates, guaranteed minimum income options, and extra credit to dollars invested—helped sustain variable annuity sales later in the year when mutual fund sales stumbled badly.

Banks actually sold more fixed annuities ($3.8 billion) than variable ($3.5 billion) during the fourth quarter. The last time that happened was in the second quarter of 1997.

Based on LIMRA International's all-channel annuity sales data, we estimate that banks accounted for 16.9 percent of all U.S. individual annuity sales in 1999, a gain in market share of 1.9 percentage points over 1998. Bank market share of fixed annuities increased to 30 percent, a gain of 5.2 percentage points over the previous year, while bank VA market share continued its steady upward trend to 12.2 percent.

Hartford Life, the dominant underwriter of variable annuities sold through banks, and American General Life & Annuity, the dominant underwriter of bank-sold fixed annuities, were once again the number one and two providers of total individual annuities through banks in 1999. According to the *Kehrer Report* quarterly survey of insurers that market through banks, this is the fourth consecutive year that Hartford and AG have sold more total fixed and variable annuities

Growth In Bank Sales Of Individual Annuities



Source: Kenneth Kehrer Associates

through banks than any other insurers.

Hartford's bank-sold annuities were up 11 percent to $4.2 billion, the first time an insurer has garnered $4 billion in annuity premium through banks in a single year. American General continued to close the gap on Hartford, increasing its total annuity sales through banks by 72 percent to $3.5 billion. AG still lagged Hartford by $729 million for the full year, and the gap was $184 million in the fourth quarter. American General continues to pursue a successful joint-venture strategy, adding proprietary VAs with Washington Mutual and Banc One to its existing proprietary fixed annuities with First Union, Calfed, Firstar and others.

Total [illegible] Annuity Sales Through Ban[illegible]

[illegible] ($ millions)

Company	1999	1998
Hartford	4,236	3,808
American General Life Co.	3,507	2,043
Aegon /Transamerica	2,571	1,365
Nationwide	2,310	2,035
Allstate Life Group	1,952	1,014
GE Companies	1,181	653
Keyport	860	643
American Skandia	824	633
Jackson National	756	443
[illegible]	556	224
John Hancock	545	269

Source: [illegible]

Aegon and Transamerica, which merged during 1999, increased their combined total annuity sales 88 percent to $2.6 billion, climbing over Nationwide into third place. Both Aegon and Transamerica have been focusing on private-label products for large banks.

Nationwide increased its total annuity sales by 14 percent to $2.3 billion.

While Hartford, American General, Aegon/Transamerica and Nationwide were the only insurers to sell $2 billion through banks in 1999, the Allstate Life Group came very close, finishing the year at $1.952 billion. While its bank premium was up 93 percent, Allstate remained in fourth place. Allstate's growth came from both the increasing popularity of the Putnam Allstate VA and the expanded wholesaling efforts at Glenbrook Life and Annuity. Glenbrook also is one of three fixed-annuity underwriters providing product to Banc One.

GE, Keyport and American Skandia all maintained their 1998 rankings in 1999 (sixth, seventh and eighth, respectively). Total bank annuity premium was up 81 percent at the GE life companies, 34 percent at Keyport and 30 percent at American Skandia. GE is the primary fixed annuity provider to BankAmerica.

Jackson National's total bank annuity sales were up 71 percent, to climb to ninth from 11th. Pacific Life, with a new variable annuity that provides extra investment credit, sold 2.5 times its 1998 bank annuity premium, to move all the way from 23rd place into the top 10. John Hancock doubled its bank annuity premium, to fall just $11 million short of the top ten.

Last year's rankings of bank annuity underwriters highlight the advantages to insurers of gaining distribution through the megabanks that are increasingly focusing their annuity business with three or four insurers.

Banks produced $380 million in life insurance premium during 1999, a 50 percent gain over 1998. According to the *Kehrer Report* survey of insurers that market through banks, sales were concentrated in single-premium life. The insurers in our annual survey of life and annuity sales reported that single-premium sales were up 68 percent to $185 million.

Total premium in recurring premium products was $194 million, up 36 percent over 1998. But only $81 million of that total was in first-year premium, reflecting life insurance sales during 1999. Banks had $113 million in renewal premium from prior years' sales. Nonetheless, first-year life premium in banks was up 27 percent.

The single-premium sales were primarily in universal life. Single-premium variable life accounted for 23 percent of single-premium sales, compared to 71 percent for SPUL and 6 percent for single premium whole life.

Thus, while bank sales of life insurance lag far behind expectations and the projections by analysts, the industry continues to experience solid growth.

Liberty Life was the largest underwriter of life insurance sold through banks, with $51 million in life premium. All of Liberty Life's sales were in single premium, as was the $40 million recorded by runner-up Allstate.

American General was the largest underwriter of recurring premium life, with $39.5 million in new and renewal life premium. Second-ranked CUNA Mutual Life, which markets through credit unions, had the most first-year premium in recurring-premium life products, followed by Nationwide, American General, and Hartford Life. **NU**

KENNETH KEHRER IS PRESIDENT OF KENNETH KEHRER ASSOCIATES, A PRINCETON, N.J. CONSULTING FIRM.

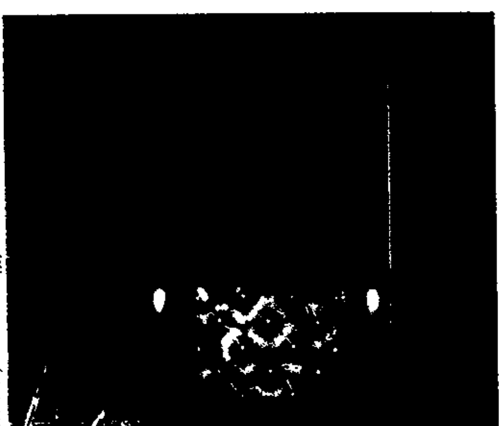
BEST'S REVIEW

APRIL 2000

Getting a Head Start

Like most other banks, FleetBoston Financial Corp. hasn't sold much life or property/casualty insurance. Like some of its peers, it has a vibrant annuity business. But this corporation has something that most banks don't. It owns insurance agencies, which could give it the inside track should it decide to go after the life insurance or property/casualty market more aggressively.

FleetBoston is the result of the October merger of Fleet Bank and Bank Boston. Fleet reported that it sold $550 million of annuities in 1997, $540 million in 1998 and $830 million last year. Its first agency purchase—in Massachusetts—came many decades ago, and the bank has been grandfathered from a law that had prevented such ownership. In the early 1990s, Fleet worked through a third-party marketer, Bankmark of Morris Plains, N.J., which set up insurance agencies that it owned for the benefit of Fleet. In January 1996, Fleet bought a Rhode Island agency from Bankmark, and it went on to buy agencies in the other states in which it has offices—the five other New England states, New York and New Jersey.



FleetBoston's agents, which number about 250, work under one management team and have offices at the bank's branches, said Jeremiah France, vice president for product distribution and development, which is responsible for selling mutual funds and annuities. The agents are not in their branch offices at all times, and some serve more than one branch, but a branch would know where the agent is each day and can schedule appointments. "We've created and run a very successful business around that initiative," France said. Another part of the bank handles sales of life and property/casualty insurance.

France said the bank generates annuity or mutual-fund business in several ways. If a customer inquires about a higher savings account rate, the clerk might refer that person to an investment specialist/agent. Customers might also respond to the bank's mailed advertisements, a statement stuffer or promotional items located in a branch office. Sometimes the contact is a recommendation from another customer.

Fleet Bank ranked eighth in bank annuity sales at the end of the third quarter, according to Singer's Annuity & Funds Report, Mamaroneck, N.Y. France said that Bank Boston ranked 42nd, so he expects the merged banking corporation to move up to at least No. 7. The new corporation has about $185 billion in assets, making it the eighth-largest bank-holding company in the United States.

