‘RIAs, You’ve Got to Try This’: Macchia

By Kerry Pechter *Wed, Oct 24, 2018*

'A recent article said that high valuations make this the worst possible time to retire. I say, This is the perfect time to retire if your advisor has provided the right strategy,' said David Macchia, CEO of Wealth2k, referring to advisors who understand bucketing, flooring and annuities.

From the Boston offices of his company, Wealth2K, income planning guru David Macchia has watched the annuity industry try, with limited success, to gain acceptance among registered investment advisors (RIAs).

The marketer of an income-planning tool based on hybrid time-segmentation (i.e., bucketing plus “flooring”), he wants to help, and he thinks he knows how. The secret, he says, is to establish empathy for the plight of the “constrained investor” and shift focus away from the annuity products themselves.

“My goal is to help the industry out of the box that it has put itself in for the past 40 years,” Macchia told *RIJ* in an interview this week. “The annuity industry, decade after decade, has struggled with under-appreciation and under-utilization by intermediaries—including fee-only advisors—as well as lack of penetration of consumers’ minds.

“Through my career, I’ve seen the industry trying to change advisors’ thinking about the annuity *product*. The Alliance for Lifetime Income’s ad campaign is the latest effort. But the industry will never succeed in changing how a Ken Fisher [the celebrity money manager who advertises his antipathy to annuities] thinks about annuities as products. Advisors like him will continue to reflexively disregard annuities.”

Change will come, Macchia believes, only if the industry can convince advisors to reassess their older clients not as investors with specific amounts of investable assets but as people who are either well-fixed for retirement, hopelessly unprepared, or somewhere in between.

“Rather than convince the advisors to think differently about annuities, the industry needs to convince advisors to think differently about the clients,” Macchia said.

“For fee-only advisors today, everything is about growing assets-under-management, or AUM. Advisors categorize clients into widely understood and accepted classes, such as mass affluent, high net worth, and ultra-high net worth. In that context, annuities appear to have no role at all.

"But if you shift your focus away from AUM to the clients' 'assets to income' ratio, which is the ratio of a client's accumulated assets to his or her need for income in retirement, then you have basis for a paradigm shift. What you discover is that clients are overfunded for retirement, underfunded, or 'constrained.' The constrained retirees are the important segment here."

Macchia is referring to the "funded status" distinctions created long ago by retirement planning pioneer **Jim Otar**. "Overfunded" clients are those whose annual need for income (beyond Social Security) is 3.5% of their assets or less. No matter what retirement income generation strategy they follow, they're not in danger of running out of money. Underfunded clients need 7% or more of their assets for income each year. Generally, advisors aren't competing for their business.

Constrained investors have an income-to-assets ratio of 3.5% to 7%. Collectively, they hold trillions of dollars in savings, Macchia said.

"They reach retirement with substantial savings, but not a lot of assets relative to their income needs," he told *RIJ*. "So they have little room for error. They typically can't tolerate a lot of market risk, but they can't afford not to be in equities. They need sources of guaranteed income that will let them stay invested during tough times.

Annuities give constrained investors psychological as well as financial benefits. They need risk mitigation strategies that address timing risk [the risk of a big loss near the retirement date] and longevity risk."

"Constrained investor clients have to answer the question, 'Do I want to leave my retirement security to chance?' Because relying on luck is their only alternative to buying a guaranteed income product."

Faced with today's markets, with both stock and bond valuations at or near record highs, traditional investment-only advisors don't have much to offer clients. But today's markets represent a perfect opportunity for advisors adept in the strategic application of annuities.

"Today we're sitting atop a 10-year bull market," Macchia said. "You can't go a day without reading headlines about a possible major correction. A recent article said that high valuations make this the *worst* possible time to retire. I say, This is the *perfect* time to retire if your advisor has provided the right strategy.”

An investment-only advisor might look at today’s financial landscape and see little opportunity for yield, and possess limited tools for easing investors’ anxieties. The annuity-literate advisor sees clients facing vast amounts of unaddressed timing risk and longevity risk. He can help mitigate those risks by recommending annuities, which can convert today’s vertiginous valuations into safe lifetime income. The result: grateful clients.

“The magic for solving the annuity dilemma is to understand the needs of constrained investors,” Macchia said. “The conversation has to move from products to risks.

“Here’s a thought experiment: You show my new **video** to 200 million adults. It says, ‘Tell your financial advisor that you want to be protected against longevity risk and timing risk!’ That would change advisors’ attitudes toward annuities. Then they’d start asking clients, ‘Do you want to leave your retirement security to luck?’”