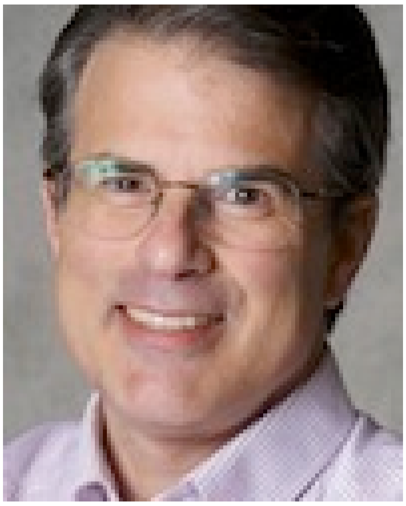
Should My Neighbor Buy that Indexed Annuity?

By Kerry Pechter *Thu, Apr 5, 2018*

My 60-year-old friend went to a free retirement seminar and met an investment advisor who recommended that she move 60% of her savings into a fixed indexed annuity for income at age 70. What should she do? You decide.



A neighbor recently asked me to help her understand an indexed annuity that she was thinking of buying. She had met an advisor at a retirement planning seminar at the local community college, and he had recommended it to her during a subsequent free, one-hour consultation. Bring over the paperwork, I said.

A few evenings later she appeared at my front door, carrying a neat stack of fresh collateral: Several glossy pocket-folders bulging with the usual income projection spreadsheets, product fact sheets, an explanation of the asset allocation methodology of the advisor's asset manager, and information about a local team of investment advisor representatives (IAR).

She wanted my opinion on whether she should buy the IAR's recommended solution to her retirement income needs: a Athene Ascent Pro Bonus indexed annuity with a guaranteed lifetime withdrawal benefit.

Now a lively 60 years old, my neighbor works as a radiology technician at a local hospital. She earns about $75,000 a year, plus bonuses. She's single, but has a significant other of long-standing. Her daughters are grown; one lives nearby and the other out-of-state. Her five-bedroom semi-rural home is nearly paid-for but needs exterior paint and repair. She saves prodigiously and hopes to retire in six or seven years.

We spread out her literature and her notes on my dining room table. She showed me the advisor's card, which identified him as an IAR and as a credentialed National Social Security Advisor. His asset manager was Brookstone and his broker-dealer was Signator, which is part of the John Hancock Financial Network.

At their first meeting, the advisor asked about her financial resources, needs and goals. She plans to work until she's 67 and downsize from her sprawling home to a smaller house or condo. She guessed that she would need about $4,000 a month (plus inflation adjustments) before taxes to cover her essential expenses in retirement. If she retires at 67, she'll receive about $22,250 a year from Social Security.

Her financial statements showed investments of almost exactly $300,000, spread over two 401(k)s, a traditional IRA, a Roth IRA, and a brokerage account. She also has a $202 monthly pension from an early-career employer. It's not clear how much free cash she might generate by downsizing. Her widowed mother, age 93, lives many hours away in the original family home. She owns a bit of real estate of potentially significant value. My neighbor and her brother will divide her mother's assets evenly when she dies.

The advisor gathered up the information and, at a second meeting, unveiled his recommendation. He proposed that, since she had no pension or source of guaranteed income, she should buy an indexed annuity that would pay her an income for life. He brought out brochures for the Athene Ascent Pro Bonus fixed indexed annuity (FIA).

The Ascent Pro Bonus is an income-oriented FIA. Its options include a 15% premium bonus and annual deferral bonus of 10% of premium. The income rider costs 1% per year. There's a 10-year surrender charge period with an initial penalty between 12% and 8.3%, depending on the contract, and a 10-year vesting period for the signing bonus.

The advisor recommended that my neighbor combine the $90,000 in an old 401(k) and the $98,000 in Roth IRA ($188,000 total) and purchase the Athene contract today and delay her retirement until age 70. His figures showed that if she stopped working at age 67, her income level would drop below her income need by about age 76. If she took income from the indexed annuity at age 67, it would pay her only $16,900 a year. But if she delayed to age 70, the 15% premium bonus and annual 10% deferral bonuses would bring her benefit base to $269,000 and her annual annuity income to $20,609.

That $20,609, plus projected Social Security benefits of $28,900 at age 70, he said, would provide her with $49,509 a year before taxes in 2025. Annual withdrawals from her managed accounts would start at $6,562 and rise by about 10% per year. With her $2,424 per year pension, her pre-tax income in 2028 would be $58,512.

Her mind had fogged over about halfway through the advisor's presentation, she admitted. Although she studied the spreadsheets and listened to his explanation, she couldn't, despite considerable native intelligence, quite follow. She understood him to say that her money would grow by a guaranteed rate of 10% a year.

The advisor said he would earn 1.0% per year from managing her annuity assets and 1.5%

per year from managing her risky assets. If he explained the rules about withdrawals and their potential impact on her future income stream, she doesn't remember it. If she understood that the plan would work only if she delayed retirement to age 70, she didn't mention it to me. Instead, she said she would absolutely *not* work past age 67 if she could help it.

For the sake of comparison, I suggested that we surf over to Immediateannuities.com to learn what deferred income annuities were currently paying. We entered her data into online calculator and clicked. For a premium of $188,000, with income delayed for seven years, an average DIA would pay $1,376 per month or $16,512 per year (for life with no death benefit), or $1,268 per month or $15,216 (for life with return of unpaid premium death benefit). For a 10-year deferral, she would get about $1,700 a month or $1,550, respectively.

So there you have it: A true-life instance of a classic situation. A mass-affluent near-retiree attends a free seminar, takes advantage of the offer of a free financial workup, and ends up with a proposal to buy an indexed annuity with her qualified money. Since their last meeting, the advisor has left my neighbor several phone messages that she has not yet returned.

This anecdote exemplifies the type of transaction that the DOL fiduciary rule would have disrupted (by requiring a "Best Interest" pledge and the liability that went with it). Should this type of transaction be disrupted? Or does this story serve as evidence that the current regulatory regime is working to the benefit of consumers? Please tell me what you think, and I'll publish your answer.