Bernstein
Blanchett
Caron
Clark
Cloke
Finke
Gappinger
Geels
Hegna
Lau
Mettler
Moore
Pechter
Rafferty
Ray
Richardson
Richter
Sadler
Schwarzwaelder
Shrewsbury
Stone
TeKolste
Tyler
Wong
Zagula

'QUOTABLES" by 25 NOTABLES ABOUT ANNUITIES

David Macchia
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INTRODUCTION

On February 9, 2022, my article entitled, **"The Trial of Ken Fisher for Crimes Against Annuities"** was published by Advisor Perspectives. That event marked the beginning of my effort to aggressively defend annuities against criticisms that, in my view, had become too exaggerated, too longstanding, and too inaccurate to be left unchallenged. It seemed to me that some of the most vociferous of these annuity critics had become, in Spiro Agnew's unmatched description, "nattering nabobs of negativism." Even now, they appear unable to move past their longstanding enmity for both the "products" and for those who sell them. In most cases, my response to irrational criticism is to be rational; explain how annuities have transformed, including a constellation of options that aligns perfectly with the RIA business model. On a couple of occasions, I regrettably allowed myself to descend into a crass word fight with annuity critics. One episode of LinkedIn comment-combat led to the publishing by Wealth Management of my article, "The Tragic Politicization of Annuities: And How to Move Past it to Help Your Clients." As in the Fisher article, I described a rational framework- Constrained Investor- that validates the planning requirement to recommend lifetime annuities. I continue to defend annuities, which unfortunately remain underappreciated and underused.

Over the past 6-months, much has changed in the economy.

- What would it mean today if back in February investors had been more open to annuities?
- What benefits might they have enjoyed?
- What changes would be clear to us today if more advisors had been willing to recommend annuities?

I thought it would be interesting to reach out to prominent industry participants to ask them what they thought about these questions and the value of annuities, generally, I am happy to share their comments which appear below in the order received. My sincere thanks to all who participated.

John Rafferty

"Eight months ago, a back of the napkin review of the prior decade would have revealed a 16.5% compounded return in the SPY (vs a long-term average of about 10.7%); It would have revealed only one of the prior ten years being a loss (and a mild one at that, -4.3% in 2018, vs the typical 3 losing years in a decade). The Fed had announced in November of 2021 that ZIRP was RIP. If those weren't signals that a reversion to the mean was in the offing, I don't know what would be."

Tom Hegna

"In this last crash, it wasn't just stocks that fell, bonds did too. I think the simplest way for people to add annuities to their portfolios is to replace their bonds with annuities (SPIA, FIA or MYGA). First of all, the payout rate (or interest rate if a deferred annuity) is significantly higher than what bonds are paying. Additionally, the annuities don't have the interest rate risk that bonds have. Think of it this way: in a portfolio, the annuity functions like a AAA rated bond with a CCC rated yield with Zero Standard Deviation. Replacing the bonds in a portfolio with annuities will lower the risk and increase the returns of the portfolio."

Michael Finke

"I continue to see the cost of lifetime income insurance characterized as "fees" and not as a premium for protection against the combined risk of poor investment returns and longevity. A guarantee that a client can spend a minimum amount from a portfolio each year isn't free, and can be a partially valuable way to help investors feel comfortable maintaining their desired lifestyle when markets fall early in retirement. I'm guessing that a lot of retirees who don't have insurance are facing the decision to spend after experiencing negative returns and wondering if they need to cut back. "

Gary Mettler

"Because of annuity industry 'purchase suitability rules' people would have been much better off if they purchased contracts 6-months ago when annuity rates were lower. And while annuity rates are higher today, people can't "qualify" for that same 'purchase capacity' for 'annuity safety' because their financial net worth has diminished. For example, if $100,000 was 'suitable' 6-months ago perhaps now only $75,000 is 'suitable.' People lost the ability to safeguard that $25,000."

Ted Bernstein

"Every time there is a significant downturn in the markets, notwithstanding the marketing messages from the Ken Fishers, there are millions of wise people who simply sleep better. What is that worth?"

Kerry Pechter

"The saving grace of the Fed's low-for-long interest rate policy after 2008 was its contribution to a long bull market in stocks. As the years went by and stocks kept rising, near-retirees had ample time to take winnings off the table and lock them into lifetime income vehicles. But there is currently no easy path or mechanism or guidance available to help people do that, regardless of whether their money is inside or outside qualified plans. The process is complex, laborious, and entails daunting tradeoffs. We need to make that process easier without allowing it to be deceptive or expensive."

