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## And In Comes 2010

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By Editor Test      *Wed, Jan 6, 2010*

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*I predict that the next decade will be very much like the last one, only more so. Interest rates are my top-of-mind issue.*

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This is the time of year when editors—mindful that most readers are occupied elsewhere—like to review the big stories of the past twelve months. But, after the turmoil of 2009, I'd rather contemplate 2010. Here are some of the issues or trends that I'm eager to watch unfold over the next twelve months.

### **Fated to live in interesting times**

The big question for 2010 involves the direction of interest rates. There's a recent historical precedent for today's predicament. In July 2004, after reducing the Fed funds rate to 1.00% in the wake of the dot-com crash, Fed chairman Alan Greenspan raised rates in quarter-point increments, reaching 5.25% two years later under Ben Bernanke.

When that cautious strategy didn't immediately puncture the bull market that began with the Iraq War, I thought the Fed deserved a Nobel Prize. But only 15 months later, one of America's longest and deepest recessions began and Bernanke began knocking down to the benchmark rate to only 25 basis points.

So what will Bernanke do this year? Re-run the Greenspan strategy, or try something different? I'm no expert when it comes to interest rate policy, but advisors tell me they don't have much faith in the rally that began last March. Unsupported by economic growth, it may be too fragile to withstand any rate hike at all.

### **Outlook, variable**

What's the future of variable annuities with guaranteed lifetime income benefits? Sales results from the third quarter of 2009 suggested that, despite price increases, advisors still prefer the super-dreadnought products—the ones with guaranteed roll-ups on the accumulation side and guaranteed income on the distribution side—to the new, slimmed down products without roll-ups.

But, to borrow a phrase from the NFL playoff vocabulary, variable annuity product developers don't control their own destinies. Variable annuity sales correlate to the stock market, following it up or down. I still think of variable annuities as a transitional product, opening the way to an unbundled product like Moshe Milevsky's ruin-contingent life annuity.

For the average young American hoping to build a personal pension, I would think that a plain vanilla variable annuity, sold direct at minimal cost, would serve just fine. They would start contributing \$100 or \$200 a month at age 25, and convert the assets to income (fixed or variable) at retirement. Too simple, I guess.

### **A time and a place to talk about income**

After hearing about the low-level of financial literacy among people in their 50s, I've been wondering where and how participants in defined contribution retirement plans are going to learn how to convert

their savings into income.

The workplace is the best place for people to learn about converting assets to an income stream. Sponsors of DC plans want to point their participants toward a secure retirement. Plan providers, including insurance companies and asset managers, certainly have the means to provide income advice.

On the other hand, plan sponsors would rather not incur either the cost of education or any liability for their ex-employees' financial health. Asset managers and plan providers will gladly provide education because they want to rake in rollovers. But will their advice be impartial?

Plan participants could end up falling through the cracks without income-oriented education. In my experience, few DC participants formally retire. They simply leave to pursue new opportunities. There is no obvious time or place for retirement income planning.

### **Whither New York Life**

The world's largest mutual insurance company and America's biggest issuer by far of single-premium immediate annuities, consolidated its annuity, life insurance, and mutual fund businesses under executive vice president Chris Blunt about a year ago.

At a conference last October in Chicago, Blunt mentioned that his group would introduce a managed account in 2010 that produced retirement income. I'm curious to see how well this product-and New York Life's reorganization-performs.

Lincoln Financial Group and MassMutual both ran into issues when they created omnibus retirement divisions. The insurance culture and mutual fund cultures (read: equities) approach risk so differently that meshing the two groups-let alone achieving synergy-is bound to be a tall order.

### **Gender issues and financial advisors**

An advisor I know recently told me that he was transferring ownership of his practice to his female junior partner. With the number of new financial advisors falling, it occurred to me that it would make sense for women to take up the slack.

It's dangerous to generalize about gender. But it's been observed that women make gains in a profession when the compensation goes down. I expect the profit margins in financial advice to fall as more Boomers move into the risk-averse world of retirement income and as the U.S. economy slows.

### **The future of Retirement Income Journal**

These are just a few of the stories we hope to cover in 2010. I and RIJ associate publisher Randi Goldsmith will do so on the strength of the support that we've received so far from our individual and corporate subscribers, and from our advertisers. We intend to enrich our product and make it more useful and informative. We wish all of our readers a happy new year and a successful 2010.

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