FleetBoston has teamed up with several insurers to sell annuities, including ING, American General, Putnam Capital Manager (offered through ITT Hartford), another ITT Hartford product, American Skandia, Nationwide, GE Capital and American International Group. About 70% of the bank's annuities are fixed and the rest variable, which France said bucks the recent trend toward variables.

Its latest annuity venture, with Boston neighbor Keyport Life Insurance Co., has been judged a success by both companies. Keyport, whose headquarters is two blocks from FleetBoston, designed two private-label fixed annuities and a securities-registered equity-indexed annuity. According to Keyport, premiums totaled $350.4 million last year, with $269 million from sales of Galaxy Fixed Annuity 5, the product with the shorter, five-year surrender period.

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Keyport started distributing annuities through banks in 1985. Since then, the insurer has distributed mostly fixed annuities "in almost every conceivable way" through banks, said Paul LeFevre, chief operating officer. "The culmination was the deal with Fleet."

As part of its partnership with FleetBoston, Keyport also provides sales support and service support, including sales ideas, training, seminars and continuing education. It also helps to keep the bank's representatives licensed.

The new financial-services modernization law is not likely to give Keyport any more freedom to sell its products, LeFevre said. "Maybe Fleet would buy Keyport, but that would be the final step," he said. Added Keyport spokeswoman Janice Foley, "The way we do business and form partnerships is not dependent on the act."

But France recognizes that the law could affect Keyport's business model. "If a bank takes the step of affiliating with or buying an insurer, it might be more difficult to do business with that bank," he said. "We've dealt with that in the brokerage houses. They sell a lot of proprietary products, but their brokers demand product choice.

"It probably works both ways. If Keyport were bought by Fleet, other banks we do business with might not want to do business with us anymore."

France also recognized that the new law could cause changes as banks gain the right to underwrite their own products and reinsure them. He said banks were likely to examine those opportunities. He declined to comment on whether Fleet was considering any insurance company acquisitions. "We have a strategic team that looks at this kind of thing constantly," he said.

The partnership with Keyport, he said, is not the bank-insurance model that the Gramm-Leach-Bliley act engenders. "It's more in terms of reinsurance and underwriting," France said. "It does ease the restrictions of what a bank can actually sell, and it allows for ownership and greater control of the process to allow more value by combining institutions."

BANKS IN INSURANCE REPORT

Vol. XVI, No. 1 May 2000

THE KEYPORT-FLEET ALLIANCE: WHAT MAKES IT WORK?

Boston-based Keyport Life Insurance Company has had a strategic alliance with Fleet Financial Group, the bank chain, to sell Keyport annuities. And it has been exceptionally successful.

The program has generated sales of $486 million, primarily of fixed annuities and equity-indexed annuities, since its inception in April 1998 through the end of 1999. Fleet sold $350.4 million of Keyport annuities last year, compared with 1998

Fleet sales of Keyport annuities of $136 million.

But what makes this work so well? Why has it been so successful?

Why it works

"We entered into a relationship with Fleet back about the middle of 1997," said Paul LeFevre, Keyport's chief operating officer. "They were looking for some proprietary fixed product. We went back and forth with them, and then they chose us to do it. And we worked with them."

But what were the key success factors?

Keyport's alliance with Fleet to sell annuities has been exceptionally successful. But why?

"From what I have seen," reflected LeFevre, "both organizations were behind the design of the product, the implementation of the product in their [Fleet's] system. So it's a product that was implemented into their system with the full support of Fleet, and with the full support of our wholesalers and sales professionals—and with the full support of BankMark, which is the outside marketing firm that Fleet has retained to help them run their program. Their role is basically to provide sales support, and training, and wholesaling.

"And the key was," he continued, "that I worked very closely with the people at Fleet, with give and take, designing product, trying out ideas, so we could come up with a product concept that made sense for their system that was different from anything they'd seen before, and that might have some appeal."

Fleet seemed impressed with the fact that Keyport was willing to work so closely with them, to create a customized product that would specifically fit their needs.

"Keyport is an excellent partner for us, with the ability to tailor its products to match our requirements," said Jeremy France, manager of mutual fund operations of Fleet.

And Keyport found it easy to work with Fleet, as well.

"And you know, that's also very important," added LeFevre. "Compared to other financial institutions that I've dealt with, in the same environment, I was impressed with Fleet's willingness to work with the insurance company, to try to optimize the product—without letting a bunch of either our egos or their egos get in the way. I think it was the main distinguishing factor.

"Because I have found, in the past, that a lot of banks will send out an RFP, and tell you exactly what they want, and then just sort of have a bidding war for who will pay the highest rate. Whereas here, that wasn't the question. The question was, let's figure out how to put together a product that makes sense from scratch, starting with a blank sheet of paper."

Both parties were willing to listen to the other.

"It was a real two-way street in developing the product," LeFevre acknowledged.

Attractive product features

Keyport's Galaxy annuities provide Fleet's customers with a long-term savings vehicle for retirement. According to LeFevre, these fixed annuities feature two ways to maximize return potential. Galaxy "jump starts" a customer's potential earnings by paying an initial extra 1 percent interest as a first-year bonus.

But in addition to receiving an extra 1 percent interest in the first year, Galaxy also offers bonus interest when the customer's annuity grows to certain levels. When the value of the annuity passes through various break points, between $5,000 and $100,000, Galaxy automatically increases the interest rate between 0.10 percent and 0.45 percent. Galaxy also offers "tiered" bonus interest, as an annuity grows to certain levels through additional contributions or earned interest. When the value passes various break points ($5,000 to $100,000-plus), Galaxy automatically increases the interest rate (from base rate plus 0.10 percent to base rate plus 0.45 percent).

Both organizations were behind the design and implementation of the product.

Those are the basic product features. But what specific custom alterations did Keyport make to the product that were important to Fleet?

"They're really not that difficult," LeFevre revealed. "But basically, we started with a flexible premium approach, as opposed to a single premium approach. They were really looking for two products—one that was aimed at what we would call the investment specialists, which are the quasibrokers, the people that go from branch to branch and have appointments with people. And the other product, which is the Galaxy 5, was to be aimed more at the platform reps, which are the people resident in the bank."

People at Fleet and Keyport set their egos aside to optimize the product.

So Fleet has what's called a hybrid program.

"The bulk of the sales have been in the platform product," LeFevre revealed, "because that's what they were initiating.

That's where they were making their push. And it might not sound like much, but one of the things that we suggested, and that they bought into—and I think it's been important—is that we created a product that had a five-year interest rate guarantee. So that to make the sale extremely simple, to not have to get into the issue of, well, what happens after the first year, how does the company declare renewal rates, are they going to go up or are they going to go down."

"We felt that for the platform reps—for that part of the market—the five-year guarantee greatly simplified the sales process. And it helped the reps' comfort with the product. Psychologically, the rep thinks, 'What if customers ask me about renewal rates? What can I say?' That's a whole new dimension. So I would say that's the major thing in designing something for the platform people."

These fixed annuities feature two ways to maximize return potential.

Incenting the customer

But the interest rate tiers were also important.

"We created a set of interest rate tiers," LeFevre reminded us, "which means that when we declare a rate, that rate is the base rate. And depending upon the person's account value, we add to that base rate. For example, in the Galaxy 5, the base rate applies only if the money in the contract is under $5,000. If they're between $5,000 and $10,000, they get 10 basis points more. If they're between $10,000 and $25,000, they get 25 basis points more—not on top of the 10 basis points, but in total."

So there's an incentive for the customer to invest more.

"Correct," LeFevre agreed. "And it keeps going up, all the way up to 45 extra basis points for $100,000. Now, the way it works is in real time. In other words, if somebody puts in $9,000 and they don't put any more in, eventually they're going to pass $10,000, and they'll kick into the higher rate automatically at that point. It works in reverse as well, and encourages good persistency. Because if somebody makes a partial withdrawal and drops below one of the tiers, then their rate drops.

