VA Industry Poised For Growth

Rumors of our industry’s demise are greatly exaggerated,” jokes Bruce Ferris, SVP, Sales and Distribution, Prudential Annuities. The variable annuity (VA) industry, in fact, is experiencing robust growth and financial health. Gross sales are in the double digits and net sales are back at pre-crisis levels. If anything, the industry faces capacity constraints, with more and more Baby Boomers retiring and needing guaranteed income solutions. The industry is rising to meet this and other challenges through the introduction of innovative new products and by tapping new distribution channels.

At the same time some carriers have left the annuity business and this has made news headlines and spawned some consumer concern. In its simplest terms, “carriers have exited certain business lines, they haven’t gone out of business,” Ferris said. And these very same carriers are honoring all obligations and promises to contract holders.

Industry Changes

The annuity industry and insurance carriers have weathered “a-once-in-a-one-hundred-years storm”—in terms of equity market declines, a 30-year low in interest rates as well as new regulatory requirements that have increased fixed costs—only to come out on top. “The business is very robust because we are solving a lot of needs, and we are also incredibly innovative as an industry,” said Kevin Kennedy, SVP, Head of Business Development with AXA Distributors.

The challenging market environment has favored some carriers’ strategies over others. “To compete today you need scale,” said Joseph Toledano, VP, Product Development and Annuities at Morgan Stanley Smith Barney. He points out that carriers that have exited the business did not leave because of credit-quality problems. Instead, the moves came from a return-on-investment perspective. As Toledano puts it, “The changes aren’t an indictment of the annuity industry. Instead, I would describe it as a case where not every insurance company has to be in every business.”

Furthermore, companies that did leave the annuity business, even those with storied names such as The Hartford, tended to be mostly historical players and maintained a smaller market share in the industry today. “Those that pulled out, all of them, were more of a presence in the past,” said Frank O’Connor, Director of Insurance Solutions at Morningstar. Operating the business profitably without scale is difficult, and some carriers made the strategic decision to re-deploy capital elsewhere. “The carriers that are surviving and thriving have massive blocks of business,” he said.

The Importance of Tax Deferral in Attaining Retirement Security

Ongoing discussions on U.S. tax policy and the federal deficit have brought several issues pertaining to retirement savings to the forefront. Research conducted by the Insured Retirement Institute (IRI) found that increased taxation—whether in the form of higher income taxes or in the loss of the tax-deferred status of earnings, will deter long-term retirement savings, with a great impact on the population that needs it most—middle-income Baby Boomers.

IRI recently completed its second annual exclusive report on the connection between retirement income and tax deferral, and its implications for annuity contract owners. Among the conclusions of the IRI report, Tax Policy and Middle-Income Boomers: The Importance of Tax Deferral in Attaining Retirement Security, were that:

- Three-quarters of middle-income Boomers place importance on tax deferral when selecting a retirement investment,
- Nearly one-quarter of middle-income Boomers would be less likely to save for retirement if tax deferral is reduced or eliminated, and
- More than half of advisors consider tax deferral an important factor in recommending annuities, and 20% expect tax deferral to take on greater importance in the next five years.

As investors, particularly those in middle-income households, strive to save enough money for retirement, advisors need to stay cognizant of these issues to help their clients build and sustain their long-term portfolios.

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VA Industry Poised For Growth

Communicating the Changes To Clients

How alarmed should clients be by these changes, and what should advisors communicate to clients? For those who have heard of carriers leaving the business, an explanation of the facts about the industry could be helpful. “While some companies are exiting the business, others are reinvesting in the business, and the industry is financially healthy,” said Ferris of Prudential Annuities.

The solid growth shows that VAs are good for consumers and shareholders. The bottom line is that the value proposition inherent in VAs remains despite carrier exits.

“We are having an incredible amount of success. We are now able to get new producers to use VAs, including advisors who avoided them.”

