
Annuities and the Charles Schwab Deal

By Kerry Pechter *Wed, Nov 27, 2019*

Most of the annuities now on the Charles Schwab and TD Ameritrade platforms are offered by mutual or foreign-owned life insurers. Lincoln Financial is the sole exception.



Caught between tectonic forces—Wall Street’s demand for higher profitability and Main Street’s demand for lower fees—what’s a publicly held brokerage giant to do? For Charles Schwab, the answer was to scale up by acquiring rival TD Ameritrade this week in all-stock deal worth \$26 billion.

But what, if anything, will the ensuing consolidation of discount brokerage platforms mean for companies that issue or distribute annuities—especially those who want to sell more annuities to Registered Investment Advisors (RIAs)?

To annuity market researcher Sheryl Moore, CEO of Wink, Inc., the deal spells new opportunities for the life insurers who put annuities on those platforms. “The ability to get your annuity product in front of consumers that have investments, but no annuities? It is like gold. This is like the keys to the kingdom for any insurance company on [the combined] platform.”

But Dennis Gallant of Aite Group, the financial industry research firm, was less sanguine about annuities. “I thought TD Ameritrade had the more robust annuity platform,” he told *RIJ*. “We’re not talking a large volume of annuity usage by RIAs on either platform.

“There may be an opportunity for carriers not there now to get on the Schwab platform. But there’s also a chance that Schwab will review all the annuity providers and trim the list. Shelf space is getting narrower and those products or companies with little assets may be left out,” Gallant said.

Similar annuity shelves

Both Schwab and TD Ameritrade have offered annuities to retail and advisory customers for several years. Schwab offers variable annuities (VA) with guaranteed lifetime withdrawal benefits (GLWB), fixed index annuities (FIA), single premium immediate and deferred income annuities (SPIA and DIA) and fixed deferred annuities (FA), according to its

[website](#).

In the VA category, Schwab offers the OneSource Choice Variable Annuity with GLWB from Great-West Financial and a Retirement Income Variable Annuity from Pacific Life. Both feature annual mortality and expense risk fees as low as 65 basis points and investment expenses around 60 basis points.

Schwab also offers Pacific Index Choice FIAs with six, eight and 10 year terms, SPIAs from Brighthouse, Guardian, MassMutual, Nationwide, Pacific Life and New York Life and, in the DIA category, New York Life's Guaranteed Future Income Annuity II and Pacific Life Secure Income. The platform offers fixed deferred contracts from New York Life, MassMutual and Midland National.

TD Ameritrade has had an annuity desk since 2012. This past September, it added its first FIA: the Pacific Index Foundation contract, which has an optional GLWB. According to its website, it also offers other annuities but doesn't specify the contracts. The website also gives annuity owners an opportunity to exchange their contracts.

Notably absent from Schwab's platform are major annuity issuers like AIG, Jackson National, Lincoln Financial, and Prudential. "There is definitely a pattern there," Moore told *RIJ*. "If you look at who is already at Schwab, you're talking about life insurance companies that have been mutually-owned, that have traditionally had career or captive-agency distribution, and that tend to be more conservative than most of their peers.

"The companies not on that list are stock companies that primarily distribute through independent agents or advisers. They offer multiple products through multiple distributions" and offer proprietary products to favored distributors, she added.

TD Ameritrade does offer annuities from at least one publicly held company, Lincoln Financial. But all of its other annuity providers are either foreign-owned or mutual, including Protective (Great-West), Transamerica, Jackson National, Pacific Life, New York Life, MassMutual, and Integrity Life (Western & Southern Life).

Platform competition

What about the ripple effects of the Schwab-TD Ameritrade deal on the technology platforms that have recently sprung up to serve RIAs?

Mark Forman, senior managing director of RetireOne, told *RIJ*, "We work with many

advisors who use TD Ameritrade or Schwab, so we see ourselves as enhancers of their experiences with those platforms. Honestly, we don't come up against their annuity desks at all. We really don't see ourselves as competitors with Schwab since they don't seem to be active in their outreach or engagement with advisers. Additionally, neither firm has the depth or breadth of fee based solutions of a dedicated fee-based annuity platform like RetireOne."

David Lau, the founder of the DPL Financial Partners (and before that, of Jefferson National, now Nationwide Advisory Services), said he competes with both Schwab and TD Ameritrade, but doesn't offer exactly the same value proposition.

"We provide RIAs with education on annuities and how to use them properly. The Schwab and TD desks are more reactive and service advisers when the advisers reach out to them. We educate advisers on how to integrate annuities into their practice's technology—primarily their portfolio management systems and planning software," Lau said.

"At the same time, we work with carriers to service the RIA industry, helping with anything from product design and features to technology support. We direct them on how to support fee billing, to create account hierarchy (how to add advisers to policies rather than just agents) and to connect data feeds into the proper RIA technologies.

"I am mainly concerned with creating a viable marketplace for fee-based annuities. This will enable fiduciary advisers to deliver better outcomes for clients in retirement. I like to say that DPL helps RIAs operationalize the studies of retirement income researchers like Wade Pfau, David Blanchett and Michael Finke," Lau told *RIJ*.

Schwab Institutional remains the largest RIA custodian with \$1.55 trillion in assets under custody, followed by Fidelity with \$932 billion, TD Ameritrade with \$506 billion, and Pershing with \$219 billion, according to Cerulli sizing models. The top four custodians—Schwab, Fidelity, TD, and Pershing—collectively hold 80% of the RIA channels' \$4 trillion in advisory assets, according to research analyst Marina Shtyrkov in Cerulli's wealth management practice.

Deal specifics

According to a Schwab release this week, the acquisition will give Schwab about 12 million new client accounts, \$1.3 trillion in client assets, and about \$5 billion in annual revenue. The added scale is expected to result in lower operating expenses as a percentage of client

assets (“EOCA”), and “help fund enhanced client experience capabilities.”

The combined firm is expected to serve 24 million client accounts with more than \$5 trillion in client assets. Together, the two firms recently generated total annualized revenue and pre-tax profits of approximately \$17 billion and \$8 billion, respectively. The new company would be the second biggest in the U.S. by self-directed customer assets, behind Fidelity, which holds about one-third of that market, according to Cerulli Associates, a research firm in Boston. With TD Ameritrade, Schwab would control about 27% of it.”

According to a Schwab release, “the deal is expected to be 10-15% accretive to GAAP EPS [earning per share] and 15-20% accretive to Operating Cash EPS in year three, post-close. Focusing on expenses, current estimates are for approximately \$1.8 to \$2 billion run-rate expense synergies, which represents approximately 18-20% of the combined cost base. Some of the expense synergies the combined firm expects to realize will come from elimination of overlapping and duplicative roles. Additional synergies are expected to be achieved through real estate, administrative and other savings.”

The integration of the two firms is expected to take 18 to 36 months, following the close of the transaction. Schwab named Senior EVP and COO Joe Martinetto to oversee the integration initiative, assisted by a teams from Schwab and TD Ameritrade.

The corporate headquarters of the combined company will eventually relocate to Schwab’s new campus in Westlake, Texas, where both companies have facilities and employees. Schwab was founded in San Francisco and has maintained a longstanding commitment to the Bay Area, which will continue.

A small percentage of roles may move from San Francisco to Westlake over time, either through relocation or attrition. Schwab expects to continue hiring in San Francisco and retain a sizable corporate footprint in the city.

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