Retirement Income
JOURNAL

The Bucket

By Editorial Staff *Thu, Sep 3, 2015*

Brief or late-breaking items from Insured Retirement Institute, Beacon Research, Morningstar, Nationwide, Northern Trust, Lincoln Financial, Cerulli Associates, AXA, The Principal, and Allianz Life.

Annuity sales improve in 2Q2015: IRI

Industry-wide annuity sales in the second quarter of 2015 reached $58.4 billion, a 10.8% increase from $52.7 billion in the first quarter of 2015, but a 2.5% percent decline from $59.9 billion in the second quarter of 2014, according to the second-quarter 2015 sales survey by the Insured Retirement Institute, Morningstar and Beacon Research.

Variable annuity total sales rose sharply in the second quarter of 2015 to $35.6 billion, according to Morningstar. This was an 11.7% increase from $31.8 billion in the first quarter of 2015 and virtually unchanged from the second quarter of 2014. Meanwhile fixed annuity sales totaled $22.8 billion in the second quarter of 2015, according to Beacon Research. This was a 9.5% increase from $20.9 billion during the previous quarter, but a 5.9% decline from $24.3 billion in the second quarter of 2014, when sales reached their highest level in five years.

According to Morningstar, variable annuity net sales were estimated to be $2.9 billion, returning to positive territory, as sales and additional premiums outpaced redemption activity. Variable annuity net assets also were up at the end of the second quarter of 2015. Variable annuity net assets were $1.98 trillion, a 1.8% increase from $1.95 trillion at the end of the first quarter of 2015 and a 2.5% increase from $1.93 trillion at the end of the second quarter of 2014. Within the variable annuity market, there were $23.2 billion in qualified sales and $12.4 billion in non-qualified sales during the second quarter of 2015.

“The second quarter jump in variable annuity sales was consistent across the board, with eight of the top 10 insurers posting sales gains in the second quarter compared with the first quarter,” said John McCarthy, Senior Product Manager, Annuity Products, for Morningstar. “While demand appears to be picking up, year-to-date sales are tracking slightly below last year’s levels, largely because of weaker equity market performance and historically low interest rates.”

[Click **here** to access complete variable annuity sales data in the PDF version of this release.]

According to Beacon Research, sales of all types of fixed annuities increased from the previous quarter, with fixed indexed annuities leading the way in terms of overall sales. Sales of fixed indexed annuities recorded their second best quarter of all time, totaling $12.6 billion. This was an 8.3% increase from first-quarter sales of $11.6 billion, and down just 2.7% from the all-time high of $12.9 billion set in the second quarter of 2014. For the entire fixed annuity market, there were approximately $13 billion in qualified sales and $9.8 billion in non-qualified sales during the second quarter of 2015.

"Overall sales were strong in Q2, with gains in all fixed product types," Beacon Research President Jeremy Alexander said. "Fixed indexed sales led the pack, with close to a billion dollar increase from Q1. The growth in fixed indexed sales was strong across all distribution channels. Captive agents, wirehouses, independent broker-dealers, as well as banks and savings and loans reported record indexed sales with quarterly increases of 29%, 30%, 38%, and 12%, respectively."

[Click **here** to access complete fixed annuity sales data in the PDF version of this release.]

Illness, unemployment drive early SS claims: Nationwide

More than four in five recent retirees (83%) started taking their benefits before their full retirement age (FRA) and received 49% income less than those who claim benefits later, according to a new survey conducted by Harris Poll and sponsored by the Nationwide Retirement Institute.

The survey of more than 900 adults aged 50 or older who are retired or plan to be in the next 10 years showed that 76% of recent retirees who are currently collecting Social Security benefits would not change the decision to claim early. More than half (61%) said a life event forced them to file.

Of the 76% who would not change their decision, 38% said they filed early because they needed the money, 30% said they had health problems, ad 24% said they had lost their jobs. Retirees who started getting Social Security early reported an average monthly payment of $1,174, compared with $1,590 for those who started at the FRA and $1,752 for those who started later.

According to the survey:

- More than a third of future retirees (36%) plan to work in retirement, but just one percent of those who are retired actually do.
- One in four retirees who plan to draw benefits early (24%) say they will do so because they worry Social Security funding will run out before their FRA.
- One in five future retirees (21%) say Social Security should be enough on its own to help them live comfortably in retirement. One in four recent retirees have no other source of retirement income (26%).
- Future retirees expect Social Security to cover 52% of their retirement expenses when in reality it’s closer to 40%.
- One in five (22%) future retirees who plan to draw benefits early say they plan to do so because they don’t think they will live long enough to make it worth optimizing.
- Only two percent of future retirees expect to get divorced in retirement, but 18% of current retirees actually did.

Northern Trust expands retirement business

Northern Trust Corp., which custodies $6.2 trillion and manages almost $1 trillion, is expanding its Defined Contribution Solutions team with key hires, the company has announced.

Sabrina Bailey has joined Northern Trust Asset Management as Global Head of Defined Contribution, a new position. Bailey had been head of the U.S. defined contribution segment for Mercer Investment Consulting.

Prior to working at Mercer, Bailey held senior consulting, client service and management roles at Towers Watson and two other firms. She earned B.A. and M.B.A. degrees from George Fox University in Newberg, Oregon.

