F&G Trailsetter & The Future of Life Insurance Compensation

Traditionally, retail life insurance products have paid compensation primarily in the first policy year – and for good reason. Life insurance is hard to sell. The underwriting process is cumbersome and takes time. Equally as important, life insurance has historically been sold by agents who needed heaped commissions in order to put food on their table as they begin their careers in the business. Over the past decade, those factors have started to change. Underwriting is getting easier with the advent of accelerated and non-med processes. Life insurance is increasingly sold by experienced advisors who have multiple business lines and are focused on building the enterprise value of their practice with recurring revenue. Times have changed, but compensation structures haven't.

That's a problem for modern life insurance policies. Paying heaped compensation requires the life insurance company to "finance" the compensation *at their cost of capital*. Generally speaking, life insurers amortize the heaped commission through policy charges over the first 10 policy years. In total, policy charges related to commissions tend to be 2 to 2.5 times the actual Target premium. To put it in different terms, the client ultimately pays 2 to 2.5 times the Target in policy charges in order for the agent to receive a heaped commission. That's not necessarily a bad thing, but it's also not the most efficient way to price compensation into a life insurance policy.

Enter F&G Trailsetter. The basic idea behind the product is simple – pay commission as a percentage of premiums paid. That's it. Compensation to both the agent and the brokerage is a percentage of premium. The compensation is paid for by a premium load that matches the compensation dollar-for-dollar, percentage-for-percentage. In other words, the life insurer acts an intermediary between the client and the agent and brokerage. The ratio of commission-driven policy charges to actual commission payouts is always 1-to-1 versus 1-to-2.5 in a typical heaped comp policy. It's an inherently more efficient design.

So where does that extra efficiency go? Well, there's a wide spectrum. If the goal is to just match the same compensation as a typical UL policy but spread it over the premium payment period (7 years, let's say), then the benefit will go to the client in the form of significantly reduced policy charges. Or, on the other end of the spectrum, the policy charges could be increased so that the overall charge structure looks like a typical UL, but now the compensation is twice what it would have been *without any reduction in benefits for the consumer.* The choice is up to the life insurer.

In the case of F&G Trailsetter, the choice was to transform the newfound efficiency into greater total compensation. Street compensation is 9.5% of premium. To put that into perspective, typical FIA products pay 6% of compensation with a 2% override and the potential to earn a 1% bonus, for a grand total of 9%. F&G doesn't publish the overrider percentage, but applying the same ratio of street to override as in FIAs yields an override in Trailsetter of about 3.5%, bringing the total compensation to around 13%. By annuity standards, Trailsetter pays good-ol'-days compensation.

The comparison to typical Life policies is a bit trickier. To avoid spilling the beans on brokerage compensation at each insurer, I'm just going to focus on Street comp for Trailsetter and I'm going to assume that it's 100% of Target. Take a look at how Trailsetter's 9.5% of premium for a $15,000 7 Pay on a 41 year old Male (that's the illustration I got!) compares to other Indexed UL policies. The ratio of Trailsetter comp to IUL comp is to the right.

Carrier & Product	Charges Through Year 10	Street Comp	Ratio
F&G Trailsetter	**28,596**	**9,975**	**1.00**
Nationwide	17,796	3,952	2.52
Securian	16,574	3,998	2.49
AIG	17,126	4,049	2.46
F&G Pathsetter	22,495	4,071	2.45
Mutual of Omaha	10,332	4,083	2.44
Global Atlantic	22,863	4,108	2.43
PennMutual	20,601	4,148	2.40
Symetra	23,491	4,609	2.16
John Hancock	43,242	4,736	2.11
Lincoln	25,798	4,880	2.04
PacLife PDX 2	26,967	5,569	1.79
PacLife Horizon IUL	29,716	5,569	1.79
Allianz	33,299	6,007	1.66

Over 7 years, Trailsetter pays a whopping 1.66 to 2.52 times what other Indexed UL products pay for the exact same cell. But take a look at the total charges through year 10 – Trailsetter is expensive, but it's not as expensive as some other products that have significantly lower compensation. If you were to adjust these products to match the total commission to Trailsetter, then Trailsetter would be the cheapest product by a country mile, with the sole exception of Mutual of Omaha. The average cumulative charges for the other IUL products over 10 years would be around $51,000, 78% higher than in Trailsetter. That's the power of actually matching commission payouts with policy charges on a dollar-for-dollar basis. It's just flat out a better mousetrap.

