Retirement Income
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A Textbook Way to Sell Annuities

By Kerry Pechter *Thu, Feb 28, 2019*

If you've ever heard David Macchia speak, you'll probably recognize his voice coming through the text of his new book. In 'Lucky Retiree,' Macchia explains retirement risks and time-segmentation while pitching his firm, Wealth2k, and its flagship product, the Income for Life Model.

If David Macchia didn't have a native talent for selling insurance, and for selling ways to sell annuities, he might have been a professor or minister. The owner of Boston-based **Wealth2k** likes to teach. He believes in what he teaches, so he can be very persuasive.

For almost two decades, Wealth2k has been promoting a proprietary retirement income planning product called the **Income for Life Model**, or IFLM. It's a web-based, turn-key, multi-media marketing/planning package for advisors. It shows them how to use the "time-segmentation" or "bucketing" method to generate income for retirees.

There's no Nobel Prize-winning academic research proving that time-segmentation method works better than other decumulation strategies. But it fuses behavioral finance, the equity premium, and asset liability matching in a logical way. Most importantly for annuity sellers, it provides an open-architecture framework for cobbling together almost any combination of annuities and investments.

Paperback writer

Now Macchia has become, like John Lennon, a paperback writer. If you've ever heard Macchia speak, you'll probably recognize his voice coming through the text of his new book. Called *Lucky Retiree*, it teaches people about retirement risks and time-segmentation while selling IFLM.

The choice of the title is a good one. Insurance is always about risk mitigation, but risk is a negative word. The word "lucky" is its glass-half-full counter-part. Pro forma, *Lucky Retiree* methodically identifies the risks that retirees face: timing risk, longevity risk, market risk, inflation risk, etc. Commendably, Macchia also introduces the important concept of "constrained retirees" (whose assets are just shy of their income needs and who are a prime source of annuity prospects) and “flooring” (the principle of generating enough guaranteed monthly income to cover necessary, as opposed to discretionary, expenses in retirement).

After defining the challenge, the book offers time-segmentation as the solution. In a case study, Macchia describes Sue, a 65-year-old newly-retired telecom company manager with a small pension from her long-term employer. She declares that she absolutely must have an income no less than $6,000 a month in retirement. Her investments, worth $925,000, must provide $2,700 to top off the $3,300 per month she receives from Social Security and a pension.

Many if not most advisors might tell Sue to spend 4% of $900,000 per year, thus netting $36,000 a year or $3,000 a month. But, in this instance, her advisor, James, takes her at her word that she values protection over growth. So, using IFLM, James sets up a seven-segment bucketing plan for her instead:

Segment I: $157,973 in cash equivalents for years 1 through 5.

Segment II: $164,037 in a short-term bond fund, five-year fixed deferred annuity or structured CD for income in years 6 through 10.

Segment III: $70,201 in a 50% stocks/50% bonds portfolio for years 11 through 15.

Segment IV: $65,616 in a 60% stocks/40% bonds portfolio for years 16 through 20.

Segment V: $52,763 in a 70% stocks/30% bonds portfolio for years 21 through 25.

Segment VI: $115,968 invested in a risky-enough unspecified portfolio that aims for a 9% average return over 25 years, aiming for a balance of about $1 million at age 92.

Segment VII: About $300,000 invested in an annuity with an income start date at the beginning in year 11, providing at least $2,000 a month for life.

As each bucket of assets matures—and, ideally, has grown at the expected rate—its purpose changes from accumulation to distribution. The investments are liquidated and turned into cash equivalents that will provide worry-free income for the next five-year segment.

How to sell annuities

This is an extremely conservative plan. It puts about a third of Sue’s money in cash equivalents or short-term bonds, a third in an variable annuity, and only about $200,000 in stocks. An investment-driven advisor would probably, for better or worse, have put up to two-thirds of her money ($600,000+) in stocks.

But, given Sue's preference for safety, this might be the very plan she'd buy. The advisor can assure her, as a closing comment, that she's covered both ways. If her investments pay off, she'll be a rich 92-year-old. But *even if none of her risky investments appreciate*, she'll always receive enough monthly income to cover her basic expenses.

"No matter to what level the cash in these segments grows, the monthly income that will be created by each segment will be safe income that Sue can count on," Macchia writes. That statement can be made (I infer this, because Macchia doesn't make it explicit) because Sue paid $300,000 for a deferred indexed (FIA) or deferred variable annuity (VA) with a living benefit rider in year 1. The annuity pays her $2,000 a month for life starting in year 11. (The book provides few details, but Macchia might have been thinking of a income rider with a 6% payout at age 75 and a deferral bonus that could lift the benefit base to at least $400,000 over 10 years.)

This, in short, is *how you sell annuities*: Within the context of a larger plan that addresses the key concerns of the client while minimizing the mention of "annuities." Macchia handles the topic of annuities gingerly, sparely, without much detail, and mainly towards the end of the book. If James, the advisor, had told Sue initially that she should buy a VA with a living benefit with a third of her savings, she probably would have bolted.

Over the course of his narrative, Macchia has demonstrated the proper, and perhaps necessary, progression from teaching to persuading to selling that advisors can (must?) take when trying to lead people to blend investments and annuities in a retirement income plan. The persuasion part gives me pause, but no one ever said that selling these products was easy.

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