— Kevin Kennedy, AXA Distributors

Toledano’s advice to planners is to “stay on point with clients and communicate the advantages of these products, which can manage longevity risk and sequence-of-returns risk. They have proven their purpose.” The fact that during this difficult market environment some carriers became less profitable, reviewed their strategy and left the business is almost beside the point. Nonetheless, for clients who ask about these carriers, Toledano says advisors should explain that “from an administration and benefits standpoint, everyone is still fulfilling all their commitments, including their guarantees.” It also might be helpful to point out that the industry is heavily regulated, with carriers-reserving against their guarantees.

Source of future growth

The more interesting strategic question is not why some carriers have exited the business but rather where the next major source of growth will come from—above and beyond the industry’s position as the guaranteed income solution provider for retiring Baby Boomers. VA analyst Bing Waldert, Director at Cerulli Associates, points to some noteworthy trends, which collectively show the continued vitality of the industry.

“One key area of growth is coming from nontraditional distributions channels that are now warming to annuities,” Waldert said. He highlights new partnerships between mutual fund companies’ retail distribution networks, such as Fidelity, and annuity providers. These sorts of partnerships will increase the distribution reach for annuity products.

A second area of growth is coming from VA products that offer access to institutional money managers within a VA wrapper but without guarantees. These products will attract consumers who are primarily interested in the investment and tax features of VAs rather than the guarantees.

Finally, broadening distribution to bring new producers into the VA space has been another area of growth and one with tremendous potential. AXA Equitable, for example, has had strong results in attracting new types of advisors to annuity products, based in part on two recent product launches. The first, Retirement Cornerstone, allows the client to take advantage of a rising interest rate environment, with an income benefit base tied to the 10-year Treasury rate. The second, Structured Capital Strategies, offers participation in the upside of a range of indexes with a downside buffer. Discussing these launches, AXA’s Kennedy said, “We are having an incredible amount of success. We are now able to get new producers to use VAs, including advisors in the past who avoided them.” For instance, he reports seeing an uptake from private banks that are finally beginning to realize that few products can offer the equivalent guaranteed income of a VA.

“I think the larger story is VAs are more than just a source for retirement income, there are other ways to apply an annuity in the portfolio. This is already being done successfully,” said Waldert, of these trends. When it comes to providing guaranteed retirement income, there are many innovations at hand in the industry, such as Contingent Deferred Annuities, which bring guarantees to asset classes held outside of a VA. These build on VAs’ successful track record and unique value proposition.

Overall, these changes point to an industry experiencing rapid innovation with new advisors and clients ready to experience the advantages annuities provide. Even beyond the growth story, Kennedy said, “As an industry, we now have a suite of solutions that solves for many different problems.” The next stage of client and advisor demand could come from increased diversification among these products. “Just the way you diversify your mutual funds, soon you will see people diversifying among their annuities,” he said.

“People are hoping to achieve the American dream and retire with dignity. There is too great a social responsibility for the industry not to continue to innovate.”

— Bruce Ferris, Prudential Annuities

With the Baby Boomers retiring en masse and demand for retirement income at an all-time high, the VA industry will continue to meet this and other needs. As Prudential’s Ferris said, “People are hoping to achieve the American dream and retire with dignity. There is too great a social responsibility for the industry not to continue to innovate.”
The Importance of Tax Deferral in Attaining Retirement Security  continued from cover

**Tax-Deferred ≠ Tax-Free**

It must be reiterated that “tax-deferred” does not equate to “tax-free.” When an owner of a non-qualified annuity, for example, begins to receive payments, distributions taken in excess of the amount invested are subject to taxation at ordinary income tax rates. Additionally, the tax rule on withdrawals is “interest and earnings first,” meaning that interest and earnings—which are taxable—are considered to be withdrawn first for federal income tax purposes. The “interest and earnings first” rule is intended to encourage the use of annuities for long-term savings and retirement planning. This applies to any withdrawal from the annuity, including living benefit payments, or a full surrender of the contract. Because of this eventual taxation on annuity earnings, a removal of the tax-deferred status of annuities would not necessarily increase the tax revenue generated by the products. Yet, it would result in the reduced use of annuities among the populations that have come to rely on them most—middle-income investors.

