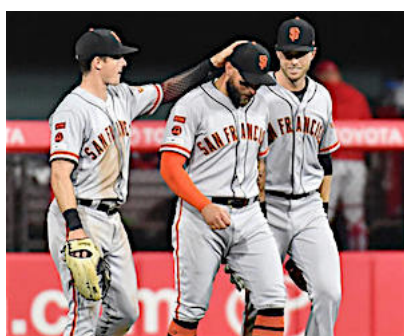

Annuities Aim for Spot in 'Starting Lineup'

By Kerry Pechter *Thu, Aug 8, 2019*

Annuity issuers want—and need—their products to be included as a matter of course in the model portfolios or asset allocation software tools that more advisors are expected to rely on in the future.



Impatient with their limited roles as relief pitchers, designated hitters or pinch runners on a financial advisor's line-up card, annuities aim to be recognized as starters—dependable athletes who play airtight defense and, most importantly, deliver clutch hits in extra-inning games.

Warming the bench and languishing in the minor leagues is getting old.

In other words, annuity issuers want—and need—their products to be included as a matter of course in the model portfolios or asset allocation software tools that increasing numbers of advisors are expected to rely on in the future.

Right now, annuity manufacturers feel a breeze at their backs. The recent emergence of platforms like Envestnet Insurance Exchange (as well as DPL Financial, RetireOne, Orion or SIMON) and the availability of financial planning software that specifically includes annuities (like RetireUp or Cetera's new SetIncome tool), has led annuity issuers to think they're making headway in the advisor mind-space.

Are advisors, or the builders of model portfolios (like asset managers and turnkey asset management programs) and planning software getting more annuity-friendly? The answer depends on whom you ask.

Different perspectives

Sales executives in the annuity industry—professional optimists—believe that the years they've spent promoting annuities to advisors, including registered investment advisors or RIAs, have not been in vain. *RIJ* asked Joe Maringer, national sales vice president for Great American Insurance Group, which sells no-commission index annuities, if his company is working with RIAs or broker-dealers to embed fee-based products in their enterprise-wide model portfolios for advisors.

“We are, although we face the challenge of crossing regulatory bodies and the difficulty of opening a new insurance or fee-based FIA (fixed index annuity) policy, relative to an advisor’s ability to ‘move money with a mouse’ in investment accounts.

“If we’re left out, I wouldn’t suggest that it’s all on us as much as we’ve tried to talk about and make the ‘path to purchase’ easier for insurance in an advisory world. Things like SIMON, FIDx and other platforms are trying to help that.

Fact is, after days like yesterday in the market, there should be some advisors looking for principal protection and or lifetime income that a fee-based annuity can provide regardless of how they get access to it.

But if you talk to the broker-dealers, you hear a more skeptical version of the story:

“Our asset management area has about 15-20 different models that advisors can use. Most advisors still formulate and manage their own models, but a growing number are using these pre-prepared models. I’ve yet to see a single model include annuities,” said a source who asked not to be named.

“Most models are still about accumulation,” he added, “We *do* have some income-oriented models, but they are not really designed to provide retirement income. They will run Monte Carlo analysis and tell you the probability of not of running out of money if you make a 4% systematic withdrawal.”

The ‘holy grail’

The topic of model portfolios was the subject of a recent report from Cerulli Associates, the global research firm. Tom O’Shea, a managed accounts expert at Cerulli, told *RIJ* that life insurers who issue annuities aren’t a big presence in the model portfolio trend.

“On the one hand, there’s a real need for reliable income [in older clients’ portfolios], he said. “For an asset manager, total-return portfolios are difficult to [use as income generation tools] because of their volatility.

“But the insurers still resist creating products—or rather they haven’t been successful in creating products—that can be embedded in an advisory solution,” he said, adding that annuity wholesalers are still focused on touting the specific features of specific products when the model portfolio concept demands low-cost, easy-to-compare products.

O'Shea acknowledged that certain life insurers—he mentioned Jackson National and Allianz Life—are “a little more forward-thinking, but most annuity issuers still have a product approach. Anybody with a product-push mentality [is not going to succeed with RIAs].