"So it does allow us to run a program where we'll send letters to people—especially if rates have gone up—saying to them, 'Rates have gone up. Any new money coming in gets this additional higher rate.' But if you put in more than $3,000 or whatever the number might be, you'd get over tier. And not only would you get a higher rate on the new money that you're putting in, you'll kick in another 10 basis points on the money that you've already got with us."

A five-year interest rate guarantee simplified the sales process for platform folks.

This way, the bank stays in touch with the customer.

"This approach is a way to keep going back to the customer," stated LeFevre. "As I've said, it also encourages persistency. And it's relatively popular. In addition, the product does pay a first-year extra 1 percent bonus, even though it's got a five-year guarantee. For example, today the base rate is 6.2 percent. So they would get something like 7.2 percent in the first year. And there is also a first-year bonus.

"But other than that, the rest of the customized features consisted of standard things that we just tried to fit in. You know, little tradeoffs on things like free withdrawals, penalty structure. Those were all minor decisions that we had to make."

Getting to know you

What kind of training and support does Keyport give Fleet?

"In the early days, we give them wholesaling support," said LeFevre. "Our wholesalers visit their branches, help them run seminars, and run training sessions for them. And it was done in a very organized way.

"But the other real important thing is that we developed and helped with continuing education for their reps—for their licensing, and to keep them current with continuing education credits. So we were in a position to come in and run these training sessions for their reps, which got us in front of them. These are really training sessions (not aspects of annuities) more than sales seminars. But they served both purposes. So we gave them sales support on all those fronts."

It helped Fleet people get to know Keyport a little bit better.

A set of interest rate tiers encourages the customer to invest more.

"Sure," LeFevre agreed. "As a matter of fact, at one point when one of our wholesalers was going to move out of their system, there was an outcry. They bonded with him! When something is working that well, everybody pats everybody else on the back, and they all work together to get it done." ■

LIFE INSURANCE SELLING NEWSLETTER

A monthly publication for home office personnel of life insurance companies and other interested persons

April, 2000
Vol. 27, Number 4

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Fleet sells two privately labeled Keyport fixed annuities, Galaxy Fixed Annuity 5, the single best selling annuity in Fleet's inventory, and Galaxy Fixed Annuity 7. These fixed products, in addition to a registered equity index annuity provided by Keyport, are sold by nearly 1,000 dedicated investment representatives and financial service professionals at Fleet branches in seven states. Fleet sold more than $78.9 million of the registered equity index annuities provided by Keyport from the inception of the program with Fleet, including $43.2 million last year alone.

"We are delighted with the success of the joint venture between Keyport and Fleet. It reflects the commitment of Fleet and its sales force to these annuity products," said Paul LeFevre, Keyport's chief operating officer.

"The Galaxy annuities provide Fleet's customers with an excellent long-term savings vehicle for retirement," said Jeremy France, manager, mutual fund operations of Fleet.

According to Mr. LeFevre, these fixed annuities feature two ways to maximize return potential. Galaxy "jump starts" a customer's potential earnings by paying an initial extra 1% interest as a first-year bonus. In addition to receiving an extra 1% interest in the first year, Galaxy also offers bonus interest when the customer's annuity grows to certain levels. When the value of the annuity passes through various break points, between $5,000 and $100,000, Galaxy automatically increases the interest rate between 0.10% and 0.45%. These product concepts are also available in other Keyport products.

Keyport provides Fleet investment representatives with regular status reports on the Keyport annuities they sell and the contributions the customer needs to achieve the bonus interest rate. "This is part of our combined effort with Fleet to provide marketing support to their sales representatives," said LeFevre.

One of the hottest marketing strategies these days continues to be worksite sales. An increasing array of products are being offered through the worksite, and good producers are looking for partners in worksite marketing, payroll deduction, and mass marketing.

SIMS & ASSOCIATES, INC.
BANK·INVESTMENT·MARKETING
March 2000

Annuities

FIXED ANNUITIES

Making a Comeback in 1999—and Almost Catching up to Variable Annuities

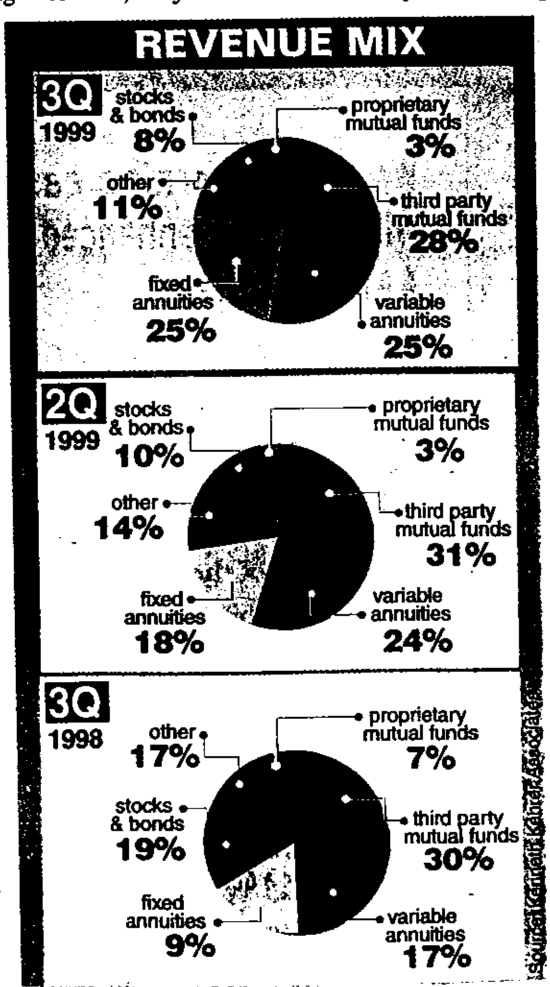
Rising interest rates and frequent stock market fluctuations made fixed annuities sell briskly through banks in 1999. American General, Allstate and Keyport sport unique strategies to help them boost sales.

WITH THE STOCK MARKET lingering around an all-time high, it might come as a surprise to some that fixed annuities, normally associated with conservative consumers, are selling through banks almost as fast as shares in the next dot.com IPO. But rising interest rates—thanks to the Fed's attempt to cool down the market—have resulted in fixed annuity rates that are more attractive than they've been in years.

Bank fixed annuities sales were up 15% in the third quarter of 1999 from the same period a year before, growing to $3.5 billion, according to Kenneth Kehrer Associates in Princeton, NJ. Meanwhile, variable annuity sales were down 6% from 1998 figures to $3.6 billion. Interest rate hikes have created higher yield curves for fixed annuities, luring investors. Many consumers are also disillusioned with the stock market's frequent fluctuations.

Several annuity professionals agree the zig-zagging stock market, coupled with rising interest rates, have whet consumers' appetite for fixed annuities. They have also noticed consumers are snapping up fixed annuities with longer guaranteed rates, attempting to lock in the rates of today with 5- and 7-year, as opposed to one year, fixed products.

But financial services professionals have their own reasons why their respective companies are watching fixed annuities fly out the door. Ask Bruce Abrams, Houston-based American General's evp and chief marketing officer why Am Gen has remained the #1 seller of fixed annuities through banks over the last several years, and he'll say it's because American General gives the banks that use its products a high degree of control and autonomy. Am Gen not only creates fixed annuities for banks but it lets the institutions manage the money customers sink into the products. Banks can also pick the annual renewal rates customers must pay to keep their fixed annuities chugging along. Normally, insurance companies manage the assets and dictate the renewal rates, "which often blindsides banks and the relationships they're trying to develop with customers," says Abrams. For Maryland-based Allfirst Bank, which just launched its first proprietary fixed annuity, the benefits of aligning with American General are more straightforward. Says Allfirst spokesman Bruce Hammond, "We like to manage our own assets because we believe we're good money managers."



