Executive Summary

2023 RIA Protected Accumulation + Retirement Income Survey

RIAs: Clients are worried about retirement; how they'll be able to do it, when they'll be able to do it, and how well they'll be able to do it

Introduction

As we stand at the precipice of what some experts call "Peak 65" investment advisor representatives (IARs) of Registered Investment Advisors (RIAs) are aware that their clients worry about how various trends and conditions will impact their retirements. Inflation, healthcare costs, geopolitical instability, and the health of the retirement system are chief among them.

Figure 1: Client Concerns

IARs say clients are concerned about

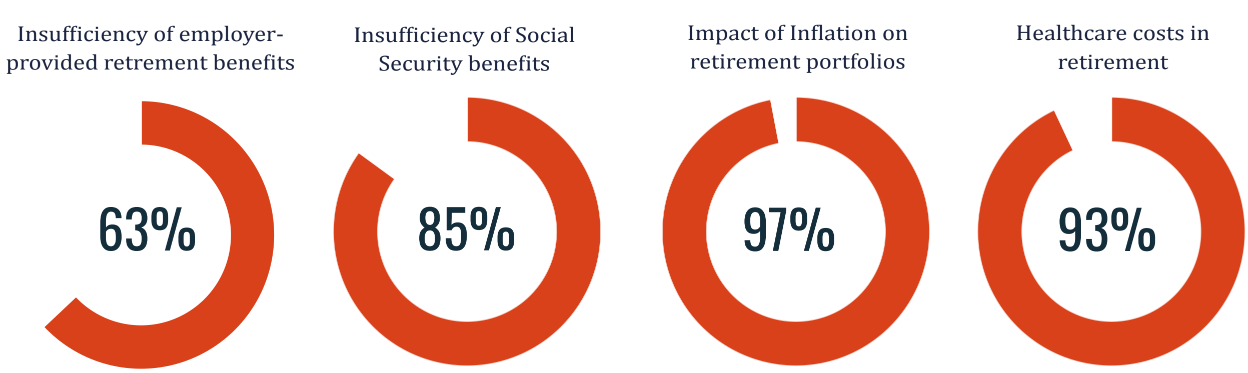
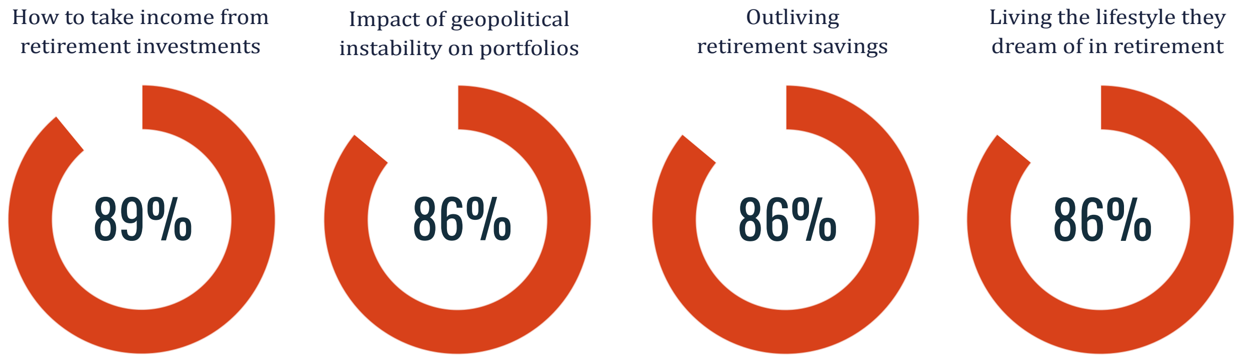


Figure 2: Client Concerns

IARs say clients are concerned about



Planning Headwinds

Perhaps reflecting this growing concern and as a massive cohort of the American population ages into retirement, IARs are placing more emphasis on retirement income planning and retirement savings (Q8). And, in that effort, they are facing some headwinds. According to this year's joint RIA Protected Accumulation + Retirement Income Survey from Allianz Life Insurance Company of North America and RetireOne, more than a third of respondents believe that the safe withdrawal rate, one of the foundations for decumulation strategies, is actually less than the four percent presented in William Bengen's seminal research (Q19). Nearly half of respondents (48 percent) also expect long-term US equities returns to be two – four percentage points off historical averages, and seven in ten predict the same for fixed income (Q15).

Disruptions cascading from the COVID-19 pandemic may be tempering client and advisor expectations and concerns, and perhaps a lingering fear that other black swan events may be looming. It is not surprising, then, that eight in ten IARs say their clients are asking about how to protect their income in retirement (vs. 73 percent in '22) (Q17).