Curtis Cloke

"In 2019 I took on Ken Fisher Investments. I was on a Delta flight from Detroit into Philly when the Ken Fisher Investment commercials appears touting their website, "AnnuityBunk.com". I decided to play the game too! I created 3 URLs "KenFisherBunk.com" "KenFisherAnnuityBunk.com" "FisherInvestmentsBunk.com" I knew their brand intelligence would eventually catch this. 6 months later they did! As a result, they agreed to add a small disclosure to their public adds when mentioning Annuities and AnnuityBunk.com that would indicate the annuities mentioned were NOT SPIAs. I agreed to turn back over to them the URLs I created. Ken Fisher Investments has created more doubt and confusion about the word annuity than any other in my opinion for the cause of demonizing annuities over the high fees they desire to charge. It is not hard to show the clear facts of their games and the bad reputation of their founder."

Sheryl Moore

"People who had purchased annuities wouldn't have had to worry about losing money in their contract, and they could be confident in their ability to have a paycheck for their lifetimes."

Jason Ray

"I think the data is clear for middle market and semi-affluent, soon to be retirees. They err on the side of stability of income over leaving a potentially bigger legacy. That stability can be a percentage of income, a coverage of non-negotiable fixed expenses or something else entirely. Its imperative for retirement income professionals to help them craft a plan that not only works in the software but allows then to sleep at night as well."

Paul Tyler

"Choppy markets like this prove the value of annuities more than ever. Fixed indexed Annuities have offered strong storm walls for millions of retirees over the past few months."

David Stone

"If we look back to February, clients with an annuity would be able to sleep at night knowing there was a contractual guarantee of lifetime income protecting their retirement AND they are well positioned to reap the upside of any market recovery as, with an annuity linked to mutual fund assets, there is no need to move to cash."

James Wong

"The value in annuities are revealed during times of uncertainty...and that's just what we've seen the past 6 months. Having solutions to key risks like sequence of returns should be a part of everybody's retirement income plan. Much like the trial process in our legal system, I hope Americans get to hear all the facts about Annuities before making a decision that could impact them greatly...for the good or for the bad"

Doug Schwarzwaelder

"My own annuity, with an April 2022 anniversary, paid me a net return of over 30%. That big result surpassed both my Morgan Stanley managed money account, and my own E-Trade trading account, by wide margins. On my April 2022 anniversary, my cap rate was raised from 200% to 300%. In other words, I made over 30% with a lower cap rate, so now I have 50% more cap rate and look forward to even more than 30% going forward. It's all about diversification. To me, almost everyone should have some annuity money working for them. As you most likely know, even the taxes are deferred. So, I get interest on my interest during the accumulation period. And I'm lucky to be one of the limited number of distributers of this product."

"Annuity criticisms are often based on the fact that there are around a thousand annuities to choose from. The key to success is knowing which ones to own. Luckily, today we have amazing software to do the work for us. Founded by Kent Jaquay, The industry leader is now Indexalyzer. I saw a recent report that showed my annuity came out number one. But I bought the one I have, before Indexalyzer existed. So, I guess that made me the Ken Fisher of annuities!"

"I believe the key to a successful annuity is to have the chassis be short term, have software back testing for quality, have a powerful index behind it, one that is transparent so you can see the basket of stocks in the index, and then obviously get the highest participation rate you can get. Just amazing that anyone can get a 30% return, with no risk. My own statement proves it. If you wish to see it, just reach out."

Michelle Richter

Our current financial professional regulatory framework implicitly assumes that the only valid lens for how to advise upon consumer financials is to maximize assets. This worldview is consistent with the AUM-based billing model that is perfectly appropriate for investment (asset) advising, but which may not always be the best model for consumer financial advising. Financial advising means advisement upon all elements of consumer financials, not merely upon the left side of the consumer's balance sheet. Those of us whose expertise has been developed in the insurance arena see the consumer imperative through the lens of liability management (right side of balance sheet) and/or of income maximization (a cumulative income statement, not a balance sheet, premise). Our flawed regulatory framework results in a twisted incentive system best exemplified by the conduct of the fired persona Ken Fisher. The above-mentioned persona bears the same name, but not the same beliefs or identity, as does the human being who founded Fisher Investments, an entity that continues to profit from the revenue stream that the persona created under this regulatory frame that erroneously conflates institutional asset management regulation with human wealth management regulation. (Human wealth occurs when assets grow in excess of liability meeting.

