Income annuities are “best solution for DC plans”: Cerulli

By Editorial Staff *Wed, Dec 9, 2020*

But 64% of respondents to a Cerulli survey cited low demand for guaranteed retirement solutions—despite the 2019 SECURE Act’s provision of regulatory protections for offering annuities. Cerulli is also bullish on RILAs.

Annuitization products where an investor converts a lump sum to a guaranteed income stream in retirement are a “better solution for defined contribution plans,” according to a recent issue of *The Cerulli Edge—US Monthly Product Trends*.

But 64% of respondents to Cerulli’s 2020 Target-Date Manager Survey still cite lack of plan sponsor demand for guaranteed retirement solutions as an obstacle to adoption—despite the 2019 SECURE Act’s provision of regulatory protections for offering annuities.

“The most challenging aspect of offering retirement income products through a defined contribution plan is educating investors on the inherent tradeoffs between maximizing the contradictory factors of guaranteed income, income maximization, and liquidity,” Cerulli analysts write.

Other highlights from the new Cerulli report are:

Asset flows. Mutual fund assets declined 1.5%, to about $16.2 trillion at the end of October. Net flows dipped below zero for the second straight month, with mutual funds ceding $15.3 billion. Exchange-traded fund (ETF) assets shrank by 0.8% over the course of October, but remain above $4.7 trillion. The asset decline was mitigated by $32.1 billion in net flows during the month.

Advice. Investors are far more concerned with the outcomes of their advice relationships than with the mechanics of their portfolios. Asset managers have increased their focus on offering model portfolios, with limited success to date for most. To gain traction, model providers will need to offer truly differentiated strategies that objectively increase the probability of clients achieving their financial goals.

RILAs seen as new flagship annuity

Registered index-linked annuities (RILAs) are poised for growth as more large, reputable insurers enter the space with innovative concepts, according to Cerulli’s latest report, *U.S. Annuity Markets 2020: A Decade of Adaptation*.

RILAs, whose sales reached a quarterly record of nearly $5 billion in 4Q 2019, “offer the client participation in the returns of mainstream market indices, while protecting the client on the downside, reminiscent of a guaranteed living benefit (GLB), though not as risky for the issuer,” according to Donnie Ethier, director of Cerulli’s Wealth Management practice.

“Several insurers are currently developing RILAs and plan to deemphasize their traditional variable annuities that are more difficult to hedge,” he said in a release this week. With rapid RILA product development and growing acceptance among broker/dealer home offices and advisors, Cerulli expects RILA sales will continue to increase faster than any competing annuity type through 2025.

Cerulli anticipates that RILAs will attract sales and market share away from competing annuity designs. RILA sales were $2.2 billion in 2Q 2018, then achieved a seven-quarter streak where their sales were either the same or better sequentially.

“There is more to the RILA story than simply the product’s inherent characteristics—that is, the promise of some upside potential, linked to market index gains, coupled with a limited degree of downside protection,” Ethier said, adding that insurers have successfully educated distributors and advisors on the product’s advantages.