These headwinds may be driving greater demand for protected accumulation solutions like fixed annuities, fixed index annuities, and multi-year guaranteed annuities as well, all of which are seeing a period of increased sales. Of course, increased usage can also be credited to an increase in rates and payout percentages, which have been driven up by higher interest rates aimed at staving off the inflation that resulted from supply chain disruptions during COVID.

Demand for Fixed Annuities + CDs

Nearly half of IAR respondents refer/ recommend fixed annuities for clients in need of principal protection, an increase over ’22, and ’21. And while fixed index annuities have also enjoyed a bump in caps and participation rates, the number of IAR respondents who say they refer/recommend them for principal protection has remained largely the same year over year. Rising interest rates also appear to be impacting the reported IAR utilization of Certificates of Deposit (CDs) as well – from four in ten in 2022, to almost six in ten of respondents in 2023 (Q13).

Lifetime Income vs. Fixed Income Alternative

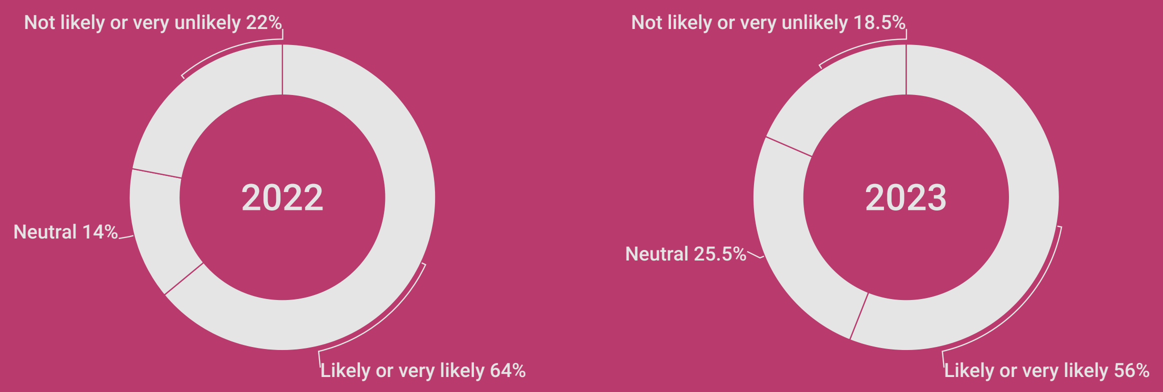
When asked broadly about how they utilize various decumulation solutions in client retirement income plans, six in ten IARs say they allocate at least a portion of client portfolios to income annuities (immediate annuities or annuities with guaranteed living withdrawal benefits) (Q18).

When asked more directly how they fund “essential expenses” in client retirement income plans, IARs say that they use varied combinations of income annuities (40 percent), alternatives, reverse mortgages, derivatives, bonds, dividend-paying stocks and fixed index annuities in concert with a total return portfolio (Q20).

This data also reveals two use cases by IARs for annuities in decumulation: income annuities for pure income, and fixed annuities and/or fixed index annuities as an alternative for fixed income/bonds. For example, one respondent said, “We use primarily FIAs (fixed index annuities) as a ‘bond portion’ alternative and have for 15-20 years.”

Figure 3: RIA Likelihood to Refer Annuities

Likelihood of advisors to refer/recommend advisory annuities to clients (2022 vs 2023)



Advisory Annuities Still Misunderstood

Most respondents (56 percent) are likely or very likely to refer/recommend an advisory annuity for clients, while nearly a fifth of respondents (18 percent) report that they are unlikely to refer/recommend advisory annuities (should their client's needs be met by an advisory annuity). Just over a quarter of IARs remain neutral (Q25).

Among respondents who apparently eschew annuities, the chief complaints about them remain consistent year over year: Fees, liquidity, opacity, and complexity (Q29). Given that next-gen advisory solutions have largely answered or overcome these objections, it would appear that awareness of these next-gen solutions is low: in fact, three in ten respondents report that they are unaware that there are fee-only annuities available that, in some cases, do not have any surrender charges and are much lower in fees compared to their commissionable peers (Q22). And nearly four in ten respondents are unaware that an insurance license is not required to implement fee-only advisory annuities in their practices (Q21).

"We use primarily FIAs (fixed index annuities) as a 'bond portion' alternative and have for 15-20 years."

An Allianz Life study from the first quarter of 2023 reveals that 88 percent of Americans say it is critical to have another source of guaranteed income beyond Social Security benefits in order to have a comfortable retirement.[1] This data may indicate that advisors who reject annuities may not be fully in tune with what their clients want and need.

