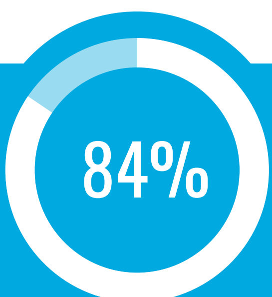
Lifetime Income or a Fully-Stocked Wine Cellar?

RIAs understand the critical role of lifetime income in their clients' financial lives

Results from Protective's joint "2021 RIA Protected Accumulation + Retirement Income Survey" with RetireOne indicate that while some advisors believe annuities offering guaranteed lifetime income[1] give clients peace of mind, there's still a lack of awareness around recent advisory annuity innovation. And while there's no "one size fits all" solution for principal protection and income generation, understanding all of the tools available can be invaluable for an advisor looking to meet their clients' needs. Knowing when and how to leverage today's annuity solutions can improve financial outcomes and help deliver a more holistic client experience.

The study finds that 84% of Investment Adviser Representatives (IARs) of RIAs whose clients own annuities agree or strongly agree that guaranteed lifetime income is more important to them than a fully stocked wine cellar. And of those same advisors, nearly 90% agree that guaranteed lifetime income makes their clients happy and allows their clients to sleep easier. Clearly, advisors whose clients own annuities recognize that guaranteed lifetime income is valuable to their clients and provides critical emotional ballast.

This conviction on behalf of advisors is grounded in the importance they place on retirement income planning for their clients. In fact, the survey reveals that advisors prioritize retirement income planning over long-term care planning, elder care planning, cash management, life and disability coverage, inter-generation planning and education funding. And this planning takes on added significance as clients begin to consider converting retirement savings into retirement income.



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Finding alternatives to CDs and bonds will be critical in this low-rate environment

Many advisors continue to rely on CDs or bonds to de-risk client portfolios. In spite of historically low interest rates, the survey found that 41% of advisors recommend CDs and 76% of advisors recommend bonds for clients seeking principal protection. Given the low-for-long interest rate environment, there may be an opportunity for advisors using CDs and bonds in client portfolios to instead leverage today's advisory fixed index annuities (FIAs) and registered index-linked annuities (RILAs). FIAs and RILAs offer an alternative to fixed income investments by insuring against losses while offering upside potential.

Addressing potential income shortfalls later in life

The survey finds that 87% of advisors recommend that "under-saved" clients simply spend less. And 1 in 4 advisors surveyed recommend that clients take on more equity risk to make up for potential income shortfalls in retirement.

But, for those investors in their last five working years or first five years of retirement, what we call "the fragile decade," taking on more risk could have irreversible and negative consequences. A poor sequence of returns in this period, as retirees begin drawing retirement assets down, can deplete those assets and impact their ability to manage for longevity risk. Advisors may help under-saved clients in this phase by insuring them against sequence of returns risk by setting an "income floor" of guaranteed lifetime income via a variable annuity with Guaranteed Lifetime Withdrawal Benefit.

A lifetime withdrawal benefit can also lower their portfolio reliance rate and potentially allow for a higher risk budget.

While annuities are gaining steam, there are still a number of advisors who would not consider an annuity for their clients

Now in its second year, the survey recorded year-over-year improvement in the number of RIAs who are unlikely to refer an annuity for clients with a need served by annuities. A third of respondents in 2020, indicated they wouldn't refer an annuity to a client who expressed interest in an annuity as part of their retirement portfolio. In 2021, less than a quarter of respondents indicated that they are unlikely or very unlikely to refer an annuity to clients should their needs be addressed by the features of an annuity (such as lifetime income).

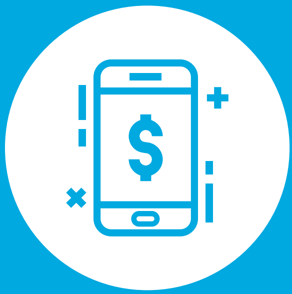
Lack of awareness around today's advisory annuities may be to blame

In terms of the qualities they value most in an annuity, survey respondents cite low fees, simplicity and high-quality subaccounts. And for that fifth of advisors who are unlikely or very unlikely to refer an annuity, the survey reveals that the primary objections are fees, complexity and a lack of liquidity.

But advancements and innovations in annuity design over the past 10 years answer many of these objections. Liquidity, lower cost and transparency are the core benefits of modern advisory solutions. These advisory annuities are easier to integrate into an RIA practice than more traditional annuities.

As more insurance companies increasingly bring advisor solutions to the marketplace, competition increases and product development efforts will continue to evolve. The survey found that of advisors who refer annuities for clients, they look for:

Low cost



Simplicity

Quality investment options

Today's advisory annuity landscape has driven lower costs, a reduction in feature complexity and an increase in transparency—all of which strive to aid advisors in meeting their fiduciary responsibilities. The Protective Investors Benefit Advisory Variable Annuity is a fee-based solution that can help advisors customize a financial plan to meet clients' unique retirement needs, including tax-deferred growth, investment diversification, lifetime retirement income and legacy protection.

Advisors who choose not to consider an annuity may miss an opportunity to deepen client relationships

According to LIMRA, 73% of retirees who own an annuity believe they will be able to live the retirement lifestyle they desire, as compared to just 64% of those who don't own an annuity.[1] Our survey shows that 62% of RIA respondents aren't insurance licensed and another 26% aren't FINRA licensed. In addition to a general lack of awareness about how advisory annuities fit into client portfolios, these advisors may not be aware they can work with an outsourced insurance desk (like RetireOne) to leverage these advisory annuity solutions for clients.

Today's advisory annuities may help advisors cement deeper relationships with their clients

The 2021 RIA Protected Accumulation + Retirement Income Survey reveals several noteworthy trends advisors should consider as they strive to stay ahead of evolving client needs:

- Advisors whose clients own annuities say they are comforted by the inclusion of guaranteed lifetime income in their retirement plan.
- Advisors are aware of that comfort and are increasingly likely to recommend an advisory annuity, where appropriate as part of that plan.
- The perception that annuities are costly, complex, and illiquid still exists within a subset of advisors, in spite of advances across all three perceptions.

The number of advisors who remain reluctant to consider today's advisory annuities is declining—and that bodes well for clients seeking guaranteed lifetime income and principal protection. Bottom line: knowing when and how to leverage annuity solutions can improve financial outcomes for your clients and help grow your practice by delivering a more holistic client experience. Understand how to protect clients' tomorrows with an annuity and book time to speak with a licensed RetireOne expert to learn more.

Reference

https://www.winkintel.com/2018/02/retirees-annuity-confident-maintaining-lifestyle/

[1] Lifetime income guarantees subject to the claims paying ability of the insurance company.

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