Common RIA Misconceptions about Annuities

1. "My clients won't run out of money -- they don't want or need guaranteed income."

Annuities are perhaps one of the only ways to mitigate longevity risk, and are also a more efficient means of generating retirement income. Annuities can quickly outperform fixed income in generating retirement income, and provide payouts long after fixed income portfolios would be depleted. Annuities should be considered particularly for "wealthier, healthier" clients who are likely to outlive the general population's life expectancy.

2. "My clients don't want or need annuities."

The annuity market is a $4T market -- showing a clear consumer desire for guaranteed income. The psychological benefits of annuities are well documented. Not only can they provide potential peace of mind, annuities can also provide a budget for those who are afraid spending will cause them to run out of money in later years.

3. "My fixed income portfolio can outperform an annuity."

This is a common statement from advisors. An annuity is built on the insurance carrier's balance sheet, which resembles a large, scaled bond ladder. So, insurance products will often perform like fixed income investments, but where they shine relative to traditional fixed income portfolios is in the income they can generate. We encourage you to run the numbers.

4. "Income is generated through annuitization."

Single premium immediate annuities (SPIAs) generate income through annuitization. For every other annuity -- while you *can* annuitize -- it is more common for income to be generated through riders. This is important because your clients are not turning over assets to the insurance company to generate income. When income is generated using a rider, cash value remains available until it is depleted through distributions. Plus, the premium can still get credited interest when in the distribution phase.

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5. "FIAs tie up your money for years."

The reality is that many of today's FIAs have surrender periods of less than 10 years. Some have surrender periods as short as three years. Most annuities give you access to at least a portion of your money, such as 10%, after the first year with no surrender charges or contract penalties. Features such as penalty-free withdrawals, loans, nursing home provisions, and full accumulation value paid to beneficiaries at death before annuity payments begin are now common.

6. "We haven't looked at annuities because bond yields are low."

Bond yields being low actually makes annuities more appealing in some cases than fixed income. When bond yields are low, the shortfall in retirement income needs to be met through the sale of equities, harming portfolio returns and subjecting the client to sequence of returns risk. Read the article "Bonds or Annuities? What's the Best Way to Generate Retirement Income?" to see analysis by academics Wade Pfau, David Blanchett and Michael Finke.

THE 3 BENEFITS OF USING ANNUITIES AS A FIXED INCOME ALTERNATIVE

BENEFITS TO CLIENTS

Potentially accumulate more through annuity than fixed income portfolio.

Get a paycheck for life.

Generate more income, for longer, than traditional fixed income.

BENEFITS TO YOUR FIRM

Better accumulation through scaled bond ladder of carrier's balance sheet.

Remove administrative burden: let the insurance company issue paycheck rather than advisor.

Ensure firm AUM by having carrier take over longevity risk.

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