“If insurers don't embrace the model portfolio idea and continue to want to sell products with bells and whistles, they will be largely left out,” O'Shea said. “That's not where clients are going. But there's a need for income in the portfolio. So if you can construct an income product that operates in the advisor space, that's the 'holy grail.’”

One factor that appears to be in insurers' favor: Cerulli research shows that 23% of advisors at insurer-owned broker-dealers are amenable to outsourcing their asset allocation chores to model portfolios—more than advisors at independent broker-dealers (18%). These are distribution channels, where sellers of variable and index annuities have had the most penetration. In the channels where annuities would like to get traction—wirehouses and RIAs—fewer than 10% of advisors favor using model portfolios.

Asset managers like BlackRock have been producing model portfolios for advisors for years, in a give-them-the-razor, sell-them-the-blades spirit. A few years ago, BlackRock added the **iRetire platform** for advisors of clients nearing or in retirement. The platform gives advisors access to all of BlackRock's model portfolios plus the firm's **CoRI** calculator.

The calculator estimates the cost of a dollar's worth of retirement income, based on a client's age and current bond prices. If you add in the value of the client's nest egg, you get the amount of annual income that nest egg will produce in retirement. But no annuities are mentioned.

A spot in the software

The advisory audience that annuity issuers most wish to penetrate, of course, is the RIA, which represents a green field source of business precisely because penetration has been so low. Annuity issuers have long insisted that because RIAs are fiduciaries and are obligated to act in their clients' best interest, they should always consider annuities when the client would clearly benefit from owning one.

Issuers have also promoted the idea that RIA clients with income annuities can take more risk—and potentially get higher earnings—with their non-annuitized wealth. But these ideas have arguably resonated more inside the annuity issuers' own echo chambers than in the minds of RIAs.

While annuities may not currently exist in many, or any, model portfolios, they do appear in some of the software programs that independent broker-dealers (IBDs) and insurance marketing organizations (IMOs) make available to their advisors. There are modules in the programs where advisors can model the impact of adding annuities to portfolios. Programs like **RetireUp**, **IFLM**, **inStream**, **MoneyGuidePro** (available on the Envestnet Insurance Exchange) are some of the available software programs that can model the inclusion of annuities in retirement income plans. Jerry Golden of **Golden Retirement** uses his own proprietary software, which includes annuities.

Cetera, the wealth management platform, RIA and broker-dealer, has entered a partnership with Allianz Life and Capital Group to offer an income-planning tool to Cetera advisors. The tool, **SetIncome**, takes client inputs — name, age, total income goal, initial investment and risk tolerance — and generates a basic retirement income plan that combines index annuities and investments.

“We’ve established a bifurcated process, with a traditional investment management portfolio on the one hand and an indexed annuity with an income rider on the other,” said Barton Liro, investment director, portfolio solutions group at Cetera Financial Group. “Today there’s just one specific Allianz annuity, the CoreIncome7, but we’ll open up the shelf to other products in the future,” he said. The independent advisors who use SetIncome are dually licensed; as fee-based fiduciary investment advisor representatives (IARs) and securities licensed. They will earn a commission on the sale of the annuity and an asset-based fee on the investments in the managed account. Using the tool, they’ll be able to show how the annuity increases the success of the portfolio,” Liro told *RIJ*.

Valuing a SPIA or DIA

Even if RIAs believed in adding income annuities, such as single premium immediate and deferred income annuities (SPIAs and DIAs) to their client’s retirement portfolios, they would still be hindered by the difficulty they face in charging a wrap fee on the value of the annuity. If they don’t know how to value the annuity, they won’t know how much to charge for it—in which case they can’t charge for it and won’t recommend it in the first place.

“There are many fee-based advisors who are not comfortable charging on SPIA, and therefore won’t recommend one,” said Michelle Richter, managing director, RET Solutions, at Milliman, the global actuarial consulting firm. “But if you could calculate a value for an annuitized income stream—a book value that’s adjusted over time—that might make some RIAs feel comfortable about recommending a SPIA.”

Career agents at mutual insurers, not independent reps or RIAs, have traditionally sold most SPIAs and DIAs, but Richter thinks that there's an untapped minority of RIAs who would use the "**Safety First**" approach to retirement income planning—which entails using guaranteed sources of income to cover essential expenses—if they could resolve the compensation dilemma.

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