Allstate Life Group, the third largest bank annuity seller, saw fixed annuity sales double from 1998 to 1999, says Rob Shore, svp, director of financial institutions. One major reason is that Allstate has beefed up its ability to help banks sell the products. In 1998 Allstate created an annuity distribution strategy modeled on the way investment companies distribute mutual funds. "We now have 10 dedicated reps, backed by internal wholesalers and a new relationship management area."

Number seven fixed annuity seller Boston-based Keyport also had a banner fixed-annuity sales year in 1999. A large portion of Keyport's fixed annuities are sold through FleetBoston; together, the two companies introduced the Galaxy Fixed Annuity 7 and the Galaxy Fixed Annuity 5 a few years ago. Jeremiah France, vp, Fleet Investment Management, says the reason "Galaxies" saw a "significant sales increase" in 1999 is because of their structure.

Specifically, France points to the annuities' "tiered" approach. When Galaxy annuities reach certain levels—between $5,000 and $100,000—their interest rate automatically increases between 0.10 and 0.45%.

—*john.wagley@tfn.com*

SIMS & ASSOCIATES, INC.

BEST'S REVIEW

APRIL 2000

New products for new customers: *Keyport Life Insurance Co. designed two private-label fixed annuities and a securities-registered equity-indexed annuity for FleetBoston. Chief Operating Officer Paul LeFevre said, "We tried to create a product that drives additional premiums and punishes surrenders and withdrawals."*

Bancassurance Gets a Boost

A new federal law may make it easier for banks to sell insurance, but that doesn't necessarily mean they will.

by Ron Panko

Prospects for the sale of insurance at banks have never been better. The market has barely been tapped, and the Gramm-Leach-Bliley financial-services modernization law went into effect March 13. That law breaks down barriers between the banking, insurance and securities industries that had been in effect for decades.

Those familiar with the banking and insurance industries, however, say that it doesn't mean banks will be selling more insurance anytime soon. "The new law may help some," said Kenneth Kehrer, president of Kenneth Kehrer Associates, Princeton, N.J., which recently conducted a benchmark study on the subject. "The main thing it does is allow banks to get rid of some of the nuisance factors of having to locate insurance operations in small towns," a standard set in a 1996 court ruling in a case brought by Florida-based Barnett Bank. "On the other hand, there's a possibility that it opens up other potential nuisance problems in that it gives the states more leeway than the Barnett decision did."

Excluding premiums for credit insurance and annuities, insurance premiums at banks amount to less than 1% of the U.S. total. Banks have been actively selling annuities with their portfolio of other investment products, and they have historically been allowed to underwrite and sell credit insurance.

If the new law does spur insurance sales at banks, it will have been a long time coming, said Andrew Singer, editor and publisher of *Bank Insurance Marketing*, which conducts a biannual study on the sale of insurance through banks. The magazine is published for the Financial Institutions Insurance Association (FIIA), Corte Madera, Calif.

"We keep waiting every two years for life insurance through banks to explode, but every year we do this

> "The question is what strategically will make the most sense for banking organizations."
>
> *—Don Vangel, Ernst & Young*

study, life sales are very low," he said. "On the other hand, when we ask which products will have the fastest sales growth, life comes out ahead."

Annuity premiums produced by banks are 50 to 100 times that of premiums for other insurance products they sell, Singer estimated, even though those other insurance products generate much higher revenues for the institution per premium dollar. In terms of earnings, annuities contribute only 10 times as much as other insurance products, he said.

Kehrer's benchmarking study provides a perspective on how few banks have been able to penetrate their market with insurance products. For his study, Kehrer obtained detailed data on insurance sales and revenue from 19 of the 24 largest bank insurance programs in 1997. The typical household served by those banks spent an average of just $3.17 per year in premiums for insurance products sold through the bank. The average annual commission per household was 83 cents. "And that doesn't count the banks that are not selling insurance, just the banks that are selling," Kehrer said. Of the 19 banks in the study, 15 reported selling life or health insurance. "What they've done so far is just the tip of the iceberg," he said.

Kehrer estimated that life insurance premiums through banks last year amounted to about $300 million.

Opportunity Spawns Concerns

While the Gramm-Leach-Bliley act makes it easier for banks to sell insurance, Richard D. Starr, founder and chairman of the FIIA and director of strategic initiatives at ABN AMRO Insurance Services, Chicago, does not expect banks to stray far from their

Getting a Head Start

Like most other banks, FleetBoston Financial Corp. hasn't sold much life or property/casualty insurance. Like some of its peers, it has a vibrant annuity business. But this corporation has something that most banks don't. It owns insurance agencies, which could give it the inside track should it decide to go after the life insurance or property/casualty market more aggressively.

FleetBoston is the result of the October merger of Fleet Bank and Bank Boston. Fleet reported that it sold $550 million of annuities in 1997, $540 million in 1998 and $830 million last year. Its first agency purchase—in Massachusetts—came many decades ago, and the bank has been grandfathered from a law that had prevented such ownership. In the early 1990s, Fleet worked through a third-party marketer, Bankmark of Morris Plains, N.J., which set up insurance agencies that it owned for the benefit of Fleet. In January 1996, Fleet bought a Rhode Island agency from Bankmark, and it went on to buy agencies in the other states in which it has offices—the five other New England states, New York and New Jersey.

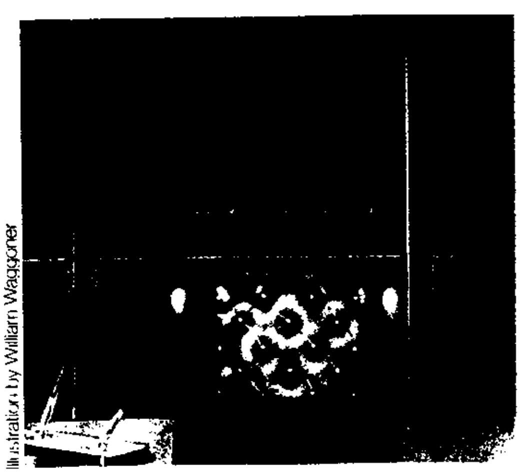


Illustration by William Waggoner

FleetBoston's agents, which number about 250, work under one management team and have offices at the bank's branches, said Jeremiah France, vice president for product distribution and development, which is responsible for selling mutual funds and annuities. The agents are not in their branch offices at all times, and some serve more than one branch, but a branch would know where the agent is each day and can schedule appointments. "We've created and run a very successful business around that initiative," France said. Another part of the bank handles sales of life and property/casualty insurance.

France said the bank generates annuity or mutual-fund business in several ways. If a customer inquires about a higher savings account rate, the clerk might refer that person to an investment specialist/agent. Customers might also respond to the bank's mailed advertisements, a statement stuffer or promotional items located in a branch office. Sometimes the contact is a recommendation from another customer.

Fleet Bank ranked eighth in bank annuity sales at the end of the third quarter, according to Singer's Annuity & Funds Report, Mamaroneck, N.Y. France said that Bank Boston ranked 42nd, so he expects the merged banking corporation to move up to at least No. 7. The new corporation has about $185 billion in assets, making it the eighth-largest bank-holding company in the United States.

FleetBoston has teamed up with several insurers to sell annuities.

core businesses, partially because the law introduces other concerns.

Although the law tears down the structural firewalls between the three financial-services businesses, it establishes new privacy restrictions and forces banks to answer to state insurance regulators more than ever before. The act requires that those privacy regulations be in place by May 12.