Asset managers need not know an asset owner to manage to an investing mandate, and asset managers are not required to understand or to manage to the meeting of the consumer's liabilities, such as the need for stable retirement income streams from their portfolio of assets. It is unclear in this case which of the two Ken Fishers described above purports to be the "fiduciary"- is it the persona that was fired for communicating its perspective that financial planning/wealth management is an ineffective means by which to get into the pants of one's potential asset management clients at the Tiburon Conference in 2019, or is the fiduciary the person who continues to profit from the brand built by the persona with the egregious public behavior?

A Registered Investment Adviser's GIPS compliant performance metrics do not account for flows into or out of the portfolio- thus, an RIA like Fisher Investments managing to a given asset management mandate can inadvertently cause clients to run out of money in retirement when market returns do not cover income needs, but this will not be evident in publicly reported metrics, and the RIA in this case remains entitled to call itself a fiduciary. Consumers who instead lock in a floor of income from guaranteed sources protect themselves from the behaviors of individual personas and persons like those mentioned above. Those of us who annuitize receive forever income that is backed by the creditworthiness of both the issuing institution and of the state guarantee funds that insurance agents are not permitted to communicate to consumers about in advance of a product sale. I am describing an insane, yet nonetheless true, regulatory patchwork that egregiously sub-optimizes our society's retirement experience. We should please either consider codifying income under advisement as a billing frame for qualified assets that receive preferable tax treatment because they are intended to provide income- not per se asset-maximization, or alternatively codify insurance/retirement income advising so as to better align FP compensation models with the needs of America's retirees.

Marc Geels

Annuities are just another tool to help fund retirement income and there are many ways to use them. They are not the holy grail, as there is no such thing, but they help to keep people from making emotional decisions when they don't have the guarantees that these products provide. Experience has shown me when there are guarantees incorporated into a distribution strategy, this helps to alleviate bad decisions. In my opinion, incorporating an annuity helps to plan for the certainty of uncertainty. And that is what retirement planning, an income distribution strategy, is all about.

Rob TeKolste

"As I look back on the past year, it is clear that rates have risen. Fixed annuities are uniquely positioned to protect principal and offer guarantees around income and interest credits. The value proposition these products offer is significantly higher today than just a few months ago."

David Blanchett

"The markets have been a bit of a hot mess in 2022. Inflation is up, stocks are down, bonds are down, and crypto is way down. Allocating to high quality annuities that provide protected lifetime income can reduce or eliminate many of the uncertainties associated with funding retirement that you can't get from a portfolio alone. Those retirees who had purchased an annuity pre-2022 would have likely slept better this year knowing their income is protected!"

Bruno Caron

As the macro economic environment changes, the impact on retirees' balance sheets is easily observable; the impact on income for the unknown remaining retirement period is harder to assess. Annuities can help retirees manage and predict their income.

David Lau

"If advisors would educate themselves on the facts about annuities and leverage them more, it would be transformative for their practices and their clients. There would be far less and far more. Less phone calls from panicked clients imploring them to "stay the course" as portfolio values and retirement plans suffer from market declines. Less fretting the ups and downs of the market. Less lost revenue for firms. Less worry about income guardrails and sequence risk. Less work having to manufacture retirement paychecks. Less execution risk by not having to actively manage retirement income. And less worry from clients about outliving their money. While at the same time, far more time to grow practices and work with clients. More held away assets brought under management. More sleep-filled nights for clients. More consistency of retirement income. More liquidity in portfolios. More legacies for heirs. And most importantly, far more enjoyment of retirement."

Alan Gappinger

As A Financial Planner/Advisor, I am often asked about annuities. Insurance companies are the only institutions allowed to provide annuity products for people and there is a reason: Why? Financial stability and financial reserves. Of course, all insurance companies are not created equal, and all annuities are not equally valuable. However, good annuity products, backed by good companies are as good as Gold. Actually, better....gold isn't guaranteed!"

Matt Zagula

"I can only imagine the value of your article six months ago to new retirees who used an approach like Fisher Investments and the sequence of return risk they'll endure for their entire retirement as a result of taking that narrow view of retirement planning possibilities."

Tyrone Clark

"During economic times like this, consumers want certainty, security and guarantees as opposed to volatility, speculation and uncertainty. That's why consumers are pouring massive amounts into the time-tested confidence provided by rock solid guarantees from annuities. Had more advisors had an open mind about Annuities (perhaps as a missing asset class) then they would not have to be worried about losing clients and answering calls and emails, saying "hang in there," nor having clients with doubts about their recommendation and one step away from moving assets."