Northern Trust also hired Gaobo Pang, Ph.D, as Senior Behavioral Finance Specialist. Pang is known for his work at consultant Towers Watson and the World Bank, where he dealt with macroeconomic and policy research, statistical and econometric analysis of workers’ labor behavior, savings adequacy and investment choices, and developing and evaluating optimal strategies, particularly about qualified default investment alternatives and retirement income solutions.

He has published extensively in periodicals including the Journal of Retirement, Journal of Pension Economics and Finance and Financial Analysts Journal. Pang earned a Ph.D. in Economics from the University of Maryland, College Park, master’s degrees from Tsingua University in Beijing, China, and the University of Maryland, and a B.A. in International

Economics at Fudan University in Shanghai, China.

In addition to the external hires, Brian Bursua and Patrick Gaskin have also joined the DC Solutions group in sales and service roles from within Northern Trust, to serve the recordkeeper channel.

Defined contribution assets under management at Northern Trust have grown to approximately $120 billion as of June 30, 2015, including more than $7.5 billion in target date investments, the company said in a release. Northern Trust also administers about $290 billion in defined contribution assets.

Asset managers intend to change share class offerings: Cerulli

Close to 60% of investment management firms plans to modify their class offerings, according to the findings of Cerulli Associates’ 2015 Business Strategy Survey, which were reported in the August 2105 of The Cerulli Edge – U.S. Monthly Products Edition.

Of those 60%, about one in four (24%) plan to add share classes, primarily cited as R6 or some zero revenue share class. Another 24% plans to move away from B-shares and higher 12b-1 share classes. The remaining 12% plan to consolidate share classes or make other changes.

Other findings of The Cerulli Edge:

Overall, asset figures increased in July, with mutual funds ending the month up 0.1% at $12.5 trillion and ETFs up 1.4% to $2.1 trillion. While mutual funds bled nearly $11 billion during July, reducing the YTD total flow to $113.7 billion, ETFs rebounded from a June dip to reap flows of $25.3 billion.

Low-fee passive institutional strategies experienced significant outflows in 2Q 2015. Cerulli believes that the framework of the active/passive debate will change from an either/or proposition to how both approaches can be used in more customized, objectives-based multi-asset-class strategies (MACS).

Independent advisory firm aligns with Lincoln Financial

Wealth Advisors Group, an independent financial services firm, said it has realigned its broker-dealer affiliation with Lincoln Financial Advisors (LFA), one of Lincoln Financial Network’s two broker-dealers.

According to Stefan Lambert, managing director of LFA's Greater Washington, D.C., office, Wealth Advisors Group president David Urovsky and his team will be affiliated with LFA's Washington, D.C. regional planning office. The office includes a local planning department, local operations department and local technology team.

In other news, Lincoln Financial Group's Retirement Plan Services business named Javier Obando as director of business development on its Institutional Retirement Distribution (IRD) team.

Obando, based in Los Angeles, will work with government plan sponsors, national and regional independent registered advisor and consulting firms in the western region of the country, helping plan sponsors and advisors address fiduciary governance and plan design issues. He reports to Jason Key, IRD head of business development for Lincoln's Retirement Plan Services business.

Prior to joining Lincoln, Obando was regional sales director for Empower (formerly Great-West Retirement Services), where he focused on the government sector. Obando was also a retirement consultant with Benefit Funding Services Group and a regional director at Prudential Retirement.

Obando received a B.S. degree in business administration from California State Polytechnic University. He holds series 6 and 63 FINRA registrations and California Life and Disability licenses.

Allianz Life appoints new CIO

Allianz Life Insurance Co. of North America has promoted Todd Hedtke to senior vice president and chief investment officer for Allianz Investment Management (AIM) US, reporting to Allianz Life president and CEO Walter White.

Hedtke succeeds Carsten Quitter as head of the AIM investment leadership team and joins the company's Executive Leadership Group. Quitter will join Allianz S.p.A. in Italy as chief investment officer.

As CIO, Hedtke is responsible for investment management, liquidity planning, hedging, and trading of more than $100 billion of insurance assets for Allianz Life Insurance Company of North America, Allianz Global Corporate & Specialty and San Francisco Reinsurance. He is also a member of the global AIM Board, which services the Allianz Group insurance companies.

A 15-year veteran at Allianz Life, Hedtke previously led the General Account Investment Management function within the AIM division. Before coming to Allianz Life, Hedtke held various investment and finance positions at Cargill, EBF & Associates, and American Express Financial Advisors. He has a BA in Management from Hamline University and an MBA from the University of Minnesota. He holds the chartered financial analyst (CFA), financial risk manager, and FLMI designations.

The Principal acquires AXA's Hong Kong pension business

The Principal Financial Group, Inc. has completed its acquisition of AXA's Mandatory Provident Fund (MPF) and Occupational Retirement Schemes Ordinance (ORSO) pension business in Hong Kong.

On Nov. 7, 2014, The Principal announced a definitive agreement to acquire AXA's MPF and ORSO business in Hong Kong. The deal includes an exclusive 15-year distribution agreement to provide pension products through AXA's extensive agency network in Hong Kong.

With this acquisition, The Principal becomes the fifth largest MPF provider in the market, increasing assets under management of its Hong Kong pension business to more than US $6 billion. The transaction is expected to be accretive to EPS and ROE in the first full year.