

Hint: they think the retirement products attract customers who are scared to death of the market

By Darla Mercado

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Though wirehouse brokers and registered investment advisers are aware of the risk investors face in outliving their money, both groups remain skeptical about the use of income annuities to boost revenue streams.

“[Advisers] have this stereotype of the single-premium immediate annuity as being for someone who is really frightened of the market — who is very conservative and has to have the guarantees,” said Brian Perlman, a partner at market research firm Mathew Greenwald & Associates Inc.

But Mr. Perlman also noted that there are other challenges to getting advisers on board with lifetime annuitization. Indeed, a recent analysis of focus groups of brokers and advisers conducted by his firm and New York Life Insurance Company found that both camps remain concerned about the loss of liquidity with income annuities. They also worry that an income annuity — like its variable annuity cousin — comes with a raft of fees.

These fears, among others, may explain why wirehouses accounted for just \$96.4 million in income annuity sales last year, according to the Beacon Research Fixed Annuity Premium Study. That's a tiny slice of the total \$3.37 billion pie reported by study participants.

For his part, Mr. Perlman doesn't advocate the idea of putting the entirety of a client's assets into an annuity. Rather, he said, advisers could put 20% to 30% of their assets into the product as a supplement to a portfolio of investments.

But that approach seems foreign to the members of the focus groups, who mostly think of the annuity as a stand-alone product — and one that drains assets.

Getting advisers and brokers to consider income annuities will require some education. For instance, sellers of income annuities need to do a better job explaining the role of mortality credits when purchasing an annuity, Mr. Perlman said. Essentially, such credits enable policyholders to receive more of their principal and more payments they longer they live.

Mr. Perlman compared the performance of a model \$1 million portfolio divided equally between bonds and equities against one that was 50% in equities, 20% in bonds and 30% in a lifetime income annuity. The probability that the 50/50 bond-equity portfolio would have assets in it after 30 years was 78%, but that probability went up to 91% when looking at the portfolio that included the income annuity.

When explained to them in that manner, 29 out of 32 of the surveyed wirehouse brokers said they would show the presentation to a client.

As for getting paid for recommending the annuity, Mr. Perlman observed that the brokers are receptive to the idea of receiving a fee for managing the annuity as part of a portfolio. As fiduciaries, this was a harder sell for RIAs.

“RIAs don't feel right charging for a product if they don't get to play with the money,” he said. “With RIAs, you have to position the annuity as a tool to keep clients solvent: You give up some assets now, but in the end, clients are spending less, and they aren't depleting the portfolio.”