The intent of the privacy section of the Gramm-Leach-Bliley act is to restrict the amount of customer information that unaffiliated companies may share with each other. In addition, it provides that a state law will not be pre-empted if it provides greater privacy protection for a consumer than the federal law, Starr said. "There are 17 states that have privacy legislation proposed as we speak," he said in February. He believes insurance agents, who have been trying to keep banks out of their business for decades, support these new bills.

"You want to have the critical mass to deliver the products and the expertise."

—Paul Pilecki, Attorney

"To complicate this further, this is an election year, and privacy is like mother and apple pie," Starr said. "Every state legislature is going to meet this year, and most of the state activity will be finished before regulations are issued on the federal side."

Under the federal law, unaffiliated financial-services companies will not be allowed to exchange any information about customers, not even the kind of data that is freely available to the public at places like county halls of records. "That's not logical," Starr said.

The Federal Reserve Board proposed regulations endowing the Federal Trade Commission as the "arbiter of privacy" on state regulations that are more protective of consumers'

including ING, American General, Putnam Capital Manager (offered through ITT Hartford), another ITT Hartford product, American Skandia, Nationwide, GE Capital and American International Group. About 70% of the bank's annuities are fixed and the rest variable, which France said bucks the recent trend toward variables.

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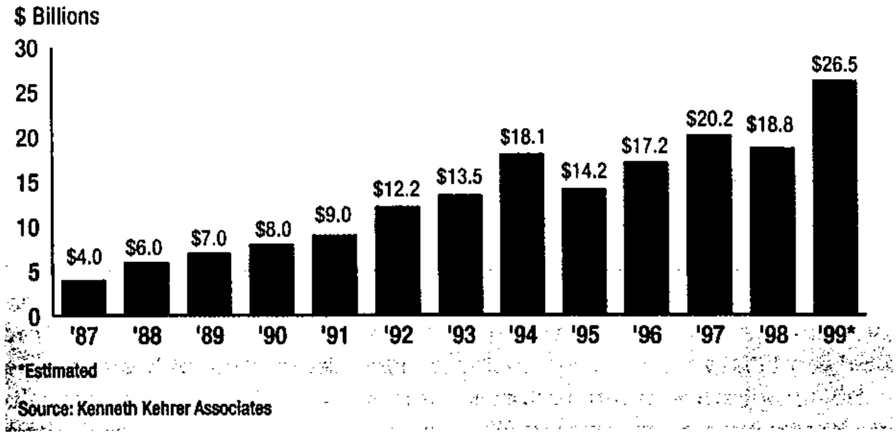
Bank Sales of Individual Annuities Grow



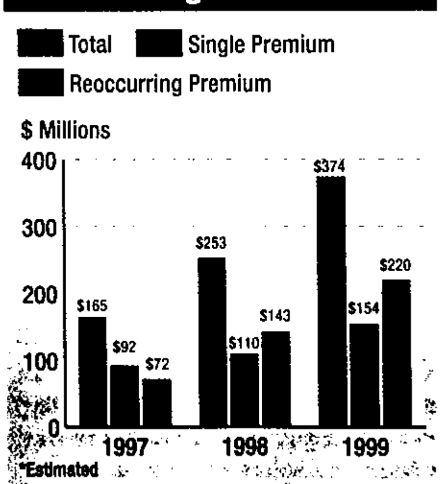
privacy. But the commission would have to consult with the Federal Reserve Board before issuing its decions.

Privacy regulations may add some burden to banks selling insurance, but they won't prevent anybody from doing business, said Paul Pilecki, a lawyer who counsels banks on regulations, planning and acquisitions.

Regulatory Maze

The Gramm-Leach-Bliley act also reaffirmed the McCarron-Ferguson act, which gave the power of insurance regulation to states. It provides states with 13 safe harbors that protect them from pre-emption challenges,"so states that don't really want to have liberal rules on banks selling

Life/Health Premium Sold Through Banks



insurance can't be challenged," Starr said, adding that he hadn't yet seen any examples of how states have used those safe harbors.

As to working with 50 state departments of insurance, Pilecki said most large banks already have multistate operations and deal with multiple regulators. "It's part of the mindset of doing business, and it's already worked into their discipline. It obviously ratchets up the number of contacts they need to make and bases they need to touch, but it won't result in an organization saying it won't pursue this business opportunity," he said.

Banks prefer a more efficient regulatory structure, however, and are not likely to be satisfied with the way the law currently sets it up, he added. In February, the ABA Insurance Association, an affiliate of the American Bankers Association, proposed a dual regulatory system that would allow insurers to decide whether they want to be regulated by the states or by a new federal insurance commissioner.

Potential privacy restrictions and preservation of state regulation might encourage banks and insurers to join together under financial-services holding companies so they cannot be accused of sharing customer information with nonaffiliates, Starr said.

Banks may think twice about tying their fortunes to those of insurers, though. The banking industry currently has a much higher return on equity than the insurance industry, Starr said, particularly property/casualty insurers. An acquisition could drag down a bank's ROE. "Can shareholders afford that?" asked Starr. "Will they choose to do that? I don't think so."

Another school of thought is that the difference in returns on equity could lead some banks to buy insurers and combine under the financial-services holding-company structure. If banks have higher returns on equity than insurers, it means their stock is worth more and they have the currency to complete an acquisition, Pilecki said.

"The equation depends on whether a bank thinks it can get more out of an insurance company by offering the insurer's products through the bank's retail delivery system," said Pilecki, a partner in the law firm Shaw Pittman, Washington, D.C. "If you're increasing the amount of fee income, that would be attractive."

All Things Possible

"The question is what strategically will make the most sense for banking organizations," said Don Vangel, director of bank regulatory consulting with Ernst & Young LLP, New York.

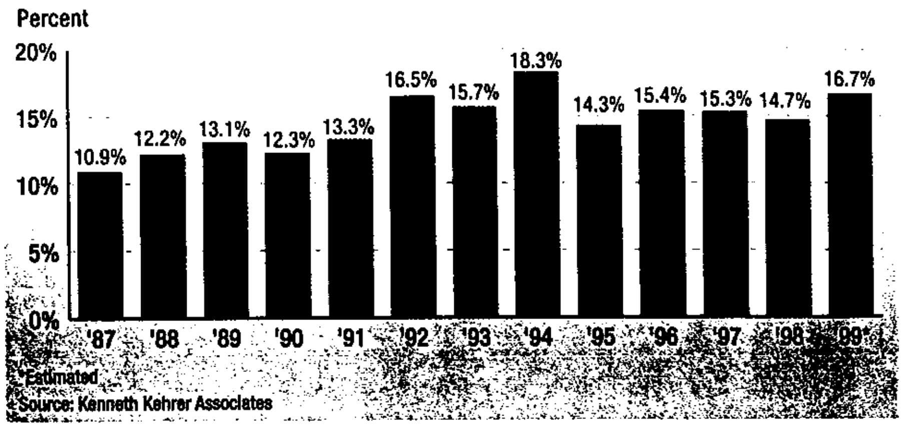
Banking's two main choices are either to establish an insurance operation from scratch, perhaps through the Internet and e-commerce, or to acquire insurers with a good infrastructure and assimilate them into the holding company's overall environment.

Banks that want to build an insurance business might look to the Internet, because that distribution channel bypasses the agent system, Starr said.

But Pilecki doesn't expect banks to sell insurance online rather than ally with an insurer. "You want to have the critical mass to deliver the products and the expertise," he said. "To start writing insurance de novo [from scratch] would be somewhat difficult."

A large banking organization would prefer to have an insurance organization that matches its size, Pilecki said. Even if distribution is via the Internet, the bank still has to underwrite the insurance, deliver policies and administer claims. But e-commerce might make it less desirable for a bank to buy a big insurance agency, he added.

Banks' Market Share of Individual Annuities



E-commerce might diminish the value of that kind of company.

Banking organizations can select from a big menu of insurance products. Ernst & Young's Vangel said banking regulators have been more concerned about property/casualty insurance than life insurance. "There is nothing more studied and predictable than mortality," Vangel said, adding that health insurance also might be attractive to banks.