**Tax Deferral and Retirement Savings**

Tax deferral remains an important consideration for middle-income Boomers when saving for retirement. According to IRI research conducted in February 2012, 77% of middle-income Boomers place some level of importance on tax deferral when selecting a retirement investment; 42% consider tax deferral a very important criterion. IRI research also shows that the reduction or removal of tax-deferral benefits would impede the ability of middle-income Boomers to save for retirement. Nearly one-quarter (23%) stated that they would be less likely to add to their retirement savings should there be a change in the tax-deferred status of retirement investments. By putting less money into these accounts during their working lifetimes—combined with the loss of benefits from tax-deferred compounding—Boomers would be left with smaller nest eggs at the time of retirement.

The distinction of middle-income investors is an important one. Research conducted by Mathew Greenwald and the Gallup Organization indicates that 80% of buyers of non-qualified annuity contracts in 2009 (the most recent biennial survey results available) had annual household incomes of less than $100,000 and 64% earned less than $75,000. Middle-income investors are already underprepared for their retirement years. Consider the following statistics from IRI’s research:

- 70% of middle-income Boomers expect their personal financial situations to be the same or worse five years from now.
- 41% have not added to their retirement savings in the past 12 months.
- 70% are not confident about having enough money to live comfortably in retirement.

Additionally, 21% of middle-income Boomers expect personal investments to play a significant role in providing income during retirement, compared to 36% of Boomers in higher income brackets. It is essential, therefore, that middle-income Boomers increase their personal savings to help offset their future retirement expenses. Increased taxation could hinder their ability to do so, thereby jeopardizing their retirement savings at a time they can least afford it.

**Tax Deferral and Annuities**

Although the key purpose of an annuity is to provide guaranteed retirement income, a function that is held in high regard by investors and advisors—the tax-deferred nature of annuities—is also of great significance.

These points are illustrated in the report, *The Evolution of the Annuity Industry: Analyzing Growth, Trends and Opportunity in the Annuity Industry,* published by IRI and Cogent Research in November 2011. Nearly one-quarter of all Boomers surveyed (23%) cited tax-deferred growth as the primary reason for purchasing annuities, ranking behind guaranteed income in retirement (34%) and advisor recommendation (27%) while significantly ahead of principal protection (9%) and death benefits (3%).

The same report also sheds some light on the opinions of financial advisors. Approximately half (55%) of advisors consider tax-deferred growth an important factor when evaluating and selecting annuities. Additionally, 20% of advisors expect tax deferral to take on greater importance in the next five years (78% expect no change).

Over time, tax-deferral can have a significant impact on retirement savings. In the 2011 IRI report, *The Tax Advantages of Annuities: How Tax Deferral and Guaranteed Lifetime Income Strategies* continued on page A4

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**Importance of Tax Deferral in Selecting a Retirement Investment Product, Middle-Income Investors, 2012**

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Strategies for Retirement Income

The kids are out of college and the mortgage is mostly paid off. The time has come to focus on the next hurdle down the road – retirement income. What is your strategy going to be? There are many answers to this seemingly simple question with numerous types of annuity products to choose from that provide guaranteed income. Moreover, particularly with wealthy clients, there are wealth-transfer and estate-preservation considerations as well, that are sometimes overlooked in simple retirement income planning. Fortunately, there are new perspectives on best practices regarding these potentially complicated choices.

“The starting point for retirement income planning is to always focus on the client first,” says Andrew Johnson, Senior Insurance Product Specialist at Edward Jones. Long before any product considerations, Johnson suggests that advisors have a foundation conversation with clients about their vision for retirement that includes their lifestyle, spending goals and concerns. Then advisors should look at the clients’ expected income from outside sources and likely withdrawal rates. If there is a substantial gap between income and expenses, the first step is to help the client find ways to cut down on expenses, or alternatively, consider delaying retirement.

