

## FOCUS: Estate and Retirement Planning ▼

# 2005 Annuity Forecast

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Building upon dramatic sales growth during 2004, 2005 promises to be a banner year for annuity sales. Success will not come without challenges, however, as many constituencies seek to exert their influence over the marketplace. From regulators to retirees, many have a stake in altering aspects of the annuity business. Here, then, are a few predictions.

## Fixed Indexed Annuities

2004 may be viewed as the year in which EIAs gained full legitimacy as a mainline product. No longer the sole province of niche companies catering to commission-driven independent agents, equity-indexed annuities are morphing into attractive product alternatives for carriers who five years ago demonstrated little or no desire to offer these vehicles. It's not surprising given that the essential value proposition of EIA contracts is both credible and desirable – growth potential linked to the performance of a stock index without the risk of investing is an achievement of which the annuity industry should be proud.

In 2005 key industry players will seize upon the EIA's value proposition as never before. New contract designs, many featuring simplified approaches to calculating interest gains, will serve to increase EIAs overall market share as the combination of additional carriers and ongoing product innovation create demand among alternative channels of distribution. As an example, look for dramatic EIA sales growth in banks.

## Immediate Annuities

Some consumer advocates and writers regularly offer criti-

cism of both fixed and variable deferred annuities. Yet when it comes to immediate annuities, even the harshest critics seem to highlight the benefits of contracts offering guaranteed income payments. 2005 will see growth of immediate annuities accelerate as recognition of longevity risk builds among those nearing retirement. A parallel force propelling immediate annuity sales increases will be the growing awareness among financial advisors that the investment strategies they've traditionally employed to accumulate retirement assets may be inappropriate for the distribution of those same assets.

Seizing upon the immediate annuity's ability to guarantee income for life, retirement income distribution strategies that utilize SPIAs as a core feature will become popular. In this way guaranteed income streams serve to create a psychological/financial anchor in a time-weighted investment strategy that is capable of keeping the more risky assets in a retirement portfolio invested over long periods of time. These strategic combination strategies that feature immediate annuities combined with specific asset allocations can yield current income levels that exceed typical systematic withdrawal strategies. Therefore, as increasing numbers of advisors grow to appreciate the benefits of including SPIAs in an income distribution strategy, immediate annuity sales will begin a strong and prolonged period of growth.

The debate over Social Security reform will focus more Americans on retirement and the financial challenges that must be confronted in order to create retirement security. The increased awareness will serve to further highlight immediate annuities as uniquely capable financial instruments. Look for a dramatic increase in commentary of SPIAs as television reporters, newspapers and magazines promote the benefits of immediate annuities.

The increased focus on SPIAs will also spur the development of new immediate annuity products offering features beyond what we've come to expect. As an example, look for SPIAs offering selectable periods of deferral combined

with limited liquidity provisions.

### **Variable Annuities**

Criticism over a variety of issues including tax inefficiency, high costs, suitability and churning will continue to haunt the variable annuity marketplace. Thus far, strong sales continue with the likelihood that 2005 will also prove to be a good year for sales. That said, carriers will be challenged to balance the tendency to add additional insurance features to VA contracts with the cost to the consumer of providing these protections.

Advisors will face extraordinary levels of sales review as they attempt to market variable annuity contracts. Whether they are a part of the independent B/D, wire house or bank channels, advisors will feel the pressure build in 2005.

### **Traditional Fixed Annuities**

Traditional fixed annuity sales will continue to be sluggish as a direct result of interest rates that remain low. With the 10-year Treasury hovering at slightly more than four percent, carriers have fewer options than they would like to have in order to boost the attractiveness of these products. The disparity between fixed annuity rates compared to CD rates has narrowed dramatically from a couple of years ago when fixed annuities held a significant advantage. Today, savers can match fixed annuity rates without having to lock-up their savings for five to 10 years.

As long as interest rates remain low, traditional fixed annuities will continue to lose market share to EIAs and other products which can be sold conceptually.

### **The Evolving Annuity Seminar Selling Circuit**

For many years large numbers of financial advisors have enjoyed annuity sales success through seminar selling to seniors. However, over recent years most of those advisors experienced in this type of seminar selling will tell you that their biggest complaint is saturation – too many advisors targeting the same audiences in the same areas with the

same core message.

Fortunately, a set of macro-economic and demographic forces have set the stage for a reenergizing of seminar selling. The subject, however, won't be using annuities to accumulate and protect savings. Rather, the subject that will drive seminar selling and annuity sales success over the next 20 years will be all about income distribution. And it's a good thing. Millions of Americans need the education and financial guidance that agents and advisors are uniquely positioned to provide.

2005 will see the emergence of fresh new seminars charged with powerful insights and information. Audiences will come away from these seminars with a myriad of benefits, the most important of which will be increased confidence as they approach their own retirements.

Insightful advisors will use the new income distribution seminars to stake out their claims for sales success. Positioning themselves as "distribution specialists," professionals having the specialized skills and insights required to properly guide clients to plan for lifetime income needs, this group of advisors will be the big winners in the retirement income distribution stakes.

Income distribution will not only be the most expansive annuity seminar sales opportunity for the foreseeable future, it will also be the one with the highest stakes. Some advisors will get it right and play the pivotal role in shaping their clients long-term financial security. Others will get it wrong with the result that their clients will outlive their retirement assets. ▲