The types of insurance that banks choose are tied to the demographics of core clientele—whether it is a community bank or one that provides services to high-net-worth professionals, Vangel said.

How creative banks can be will depend largely on the federal regulations expected by mid-March to flesh out the law. Most importantly, the Federal Reserve and the Treasury Department need to define what activities are financial in nature or are incidental to financial, Vangel said. The law allows "complementary activities," and the Federal Reserve has jurisdiction to determine what those are.

"There's almost no limit to what the mind can come up with, including activities mostly commercial but that are related to financial services," Vangel said. "For example, since financial services are delivered by automated means, banks could argue that manufacturing computer services is a complementary activity they should be allowed to do." Complementary activities give financial-holding companies the ability to expand not only horizontally, but vertically, he said, like a paper company owning a forest.

Attractive Partners

Banks will look for insurers with good reputations, good products, strong management and the ability to enhance value, either because they can achieve efficiencies or can provide an outlet that an insurer doesn't already have, Pilecki said.

Banks and insurers face the same risks as any other companies involved in acquisitions. A bank needs to perform good due diligence and identify all potential problems of the company it's acquiring. "The risks can be guarded against," Pilecki said. "There's nothing inherent about an insurance company that is a risk by itself. You can overpay. If you don't have a good plan about how to use the company, about how to make the companies work together, that's a risk."

Vangel agreed that joining forces could present pitfalls. "Trying to be all things to all people has been a failed strategy," he said. "You have to think of where your advantages are. Banks historically have moved in packs, but that's changed over time. Differentiating yourself from the competition now is key."

The cultures of the two companies, too, should be compatible. "The risk is to be precipitous, to have the feeling you can do all this stuff, so let's go out and buy something," Vangel said.

The law gives all companies the right to buy other kinds of companies, so insurers could buy banks. But Vangel said insurers lack the currency to be major acquirers and are more likely to find themselves targets. "I'm not sure that's a bad thing for them," he said. "I certainly wouldn't be fearful."

The Citigroup Model

When Citibank and Travelers Insurance merged a couple of years ago, the new company, Citigroup, bumped up against what laws then permitted in the United States. Congress may have simply caught up to the Citigroup model when it passed Gramm-Leach-Bliley. "The Citigroup model is what business organizations will choose because that's law," Pilecki said. "Banking organizations won't be able to establish insurance subsidiaries, so the holding-company model will be used. Through its retail systems, it will attempt to deliver banking, insurance and securities products that the organization develops. That's what the law permits."

Pilecki and Vangel hold slightly different views of what the Citigroup model means to aspiring financial-holding companies. "Consumers have a lot of choices, and it's difficult to tie them down to a single institution," Vangel said. It's important to brand the name of the company into the consumer's mind, however, much like Citigroup has done, he said.

But the Citigroup model doesn't necessarily mean a holding company has to sell all of its products to the same customers, Pilecki said. BR

Annuity Market News
August, 2000

Immediate Annuities Await Retirees

By John P. Mello Jr.

As some eight million baby boomers reach retirement age in the next 10 years, they will have to decide what to do with some $9 trillion in accumulated wealth. The annuity industry is betting that many of these baby boomers will want to invest a portion of that cash in annuitization products like immediate variable annuities.

Immediate variable annuities allow an investor to put a lump sum into a variable annuity and receive an income stream that has the potential to increase over time. That contrasts with immediate fixed annuities that give the investor a fixed income stream that can be eaten away by inflation over the years.

Immediate variable annuities have been on the market for about three years but they have not been enthusiasiically received. Sales this year from the 25 or so immediate variable annuities products in the market will only be about $400 million, or substantially less than one percent of all variable annuity sales, which last year were $121.3 billion, according to estimates by Nationwide Insurance in Columbus, Ohio.

"We've been in the marketplace for awhile and our experience has been less than stellar," said Martin Swanson, director of investment products for Hartford Life in Simsbury, Conn. "That's been the experience of the industry as a whole, although we've probably done better than most. The immediate annuity marketplace really hasn't taken off to this point in time."

Industry executives are not concerned about the sluggish market for immediate variable annuities yet. They are confident that the products are well-designed to take advantage of baby boomer demographics. Within the next three years, the first of the eight million baby boomers who will retire during this decade will stop working and start mulling over ways to turn their wealth into a steady flow of income.

Right now, though, the baby boomer generation is not in that frame of mind, said Swanson.

"When we look at baby boomers, who are a big part of our business right now, they are in an accumulation phase of their life cycle," said Swanson. "These products [IVAs] are for older people who are in retirement, who need a stream of income to live on."

"Individuals are accumulating assets in mutual funds, in annuities and in qualified plans for use in retirement," he said. "Because of the bull market that we've had in recent years, a lot of those assets have accumulated into substantial amounts. As people move into retirement, they will want to convert a portion of those assets into a guaranteed income stream so that they know that on a monthly basis they will get a certain amount of income. That's why we think the income side of the business will become bigger and bigger as we go down the road."

One of the demographic trends addressed by immediate variable annuities, is the shrinking saving rate in America and increased longevity, according to Phil Polkinghom, president of the Keyport Life Insurance Company in Boston.

Since the 1960s, the nation's savings rate has declined from 11.7 percent to 3.4 percent as of 1996, according to Keyport.

Meanwhile, life expectancy has increased. A person born in 1900 could expect to live 45 years compared to a person born in 2000, who can expect to live 85 years. Another telling figure is that in 1998, there were 200,000 people who had reached their 100th birthday; in 2050, that number is expected to reach three million.

Couple those numbers with the decline in the ability of Social Security to replace income – in 1997, Social Security replaced 42 percent of income; in 2030, it will only replace 36 percent – and industry executives anticipate a sizeable potential market for immediate annuities.

"People haven't been saving enough, they haven't been investing aggressively enough," Polkinghorn said, "so the problem of making assets last a lifetime seems to be an issue that is worthy of developing some product for."

Some product managers say that it makes sense to promote these products before a significant portion of the population is ready for them, to get shelf space now before there is a large increase in demand for them. It also gives the companies time to educate their sales forces and the public about them.

MAY 8, 2000
NATIONAL UNDERWRITER

Editorial Comment

Turn 'Wishful Thinking' Into Opportunities

The message that people need to save and invest for retirement has been beaten like a tom-tom in the last few years. Nearly every financial services company has broadcast that message loud and clear. The Clinton administration has also been trumpeting that theme. With this barrage of efforts, we had hoped that the message had truly begun to penetrate and people were shedding their comfortable old illusions.

But, alas, this has proved to be wishful thinking on our part, if the results of a recent survey by Keyport Life Insurance Company are to be believed. "Wishful thinking," in fact, is what still characterizes the attitudes of many Americans when it comes to making provisions for retirement, the survey of current workers and retirees found.

Another hope—namely, that the longest bull stock market in American history had stuffed the retirement savings pockets of most people—also turns out to be an illusion, according to the survey. Keyport found that most Americans were "bystanders" during the current bull market. In fact, nearly two-thirds of all the respondents said they had not gained substantially from the long market surge.

The public still has many illusions about retirement needs and costs

percent think their standard of living in retirement will be *higher* than it is now.

All is not doom and gloom, however.

One bright spot is that current workers are being weaned away from over-reliance on Social Security as a retirement mainstay and some 55 percent of current workers expect a major portion of their retirement income will come from 401(k)s, IRAs and Keoghs.

Other sources of retirement income for current workers that rank high are: employer pensions (44 percent); mutual funds, stocks and bonds (44 percent); and savings accounts (26 percent).

Unfortunately for the life insurance business, only 17 percent of current workers say annuities will constitute a major portion of their retirement income. Yet while this is woefully small compared to mutual funds, for instance, we prefer to look at this underpenetrated market as a vast oil field waiting to be tapped rather than as a cause for despair.

