This Is How You Sell Annuities

By Kerry Pechter *Thu, Apr 20, 2017*

'This works really well with couples, where the husband is a risk taker but the wife is worried that she'll be left without any money,' said Curtis Cloke about Retirement NextGen, a new software tool that replicates his planning techniques.

The advisor Curtis Cloke learned long ago that one way to sell annuities to wealthy near-retirees is to show them—"with science and math," as he likes to say—that if they buy enough guaranteed income they can take much more risk with the rest of their cash and end up all the richer.

For two decades, Cloke perfected this formula over kitchen tables in farmhouses near Burlington, Iowa. Later he taught other advisors how to use his method through his "Thrive University." Now he's encoded his technique into a web-based software tool called "**Retirement NextGen**."

Cloke is not the only retirement specialist to claim that, under certain conditions, a barbell portfolio of safe income annuities and risky equities can outperform a system of safe withdrawals from a conservative balanced portfolio in retirement—especially for long-lived people. But Cloke, blessed with preacher-like zeal and armed with computer-driven charts, has applied that principle with unusual success, earning wide recognition and demonstrating that, with proper framing, even the very rich will agree to annuitize as much as half their wealth.

Recently, RIJ sat in on an online demonstration of Retirement NextGen. You'll see that the hypothetical couple bought four annuities; a fifth was suggested. These purchases were based on a real case. The couple bought a life annuity, an indexed annuity with a lifetime withdrawal benefit and a qualified longevity annuity contract—while more than doubling, somewhat counter-intuitively, the predicted size of their state.

"I purchased four very different annuities with the thought that this would prove the software was product agnostic and would appeal to more agents," the trainer, Bruce Widbin, told *RIJ*. "I did not maximize wealth in this webinar but simply wanted to show what the software would be able to do."

Tom and Sue, the millionaires next door

The sample case involved Tom, 61, and Sue, 59, both teachers, each with Social Security benefits, defined benefit pensions, defined contribution accounts, life insurance policies, a paid-off $200,000 home, and a modest lifestyle. In the absence of annuities, they were on track, given expected returns on their stocks and bonds, to leave an estate of about $1.9 million.

Tom could expect $2,470 a month from Social Security at full retirement age (FRA). He also expected a military pension of $2,400 a month (75% continuation). Tom also had $186,000 in a 403(b) account, a $33,000 traditional IRA, and a $17,500 Roth IRA.

Sue, who evidently saved much of her income, had $1.3 million in a 401(k) account, $92,000 in a traditional IRA, and $15,000 in a Roth IRA. She also expected $1,332 a month from Social Security at FRA and a school pension of about $2,800 (50% continuation) a month. Together, Tom and Sue also had more than $400,000 in after-tax mutual fund and bank accounts.

Tom and Sue were aiming for a monthly net income of about $7,000, or $84,000 a year. They wanted at least $60,000 in ready cash and hoped to leave at least $500,000 to their children. The Fact Finder function of the software also revealed these exceptional factors:

- Both Tom and Sue wanted to retire several years before they qualified for Medicare
- Tom was adamant about claiming Social Security benefits at age 62, despite the reduced payout
- Sue wanted to wait until age 70 to claim Social Security benefits
- The second to die would face a drop in Social Security and pension income
- They were invested very cautiously, with an annual return of only 2.66%

Retirement NextGen is wired into the Cannex annuity database, so annuity quotes were close at hand. In this case, the advisor recommended that Tom and Sue purchase several annuity products with about $1.1 million of their roughly $2 million in investable wealth, for a total guaranteed income (counting Social Security and pensions) of about $9,000 a month:

- $120,000 for a non-qualified period-certain annuity to pay for the couple’s health insurance until they qualified for Medicare and to provide bridge income while Sue deferred Social Security till age 70
- $250,000 for a fixed indexed annuity with a GLWB that would begin payments after a 10-year deferral bonus period
- $500,000 for a lifetime income annuity for Sue, starting immediately, with 2% cost-of-living adjustment and a death benefit
- $125,000 for qualified longevity annuity contract with a death benefit (QLAC)

- An optional $100,000 immediate annuity to pay life insurance premiums for the couple's grandchildren.

The plan also included potential conversions of qualified assets to Roth IRAs and a Home Equity Conversion Mortgage line of credit. A HECM line of credit, untapped but steadily growing in capacity, could be used for emergency liquidity or as a hedge against a future decline in home prices.

The major selling point of this strategy for the client, according to Retirement NextGen's calculations, was that Tom and Sue would never, even under the worst sequence of returns, need to sell depressed assets for monthly income. Coupled with their time horizon of 20 to 30 years, that freedom would allow them to ramp up their risk exposure.

The major selling point for a financial advisor with securities and insurance licenses, was an upfront commission of tens of thousands of dollars on the annuity purchases, plus one percent of the investable assets every year. Over the lifetime of the couple, the commissions and fees could amount to several hundred thousand dollars for the advisor.

Higher risk would produce higher expected returns and—the most persuasive aspect of the Retirement NextGen process—produce a final estate value that the software estimated at almost $4 million.

Contagious enthusiasm

After one of the Thrive University bootcamp sessions a few years ago in Burlington, Iowa, one of the attendees, a successful Mississippi Valley insurance agent, was asked if he could "do what Curtis does." He replied that in theory he could but, in practice, he might need Cloke's passion in order to communicate it effectively.

Indeed, Cloke (right), who in his youth was an Iowa gypsum miner and now teaches in The American College's Retirement Income Certified Professional program, has a zeal that may not be reducible to an algorithm or a computer display. But he believes that his basic retirement income principle—to reduce longevity risk to near zero via insurance products in order to maximize investment risk with the remaining assets—can be applied to a greater or less degree by any properly-licensed financial advisor.

“We’re trying to educate clients that when more of their income is guaranteed, the less capital they will need to liquidate for income and the less sequence risk they will have,” Cloke told *RIJ* recently. “Your income isn’t tethered to market performance.”

Cloke’s method apparently works well when an advisor has to satisfy the psychic needs of two clients, one of whom dreams of potential wealth while the other fears destitution. “This works really well with married couples,” he said, “where the husband is a risk taker but the wife is worried that she’ll be left without any money. We satisfy both those ends.”