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Mac' is Back in Town: Bob MacDonald Leaves Retirement to Shake Up Retirement Income
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Bob "Mac" MacDonald believes that the eventual winners in the income annuity market will be those who have "skin in the game."

That's why the 63-year-old MacDonald, who recently emerged from his own retirement in the Florida Keys to launch Allianz Income Management Services (AIMS), will be asking his new employees, producers, and certain distributors to take non-voting AIMS stock from him as part of their compensation.

"No agent will join AIMS because of the commissions, which will be slightly below average," he said. "They'll come for the ability to own a piece of the company and to be a partner with Allianz."

MacDonald is the controversial marketing wizard who pioneered universal life insurance at lowly ITT Life in the early 1980s. Unable to buy ITT from The Hartford, he started LifeUSA in 1987 and sold it 12 years later to Allianz for $540 million.

He retired as CEO of Allianz Life in 2002, became a consultant, and wrote a book, Cheat to Win (Paradon, 2005), about the need to defy archaic rules. But he soon grew impatient with what he believes is the insurance industry's sluggish response to the opportunity to sell guaranteed income tools to millions of retiring Baby Boomers.

So he "pestered" Allianz' board, he said, to enter the income annuity business. In response, the board offered him $15 million to start AIMS. The AIMS launch has drawn a mixed response within the annuity industry. Some applaud the concept of creating a distinct entity devoted to income solutions.

"Allianz is probably the first carrier to set up a separate company to focus on nothing but the income side," said Wes Mayer, a principal at S4 Consulting, in Columbus, Ohio. "That will automatically differentiate them in the eyes of the broker/dealers. They'll have a whole different story to tell."

Jack Marrion, whose Advantage Compendium website tracks equity index annuities, said, "It makes sense to have a company that specializes in income. But my personal feeling is that it's five years too early."

Now five months old, AIMS operates from the same Minneapolis offices that incubated LifeUSA. Day-to-day management is in the hands of three former Allianz Life executives: COO John Amann, CIO Andy Dulka and Marketing SVP Dave Sipprell.

AIMS' flagship products are still under development. It plans to market an "entry-level" income annuity in 2007, to be followed by a product offering guaranteed income, liquidity, inflation protection and transfers to heirs. Until those products are ready, AIMS is selling InCommandDex, a discontinued Allianz EIA designed to be annuitized.

"It's a good product, but compared to what we'll [offer next year], it's primitive," MacDonald said. "We're developing a product that maximizes income, guarantees it for life, adjusts for inflation every five years and doubles their income if catastrophic illness occurs. And if they die, we'll be able to give their initial premium back."

The target market "won't be the wealthy; they can take care of themselves," MacDonald said. "It's the upper-middle-income people who are retiring but have no idea how to plan their retirement."

But AIMS' biggest differentiator so far, a carry-over from LifeUSA, is its stock compensation plan. MacDonald is asking direct employees to take 10% of their compensation in yet-to-be-issued non-voting Class B AIMS shares. Contingent on the registration of the non-public stock, he's also arranging equity investments from certain field marketing organizations, and, at least initially, he's offering producers a 20% bonus, applicable only to the purchase of AIMS B shares, on top of the commissions they earn selling InCommandDex. AIMS promises to buy back the shares no sooner than five years after they're issued.

"It's not surprising that Bob MacDonald would be associated with an innovation like that. He is well known both for shirking convention and for generating incredible loyalty among workers," said Tamiko Toland, editor of annuityinsight.com of New York.

In return for those incentives, MacDonald is requiring producers to adopt "paperless, wireless" processing. He's helping them do it by providing electronic forms developed by iPipeline, an Exton, Pa., firm.

With AIMS, "we're building a wizard-based, TurboTax approach for gathering new business, with a carrier-specific, rules-based process that assures in-good-order applications and provides for e-signature and e-submission," said Bill Atlee, iPipeline's founder and chief marketing officer.

Controlling distribution is a critical part of AIMS strategy. MacDonald's views on distribution, and his iconoclasm, is evident in his assessment of Allianz Life's response in 2006 to fallout from NASD Notice 05-50. NASD suggested that sales of equity index annuities (EIAs), which are insurance products, should be held to the same strict regulatory standards as sales of securities.

This put a chill on the sales of EIAs among registered reps, who'd been selling them "away" from NASD supervision. Allianz Life lost hundreds of millions of dollars in sales, and Allianz Life CEO Mark Zesbaugh began talking to broker/dealers about adapting to their concerns.

MacDonald said that, had he still been the CEO of Allianz Life, he would have circumvented the balky broker/dealers rather than yield to them or to Notice 05-50, which he regards as a power grab of EIA business by broker/dealers in the guise of consumer protection. "I would have built up [Allianz Life's] own broker/dealer," he said.

"If the product is good enough and popular enough, the broker/dealers will sell it and they'll offer it on our terms," he added. "If we get less sales because we won't let other people control the distribution, then we'll take less. I say, Compete with them, but don't get in bed with them.' You cannot allow someone else to control the distribution."

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~ By Kerry Pechter