Annuities for Spending Confidence

Nearly half of all respondents (46 percent) agree or strongly agree that their clients see the value of annuities in their portfolios (Q24). IARs who are likely or very likely to recommend/refer annuities for clients say that guaranteed lifetime income gives their clients the courage to spend confidently in retirement (88 percent), lets their clients sleep easier at night (93 percent), and generally makes their clients happy (89 percent) (Q28).

This data aligns with a recent consumer study from The American Council of Life Insurers that reveals that 73 percent of 45 – 65-year-olds are somewhat or very interested in guaranteed lifetime income in addition to or in the absence of a pension or other guaranteed lifetime income.[2]

Actionable Insights for RIAs

1. **Transitioning Advisors can partner with outsourced insurance desks (OIDs) to move annuities and protect client relationships** – Nearly four in ten survey respondents lack awareness that, with the advent of OIDs, an insurance license may not be required to implement fee-only annuities in their practices (Q21). Another 30 percent indicate a general lack of awareness of advisory solutions (Q22). This unfamiliarity may hamper your firm's growth and competitiveness. If your firm's growth strategy includes acquiring or recruiting advisors from wirehouses and regional broker-dealers, you may sharpen your efforts by including annuity assets in your project plans. An emphasis on transitioning annuity assets by working with an Outsourced Insurance Desk to facilitate the move can improve advisor experiences, and boost client and asset retention.

2. **Use of advisory solutions via OIDs can simplify your firm structure, boost AUM, and provide ongoing revenue** – Nearly half of IARs (47 percent) indicate that they write annuity business themselves (Q11). This means that they are insurance licensed, and, in some cases, may carry FINRA registrations as well. If you are like these advisors, or the IARs who ignore annuities in client plans or refer them to an insurance agent down the street, you may not be aware that you can tap an OID like RetireOne to provide advisory solutions to your clients so that you may bring those assets in house, bill on them directly, count those assets among your AUM, boost revenue, and ultimately improve your firm valuation.

3. **Lower capital market assumptions may impact your planning software failure rates** – While IAR expectations are in line with the long-term return expectations of many asset managers,[3] it begs a few important questions: If US Fixed Income has averaged a 5.33 percent annual return for the last 50 years, and US Equities have averaged better than ten percent annual returns for the last 50 years,[4] how challenging do these gloomier expectations make building retirement/financial plans for you (Q15, Q16)? What will failure rates look like in your retirement plans that depend on these lower-than-historical capital market assumptions? Protected accumulation (fixed index annuities/RILAs) and protected income solutions (annuities with guaranteed living withdrawal benefits) can improve failure rates and boost your clients' confidence in the plan.

4. **Consider advisory FIAs and RILAs for income** – Advisory Fixed Index Annuities (FIAs) and Registered Index Linked Annuities (RILAs) historically benefit from high interest rates, offering improved potential gains, loss protection, and more cost-effective income generation. Some of these living withdrawal benefits also offer the option for increasing income, which may help address client concerns about inflation.

About the Survey

Allianz Life Insurance Company of North America and RetireOne conducted the 2023 RIA Protected Accumulation + Retirement Income Survey in May of 2023. 200 IARs of RIAs responded. Of these, nearly three quarters of respondents identify themselves as purely "RIA," while 12 percent identify as "Dually Registered (Corporate RIA/BD)," and 12 percent identify as "Hybrid (independent RIA/BD) (Q1). Nearly half of respondents carry the CFP designation (48 percent), while less than one in ten have earned the CFA designation (seven percent), and four percent are CPAs (Q2). More than six in ten advisors report firm AUM of $100M or more (63 percent) (Q3), and three quarters of them serve clients with half a million dollars or more of investable assets.

1 Allianz Life. (2023). "Most Americans Say They Cannot Count on Social Security for Retirement Income. Allianz Life." https://www.allianzlife.com/About/Newsroom/2023-Press-Releases/Most-Americans-Say-They-Cannot-Count-on-Social-Security-for-Retirement-Income

2 ThinkAdvisor. (2023, May 30). "Americans With Annuities Want More Annuities: ACLI Survey." https://www.thinkadvisor.com/2023/05/30/americans-with-annuities-want-more-annuities-acli-survey/

3 BlackRock. (n.d.). Capital Market Assumptions. https://www.blackrock.com/institutions/en-us/insights/charts/capital-market-assumptions#assumptions

4 Vanguard. (n.d.). Historical Risk-Return Analysis Tool. https://advisors.vanguard.com/VGApp/iip/advisor/csa/analysisTools/portfolioAnalytics/historicalRiskReturn