Another area of potential opportunity for the insurance business is in medical care and prescription drug costs, which 49 percent of current workers identify as one of their top four anticipated retirement expenses.

Meeting the costs of catastrophic illness in re-

BEST'S REVIEW

JUNE 2000

Life/Health Marketplace

Hartford Annuities Most Popular With Bank Customers Last Year

Hartford Life Insurance Co. held on to its lead last year in individual annuities sold through banks, but American General Life & Annuity Co. closed the gap, according to a survey by Kenneth Kehrer Associates, Princeton, N.J.

Hartford's bank sales were up 11% to $4.2 billion, the first time an insurer has garnered at least $4 billion in annuity premium through banks. American General increased its bank sales by 88% to $3.5 billion. Last year was the fourth consecutive year in which Hartford sold more variable annuities through banks than any other insurer. It also was the fourth straight year that American General did the same for fixed annuities.

Individual Annuities Sold Through Banks

Ranked by total premium
($ millions)

Company	1999	1998
Hartford Life	$4,236	$3,808
American General Life	3,057	2,043
Aegon/Transamerica	2,571	1,365
Nationwide	2,310	2,043
Allstate Life	1,952	1,014
GE Financial	1,181	653
Keyport Life	860	643
American Skandia	824	633
Jackson National	756	443
Pacific Life	556	224
John Hancock	545	269

Source: The Kehrer Report, First Quarter 2000

American General continued to pursue a joint-venture strategy by adding proprietary variable annuities with Washington Mutual and Banc One to its existing proprietary fixed annuities with First Union, Calfed, Firstar and other banks.

Aegon and Transamerica, which merged early in 1999, increased their combined total annuity sales 88% to $2.6 billion, moving into third place over Nationwide Group. Nationwide increased its sales by 14% to $2.3 billion. Kenneth Kehrer, whose consulting firm conducts the survey, said both Aegon and Transamerica had been focusing on private-label products for large banks.

The Allstate Life Group increased its sales by 93% to $1.95 billion, but remained in fourth place. Kehrer said its growth came from both the increasing popularity of the Putnam Allstate Variable Annuity and from the expanded wholesaling efforts at Glenbrook Life & Annuity. Glenbrook also is one of three fixed-annuity underwriters providing products to Banc One.

AMERICAN BANKER

AUGUST 9, 2000

Fixed Annuity Sales Up 241% at Keyport

BOSTON — Keyport Life Insurance Co.'s second-quarter fixed annuity sales rose 241% from the year earlier, to $334 million.

Last year's annual sales had grown 49% from the year before, to $840 million.

Paul LeFevre, Keyport's chief operating officer, said one key to the insurer's gains was an annuity marketing alliance in March with FleetBoston Financial Corp.

In the first quarter Keyport, a subsidiary of Liberty Financial Co. of Boston, launched two fixed annuities and an equity index annuity as part of the joint venture with Fleet. The annuities are being sold through Fleet's 1,200 bank branches and its 250 registered investment specialists.

— *Matt Ackermann*

AMERICAN BANKER

AUGUST 16, 2000

Keyport Enhances Variable Annuities

BOSTON — Keyport Life Insurance Co. has enhanced two variable annuities by adding to the funds that investors may choose as the basis for the payout.

Keyport Charter, introduced last year as Keyport Advisor Charter, is a variable annuity offering an optional income protection benefit and an enhanced death benefit designed to protect against stock market volatility. It has a minimum initial investment of $5,000.

The Keyport Vista variable annuity, originally Keyport Advisor Vista, has a minimum initial investment of $25,000.

The enhancements announced Tuesday to the variable annuities include the addition of three fund families — Fidelity, MFS, and Rydex; and additional offerings from the fund families previously available — Colonial, Liberty, Newport Pacific, Stein Roe, AIM, and Alliance Capital.

Keyport Charter's income protection benefit assures a minimum fixed lifetime retirement income regardless of the performance of the annuity's asset. Income benefit payments are based on the greater of either an individual's annuity contributions increased by 6% every year, or the highest account value on any contract anniversary.

Keyport Charter's portfolio selection program now uses updated asset allocation models, designed by Ibbotson Associates, which are based on a client's risk tolerance and the term of the annuity.

Keyport Life Insurance Co., with $18.3 billion in assets under management, provides fixed, indexed, and variable annuity products distributed through banks, securities brokerage firms, and independent planners.

It is one of the Liberty Financial Companies, a diversified asset management organization with approximately $66 billion under management. — *Lee Ann Gjertsen*

AMERICAN BANKER

JULY 26, 2000

Liberty's Operating Net Up 5.5% in Quarter

BOSTON — Liberty Financial Cos.' second-quarter net operating income rose 5.5% from the same period last year, to $32.5 million, or 67 cents per share.

Net operating income for the first six months of the year was $64.7 million, or $1.34 per share, versus $60.2 million, or $1.26 per share last year.

The company's annuity business through its Keyport subsidiary was the best performer during the half, Liberty said. Sales of these products rose 17%, to $4.1 billion.

Mutual fund redemptions are still negatively affecting Liberty, however. Its second-quarter assets under management fell 0.8%, to $66.5 billion.

Liberty expects a combination of market volatility, higher expenses, and the impact of its acquisition of Wanger Asset Management last month to push this year's earnings per share slightly below last year's results.

— *Matthew Hunter*

Annuity Market News

NEWS AND ANALYSIS OF THE ANNUITY AND VARIABLE LIFE INDUSTRIES

April, 2000

Bank Channel Sales Surged in 1999

By John P. Mello Jr.

Sales of annuities through banks soared in 1999, according to Kenneth Kehrer Associates, an independent consulting firm in Princeton, N.J. which specializes in bank securities programs.

Banks and thrifts saw their sales climb 38 percent last year, from $19.2 billion in 1998 to $26.5 billion in 1999, according to Kehrer.

Unlike past years, fixed and variable annuities were neck and neck in their contributions to growth during the period in the distribution channel, Kehrer said in its end-of-year report on the bank channel. Variable annuity sales jumped 25 percent, from $11.1 billion to more than $13.9 billion, while fixed annuity sales climbed 54 percent, from $8.1 billion to $12.5 billion.

Annuity sales varied from quarter to quarter during the year, the report said. Variable annuities did well in the first quarter, but tapered off during the rest of the year, actually declining by two percent in the fourth quarter. Fixed annuity sales were strong in the second and third quarters, but fell off in the fourth quarter.

However, banks sold more fixed annuities, $3.8 billion, than variables, $3.5 billion, in the fourth quarter, the first time that has happened since the second quarter of 1997.

Some banks did record business in fixed annuity sales last year. Fleet Financial of Boston, for example, enjoyed an 81 percent increase in fixed sales, from $323 million in 1998 to $584 million in 1999.

Among individual carriers, the Hartford Life Insurance Companies in Simsbury, Conn. remained the leader in annuity sales through banks. Sales rose 11 percent in 1999, from $3.8 billion to $4.2 billion, the first time more than $4 billion in annuities were sold in the bank channel in a single year, according to Kehrer.

American General Life Companies in Houston, Texas, continued to pressure the Hartford for sales leadership, finishing with an 88 percent increase in sales, from $2.0 billion in 1998 to $3.1 billion in 1999. American General has had good success pursuing a joint venture strategy with banks, Kehrer said. Last year, it created proprietary variable annuity products for Washington Mutual of Seattle, Wash., and Banc One of Chicago. American General already had programs with First Union of Charlotte, N.C., Calfed of San Francisco, Firstar of Milwaukee, Wis. and others.

