

New york life – marketing management case analysis

[Business](#), [Marketing](#)



BAB25 - Case analysis 2: New York Life and Immediate Annuities Unlike the old days where a retiree could rest assured that they could live out the rest of their life on their pension and social security checks, the retirees of today receive their pensions paid out in a lump sum that takes the place of the pension check, but encompasses the total amount a retiree has to live on until they pass away. This creates uncertainty in the amount a retiree can spend per month, and if the total amount is sufficient to last them until they pass away.

Immediate annuities help to create certainty in the financial situation of retirees. While retirees can be certain that they will receive a social security check each month, the amount of income they are able to receive from their pensions can vary depending on their contribution plan. Immediate annuities are a one-time purchase that guarantees a monthly payment for the remainder of the purchaser's life. They solve the problem well as they take away the uncertainty of where a retiree can receive their income from, they are the "ideal vehicle to guarantee retirees a lifetime income" (Rotemberg & Gourville, 2010, p.). Generally speaking, neither the buyers (the retirees) nor the sellers (agents/advisors) of immediate annuities are very enthusiastic about them. Consumers have several interrelated reasons for not buying immediate annuities. Firstly people are often not familiar with immediate annuities, which evidently causes fewer buyers. Then, buying immediate annuities means spending a large sum of money as usually immediate annuities cost at least \$100,000 or more.

This large sum of money has to be paid at once, while the purchase is irrevocable which causes doubts, most importantly because the retiree does not know if they will live long enough to make the purchase profitable. If not, more money will be put in the purchase than they will get out of it, meaning it is quite a gamble to buy immediate annuities (Rotemberg & Gourville, 2010). The agents and advisors that are supposed to sell immediate annuities, on the other hand, also have their doubts. Investment advisors actively manage their clients' money.

Immediate annuities do not allow for this as it is a one-time investment. This also means that the advisor/agent gets a one-time commission, which is less profitable compared to collecting multiple fees from one client over time for revocable investments (Rotemberg & Gourville, 2010). Additionally, advisors/agents often also do not have enough knowledge of the product, making it very hard to sell. Agents/advisors that do have knowledge of the product often state that immediate annuities are a bad retirement product.

Only 9% of financial advisors (strongly) prefer the product, against 64% having a (very) weak preference for it (Morgan Stanley Research, 2007, as used in Rotemberg & Gourville, 2010). New York Life (NYL) has set its mind on growing the Guaranteed Lifetime Income (GLI) business in the future, but faces several possible paths in order to reach this goal. To be as cost-efficient as possible, we think that the company should select its pool of end-customers wisely. The focus on retirees should be maintained and even enforced, as many still do not know the products proposed by NYL.

Furthermore, the focus should be broadened to a larger target group, to include the “ typical” customers of the companies, families with children. As noted by Rotemberg and Gourville (2010), NYL tends to build long term relations with its clients, as agents follow them over time and sell multiple contracts to them. We can think that an ageing family would present a “ risk management mindset”, as their children's future is not secured yet. We can hence position the product by presenting it as a safe solution adapted to one's own needs.

Differentiating the product from those of NYL's competitors is important; potential clients of GLI annuities should understand the superior benefits of the product. Building on the company's reputation, GLI annuities should be promoted as a long term investment from a responsible company, concerned with its customers and providing long term relations between agents and customers. In order to reach a greater public and change customers' mindsets, we need to strengthen the core components of the company.

For this, we believe that the focus should be put on NYL's agents rather than collaboration with investors that would force NYL to compromise on its values and products. While the pool of agents is already significant, only 4000 of them sold GLI annuities, as only 40% of the 11, 500 agents had received the training specific to the product (Rotemberg & Gourville, 2010, p. 12). Therefore we believe that the GLI business would grow if all agents are trained to improve their knowledge of the products and hence their services to customers.

We believe that the pool of agents should be increased gradually as number of customers grows in order to sustain the aforementioned values of NYL while the price of GLI annuities should not be changed, considering the customized services NYL provides. Instead, they need to focus on convincing customers that they're worth their price as their product is unique. i. e. NYL needs to emphasize the novel aspects of its product to differentiate from competitors', while promotion should be built on NYL's values.