An Old Argument for Annuities, Made New

By Kerry Pechter *Thu, Sep 26, 2013*

The Thrive Income Distribution System takes an ancient annuity marketing pitch and dresses it up well enough to appeal to high net worth clients who otherwise might not spend five minutes looking at an income annuity.

Variable annuities with living benefits are no longer selling themselves, as they did before the financial crisis. So, from what I hear, a number of advisors have been checking out the deferred income annuity as a potential replacement for it in their retirement planning toolkit.

The beauty of the VA/GLWB was its irresistible storyline. It appealed to the Boomers' congenital desire to have it all: uncapped upside, a solid floor on the downside, liquidity, and even something left over for the kids.

Unfortunately, that's an impossible act to follow (in part because it was never possible in the first place). But what if somebody did figure out how to wrap a best-of-both-worlds, cake-and-eat-it-too story around the DIA? And provide the data to back that story up?

Someone has. Curtis Cloke, the Iowa advisor whose Thrive Income Distribution System is the subject of today's lead article in *RIJ*, has refined a sales/planning process that a hybrid retirement portfolio of period certain DIAs and mutual funds can generate both more income and more final wealth with less risk than a 4% systematic withdrawal plan.

And he says he can demonstrate that it works.

The basic principle behind Thrive is not new. Almost anybody who has ever been involved in marketing retail income annuities (as I have been) has tried to make the case that, in general, typical retirees should buy enough lifetime income to cover any spending need not covered by Social Security and/or a pension, and then take as much risk (or none) as they want with the rest of their money.

David Babbel of The Wharton School made this case in a research paper commissioned by New York Life a few years ago. Wade Pfau and Michael Kitces have recently published research that supports it. To use a rural analogy: Why harness a pair of unreliable horses (stocks and bonds) to your income wagon when you can use a Clydesdale to pull the wagon and enter a thoroughbred in the Kentucky Derby?

But, in the past, that argument consisted mainly of words or numbers on a page. A homily for the converted, not a story that could win over skeptical hearts and minds. Especially in the middle of a bull market.

Cloke has refreshed that story. The Thrive Income Distribution System takes an ancient annuity marketing pitch and beefs it up enough to appeal to high net worth clients who otherwise might not spend five minutes looking at an income annuity.

Cloke has been using Thrive for almost 15 years. He and former MetLife executive Garth Bernard started marketing it nationally in 2008. Only in the past two years, however, have deferred income annuities become widely available from a range of manufacturers. Which means that more retirement advisors than ever have the tools to experiment with this strategy.

The Thrive Income Distribution System won't have universal appeal among distributors and producers. Fee-only advisors may pass because it reduces billable AUM. Commission-addicts may find it too labor-intensive. But open-minded advisors who have been casting about for a more compelling way to present annuities to clients may find it truly enlightening.