Capturing the third spot in the rankings for the first time were Aegon of The Hague, Netherlands, and Transamerica of San Francisco, which merged in 1999. Their annuity sales rose 88 percent during the period, from $1.4 billion to $2.6 billion. Aegon/Transamerica, too, has been concentrating on proprietary bank products, Kehrer said.

Nationwide Insurance in Columbus, Ohio dropped from third in last year's rankings to fourth despite a 14 percent jump in sales, from $2.0 billion to $2.3 billion.

Allstate Insurance of Northbrook, Ill. finished last year just shy of doing $2 billion in bank annuity business, selling $1.9 billion, a 93 percent increase over 1998 when it sold $1.0 billion. The carrier's sales benefited from the increasing popularity of the Putnam Allstate variable annuity and from expanded wholesale efforts through Glenbrook Life and Annuity of Northbrook, Ill., said Kehrer.

Trends in Bank Market Share of U.S. Individual Annuity Premium

Year	Individual Annuity Premium* ($ billions)	Annuity Premium by Banks ($ billions)	Bank Share (percent)
1987	36.5	4	10.9
1988	48.9	6	12.2
1989	53.2	7	13.1
1990	64.9	8	12.3
1991	67.7	9	13.3
1992	73.7	12.2	16.5
1993	85.7	13.5	15.7
1994	98.9	18.1	18.3
1995	96.7	14.2	14.3
1996	111.4	17.2	15.4
1997	126.1	20.2	16.0
1998	128.3	19.2	15.0
1999	156.5	26.5	16.9

*LIMRA International

Source: The Kehrer Report

Glenbrook Life is one of three underwriters of fixed annuities for Banc One.

Filling in the sixth, seventh and eighth places in the rankings were General Electric Financial Assurance of Richmond, Va., Keyport Life Insurance of Boston and American Skandia of Shelton, Conn. General Electric sales increased 81 percent during the period, from $653 million to $1.2 billion. Keyport's sales climbed 34 percent, from $643 million to $860 million. And American Skandia's sales jumped 30 percent, from $633 million to $824 million.

Rounding out the top 10 bank channel sellers were Jackson National of Lansing, Mich., and Pacific Life of Newport Beach, Calif. Jackson rose from 11th place in last year's rankings to ninth this year with a 71 percent increase in sales, from $443 million to $756 million. And Pacific Life jumped from number 23 last year to tenth this year by boosting business 2.5 times over 1998, from $224 million to $556 million.

Contributing to the strong mid-year performance of fixed annuities was a wide gap between the rates of return for fixed annuities and for bank certificates of deposit, said Ken Kehrer, president of Kehrer Associates.

That trend is continuing this year. The average return from a fixed annuity currently is about 81 basis points higher than that of a CD. A year ago, that gap was only 35 basis points.

Product innovation also continues to play a role in boosting annuity sales. One of the innovations that received the most enthusiastic response was "bonus" or "extra credit" annuities, which essentially paid an investor to buy an annuity from a company.

"There was a lot of business done in those extra credit products last year," said Matt Riebel, president of the financial institution distribution agency for Nationwide Insurance in Columbus, Ohio.

The introduction of the bonus products was so important that some insurers, who failed to introduce the annuities last year, say their overall sales were hurt by their tardiness. SunAmerica of Los Angeles, for example, increased bank sales by 25 percent, but believes that its sales growth could have been much better.

"Our sales were good last year but not as good as some of the other carriers," said Leslie Hunnicutt, senior vice president of the company. "A lot of that has to do with the bonus products that really gathered in a lot of assets last year."

Hunnicutt said American Skandia was certainly among the top sellers in the channel because of its bonus product.

A trend in the bank market that became more pronounced last year was the divergence of variable annuity and mutual fund sales. Sales for the products used to move in the same direction. But last year, as variable annuity sales climbed, mutual fund sales stumbled, falling 17 percent, from $46.3 billion to $38.3 billion.

"That's because of all these variable annuity enhancements that have developed over the last year or two," Kehrer said. "The guaranteed minimum income option, enhanced death benefits and so on have taken some of the risk of volatility out of the products."

Another factor contributing to the divergence of mutual fund and variable annuity sales in banks is asset velocity, according to Michael Murray, senior vice president and national sales manager for American Skandia.

"The asset velocity of mutual funds – that is, the rate at which people change funds – is increasing dramatically," he said. "You don't see nearly the asset velocity in variable annuities that you see in mutual funds."

Bank channel sales of annuities accounted for 16.9 percent of all annuity sales in 1999, a 1.9 percent increase over 1998, according to LIMRA International of Windsor, Conn., a research organization for marketers of annuities, mutual funds and related products. Banks sold 30 percent of all fixed annuities in 1999, a 5.2 percent gain over 1998, according to LIMRA. Banks sold 12.2 percent of all variable annuities during the period, it said.

To some degree, annuity sales have been boosted by consolidation in the banking industry, according to Bruce Ferris, vice president for investment product sales at Hartford Life.

"Consolidation of financial services have allowed banks to acquire regional broker-dealers so their expertise has broadened and their distribution power and capabilities have been strengthened," he said. "When you match that with the compelling need for both debt and equity products, it's a good recipe for banks."

Although there is optimism in the industry about sales of annuities in 2000, last year's performance will be tough to beat.

"I think we'll see increases this year, but I'd be very surprised if they were of last year's magnitude," said Paul Lefevre, chief operating officer for Keyport.

Total Individual Annuity Sales Through Banks

Ranked by Total 1999 Premium

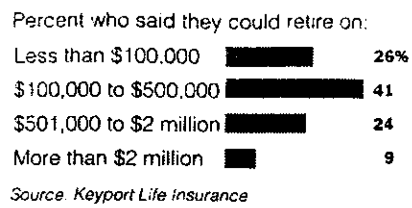
Company	1999 ($ millions)	1998
Hartford	4,236	3,808
American Gen'l Life Cos	3,057	2,043
Aegon/Transamerica	2,571	1,365
Nationwide	2,310	2,035
Allstate Life Group	1,952	1,014
GE Companies	1,181	653
Keyport	860	643
American Skandia	824	633
Jackson National	756	443
Pacific Life	556	224
John Hancock	545	269

Source: The Kehrer Report

SIMS & ASSOCIATES, INC. The New York Times

Personal Business

May 14, 2000



What Market Windfall?

To many Americans, the stock market boom has been like a solitary breeze on a torrid summer night: just when they turn to enjoy the coolness, it seems to go away.

Two-thirds of Americans who responded to a survey about their retirement plans said they had not gained substantially from the decadelong bull market.

Six hundred people over the age of 25 took part in the poll, which was commissioned by the Keyport Life Insurance Company in Boston. Of the respondents, 278 were working and 322 were retired.

Of the current workers, only 10 percent said their stock market gains would allow them to retire early; 3 percent of the retired respondents said such gains had let them retire early.

Keyport, which conducted a similar survey in 1995, found contradictory attitudes and expectations about retirement needs and lifestyles. Three-fourths of the current workers said their standard of living in retirement would be the same or higher than it was now, but just over half could not estimate how much money they would need to retire in the lifestyle they wanted. That was up from 43 percent in 1995.

Among the current workers who listed an amount, the median was $400,000, but 26 percent said they would need less than $100,000.

"This lack of financial realism is very disturbing," said Philip K. Polkinghorn, president of Keyport. "Financial planners and other experts that take inflation, life span and other factors into account when setting retirement savings goals would find that $100,000 is only a fraction of what an individual needs as a retirement nest egg."

He said $400,000 was more realistic.

The survey found that half of current workers expected to be working for pay in retirement; 56 percent of those said they would need the money. By contrast, 22 percent of the retirees said they were working part-time now, up from 13 percent in 1995.

Only 23 percent of current workers expect Social Security to be a major source of retirement income, down from 35 percent in 1995. Most expect the majority of retirement income to come from 401(k)'s, individual retirement accounts and Keogh plans. MICKEY MEECE