John Shrewsbury

"For a great majority of Americans, one of their constant concerns is whether they will have too much 'month' at the end of the 'money' as they try to make ends meet in their monthly budget. Likewise, for a lot of retirees, the question transforms into "will I run out of money before I run out of life?" For the client who made a well-informed decision to move a portion of their assets into an annuity right before the inflation/interest rate driven fall of the market, they were able to quell those concerns. Likely, if that client were advised by a well-trained retirement income planner, he was able to establish a foothold for his future income using an annuity product whose features fit his particular situation. That foothold, in the form of some type of income guarantee from the annuity issuer, would not be loosened by this or any other market downturn. The client would have transferred the risk of depleting their income to what was likely a large, well capitalized insurance company that is well experienced in managing and hedging such risks. In making this decision, the client would have averted the concern of the effect of the market downturn would have on his ability to generate a certain amount of income to cover his basic needs through the balance of his time in retirement. The decision to provide himself with a base level of income, in combination with other sources like social security, also gives our friend the freedom to spend his other assets on discretionary items without the concern that he would be undermining the assets which provide for the monthly liabilities such as food, clothing, utilities, medicine, shelter and transportation. Parallel to Maslow's Hierarchy of Need, this client has taken care of his foundational need for income and has created a sense of liberty to make spending decisions without a concern of eroding that foundation."

Ken Sadler

"I know firsthand that I've helped to secure retirement security for some of my clients by moving a portion of their portfolios into annuities. This helped protect against the recent downturn in the market and will provide lifetime income."

Dallas Richardson

'The recent market losses have yet again provided a blatant, and defined difference between true fiduciaries that operate in an agnostic, comprehensive approach by protecting their client's future, and those that are obsessed with the outdated lie that they can protect client's assets by controlling the market. Mathematics and research have determined the right annuities provide an enormous number of benefits to their users. In the feud between asset management and life insurance products, the only casualties are our client's life goals, and their trust in the financial industry. Until more advisors incorporate the guarantees provided by the right annuities to protect their clients from their worst fears, which is to run out of money before they run out life, they will always appear nothing more than a bookie gambling away their client's life's work."

David Macchia

And one from me… "My greatest wish for the community of financial advisors, all facets of it, all practice models, all compensation structures, financial planners, investment advisors, insurance agents, is that each segment realize they its specialized competencies are not the entirety of the 'answer' for retirement income, but rather that each is a vital component of the true answer. This means that a broad embrace of annuities is a condition that can no longer be prudently delayed."

Contributors

- Ted Bernstein Financial Advisor, Life Cycle Financial Planners LLC
- David Blanchett, Managing Director, Head of Retirement Research, PGIM DC Solutions
- John Rafferty, Principal of Rafferty Annuity Framing, LLC
- Bruno Caron, Associate Director. A.M. Best
- Tyrone Clark, CEO & Founder, Brokers' Choice of America
- Curtis Cloke, International Keynote Speaker, Retirement Income Expert
- Michael Finke, Investments/Retirement Professor, Frank M. Engle Chair of Economic Security at The American College
- Alan Gappinger Chairman, Heartland Institute of Financial Education
- Marc Geels, Financial Advisor, Owner, EFS Group Wealth Management
- Tom Hegna, Principal, TomHegna.com
- David Lau, CEO, DPL Financial Partners
- Gary Mettler, Author, and Immediate Annuity Agent
- Sheryl Moore, Founder, Wink, Inc.
- Kerry Pechter, Editor, Retirement Income Journal
- John Rafferty, Principal, Rafferty Annuity Framing, LLC
- Jason Ray, Managing Director, Wealth2k, Inc.
- Dallas Richardson, Financial Advisor, Sky Tower Counsel
- Michelle Richter, Principal, Fiduciary Insurance Services LLC
- Ken Sadler, Investment Advisor, Summerhill Asset Management LLC
- Doug Schwarzwaelder, Principal Schwarzwaelder Associates
- John Shrewsbury, Financial Advisor, Co-Owner, GenWealth Financial Advisors
- David Stone, Founder & CEO, RetireOne
- Rob TeKolste, President, Sammons Independent Annuity Group
- James Wong, Area Executive V.P., Partners Advantage
- Matt Zagula, Founder, The Smart Advisor Network