But it does create some weird optics. Typical premium loads across Indexed UL products range from 3-9%, with a couple of outliers above that. Trailsetter's premium load is 19.5%. But, if you think about it, that's to be expected. Out of the 19.5%, somewhere in the neighborhood of 13% is directly related to compensation. The remaining 6.5% load would put Trailsetter in-line with its peers. Because compensation is paid for with a premium load, there is no per thousand charge in Trailsetter above age 49 and the charge below age 49 is nominal. In this cell, for example, it's just a couple hundred dollars a year compared to an average of almost $1,500 per year for the other products.

The other spot where Trailsetter zigs when you might expect it to zag is surrender charges. Given that there is no heaped compensation, you'd expect that Trailsetter also wouldn't have a surrender charge, but it does. Why? For two reasons. First, surrender charges are important for setting investment duration. That's why fee-based fixed products in Annuityland often have surrender charges even though they don't have commissions. Second, and more importantly, surrender charges are a source of profit for life insurers. Consider Mutual of Omaha, which has the lowest policy charges of any IUL product in the group. In this cell, it pays a Target of $4,083, but it has a first year surrender charge of $8,100. The Target, of course, also pays an override to a distributor, but there is clearly a profit margin being baked into the surrender charge. And this is pretty common, although there are some carriers who are clearly taking a different approach.

The thing about Trailsetter, though, is that the full (or nearly the full) surrender charge is also surrender margin because there is no heaped compensation to cover. It stands to reason that surrender margin is a big line item for overall product profitability. But is that a problem? It just means that the surrender value in Trailsetter looks like any other Indexed UL product. F&G seems to have a made a decision to specifically not court sales focused on early values or liquidity. It's hard to fault them for that. Retail life insurance is sold as a long-term commitment. The same goes for Trailsetter.

What about renewal and excess commission? Most life insurance policies pay 2-3% in renewal and excess commission, which makes it a pretty significant line-item for an overfunded policy. Trailsetter also pays renewals, but it does so in the form of asset-based compensation. Trailsetter pays 20bps to the street and 10bps to the brokerage for the life of the contract. Over time, Trailsetter's asset-based "renewal" component is significantly more than typical renewal compensation. Using the illustration I was given with $15,000 in premium for 7 years and assuming a $4,200 Target, in line with peers, total renewal comp would have been about $2,300 based on a 2% street payout and 1% brokerage payout. But over 20 years, Trailsetter's asset-based renewals would have paid out a total of nearly $9,000. It takes 10 years to match what the standard renewal compensation pays out in 7 years and everything after that is gravy.

Trailsetter is hardly the first product to provide alternative compensation structures. Early Cash Value riders have long offered spread compensation in exchange for better policy liquidity. The late, great MetLife Premier Accumulator UL (PAUL) paid a 0.85% asset-based trail. Sammons has a product with something like 5 different compensation structures. What separates Trailsetter from the rest is that it not only changes the structure of the compensation, but it also pays significantly more compensation than any other product by any metric. Arguably, that's what it will take for life insurance producers hooked on heaped compensation to consider moving to a levelized structure. The carrot has to be big and juicy. Trailsetter delivers – and does it without sacrificing illustrated performance.

Trailsetter is, for lack of a better analogy, the Tesla Model S of Indexed UL. Prior to Tesla, all EVs traded performance for efficiency, betting that the natural market for EVs was folks who were more concerned about the environment than performance. Tesla rewrote the script. The Model S is an absolute rocketship. The story for EVs became about performance. Since then, all of the successful EVs have been performance-oriented, everything from the Porsche Taycan to the Rivian R1T to the Rimac Nevera. There will, undoubtedly, be plenty of EV offerings that are built primarily for efficiency – but what made converts of us all is the ability for an EV to deliver gratuitous, mind-bending, sweat-inducing acceleration that previously was the exclusive realm of million-dollar supercars.

The same logic applies to Trailsetter. F&G chose to make the compensation on Trailsetter so compelling that it simply can't be ignored and – like the Tesla Model S – did it without sacrificing functionality and efficiency. There will undoubtedly be agents who simply don't want or can't switch away from heaped compensation. But for many advisors, life insurance is a piece of their overall business and Trailsetter presents a compelling option to build enterprise value in their practice while offering a product without a performance compromise.

F&G Trailsetter may not be for every advisor, but for those who are focused on building enterprise value, it offers a compelling option that pays 1.5-2.5x normal compensation over the long-haul without sacrificing performance