At the Morningstar Investor Conference

By Kerry Pechter *Fri, May 10, 2019*

Annuity providers failed to sponsor a single booth at the Morningstar conference trade show. That's a bit odd, since they claim to want to break into the registered investment advisor market. And there were several retirement-oriented breakout sessions on the program.

David Blanchett was about mid-way into his presentation on retirement planning—"(Re) Modeling the Cost of Retirement"—when I arrived at the Morningstar Investors Conference in Chicago Wednesday morning. The breakout room at the McCormick Center was crowded with 300 or so attentive financial advisors, many braced against the walls with their wheeled carry-ons and bright red conference swag bags.

Morningstar's retirement research chief introduced the topic of annuities gingerly, promising to say the "A-word" only once. He described income-generating insurance contracts succinctly:

"This is risk transfer. This is not wealth maximization." He also said, "If you don't talk about guaranteed income with your clients, then you're not really providing holistic financial advice." Great points.

Blanchett then showed how guaranteed income streams and a systematic withdrawal method can work together in the same retirement income plan. The greater the percentage of retirees' essential expenses met by Social Security, pensions or annuities, he said, the greater their withdrawal rates from risky assets can be (to 6.9% a year, in his calculation). Blanchett gave a solid presentation on the benefits of annuities, for an audience that probably doesn't use them much.

Most of Blanchett's presentation will have been familiar to followers of his research, much of it done in collaboration Wade Pfau and Michael Finke of The American College. But the level of audience-engagement during the session seemed to signal that the notion of blending annuities and investments in retirement is new to a big percentage of advisors.

No surprise there: The preoccupation with market-beating returns and principalpreservation that dominates the accumulation stage is a hard habit to kick. It carries over into retirement, especially among wealthy clients who are counting on their advisors to make them even richer at the end of retirement than they were at the beginning.

Only one point in Blanchett's presentation needed clarification, I thought. He said that "high income retirees get less from Social Security" than lower income retirees. I hear this a lot, but, obviously, it's not true.

While Social Security, because of its progressive benefit formula, *replaces* a higher percentage of pre-retirement income for low lifetime earners, it doesn't mean they "get more." High lifetime earners receive, in absolute terms, much higher monthly benefits. They also receive higher cumulative benefits, because they tend to live longer.

Where are the life insurers?

Oddly, annuity providers failed to sponsor a single booth at the Morningstar conference trade show. On a break between breakout sessions, I paced up and down the broad avenues of the exhibition hall at the McCormick Center, snacking from a paper cup of dried bananas, cranberries and apricots, and didn't see any.

If annuity issuers want to expand their reach into the RIA market, as they claim to, why aren't any of them here? (That's not meant to be a rhetorical question.) Yes, this is an investment conference, and most of the exhibitors are mutual fund firms. But Morningstar has a variable annuity data business, and a retirement research department, run by Blanchett. On the conference program, there was even a decumulation panel discussion on "Cracking the Retirement Nest Egg," featuring Kelli Hueler of Income Solutions, the annuity platform for certain jumbo plan sponsors and providers.

Trade show exhibits are expensive; I get it. But if you hope to get traction with this audience in the future, show the annuity flag today. The journey of a thousand sales, they say, begins with a single booth.