Johnson suggests as the next step that advisors find ways to increase income in retirement if needed. “We might look at repositioning some of the portfolio into guaranteed income,” he said. Johnson may use either an immediate annuity or a variable annuity (VA) with an income rider. “Really the whole goal is to make sure the client has their expenses covered for the rest of their life,” he said. Johnson suggests as the next step that advisors find ways to increase income in retirement if needed.

Deferred Income Annuities

A “deferred income annuity” typically means a fixed annuity where the income is deferred from 12 months to even a decade after the purchase. “Most people discussing deferred income annuities are referring to a fixed annuity with a fixed lifetime income payout as opposed to a VA or other tool for deferring income,” explained Ross Goldstein, CVP of New York Life.

Using deferred income annuities, advisors can gradually build up a guaranteed base of income needed for retirement over time. Planners evaluating deferred income annuities in the context of a VA with living benefits or a traditional bond ladder, “will find one key advantage of deferred is their higher payout rates,” said Paul Horrocks, VP of the Individual Annuity Department at New York Life. Horrocks offers an example: A male age 60 could look forward to a 13.7% payout after 10 years.

“By buying in their late fifties, clients are going to have a base of guaranteed income they can marry with other assets.”

— Paul Horrocks, New York Life

Going through this basic exercise is essential for understanding clients’ retirement income needs. Annuities are the go-to solution because of their unparalleled benefits. “You can get a guaranteed growth rate and guaranteed income. It’s like having a pension or Social Security with all the money put into a bucket you still have access to,” said Michael Harris, VP, Advanced Solutions Group, Lincoln Financial Distributors. Though most advisors understand the basic value proposition of annuities, they have many choices about what strategy to use for retirement income. And for the right client, some advisors are turning to a product sometimes overlooked in the retirement income toolkit: a deferred income annuity.
Today’s ultra-low interest rates probably will not last much longer. After three decades of decline, most market observers believe rates are on their way back up and may stay that way for many years to come. “Where we are today is not normal,” said Michael McCarthy, Senior Vice President and National Sales Director of AXA Distributors, about the federal funds rate of 0.25% and the 10-year Treasury note’s 2% yield.

But pinpointing the timing of an interest rate rise is difficult. After the global economic crisis of 2008, investors fled into U.S. Treasury bonds and consequently pushed their yields down. The Federal Reserve did its part to keep rates low with a monetary policy of easing that has kept short-term interest rates especially low.

The global economy has not quite recovered, and the Fed is still accommodative and has vowed to be so inclined through 2014. “People buy Treasuries for safety and income,” said Thomas Nelson, Managing Director of Strategic Asset Allocation Research with Franklin Templeton. “The safety isn’t what people are used to in the past, and neither is the level of income.”

Realizing they could get a better risk versus reward trade-off elsewhere, investors may eventually leave bonds in favor of something with greater upside potential. Such a move could cause bond prices to fall.

To be sure, an increase in interest rates could still be a year or more away, so there is time for advisors to thoughtfully approach how to position clients’ portfolios. However, once the Fed starts tightening, things could move fast and vulnerable portfolios could be whipsawed.

“When the Fed starts raising interest rates, they don’t just creep up,” said McCarthy. “[The Fed] tends to do it in a succession of very rapid moves, so what you are doing today is going to be important to protect your clients’ portfolios tomorrow.”

In the next 18 months, Treasury rates could double from the 2% that the 10-year note currently sports, McCarthy said.

Below are a few strategies to consider to shield a portfolio against, and to take advantage of, rising interest rates.

Shorten Duration

Duration, a measure of interest rate risk, is one way to determine how exposed a portfolio is to rising rates. The longer the duration, the more sensitive a bond portfolio is to interest rate moves.

“I would have a moderately shorter-duration position right now,” said Ron Arons, Portfolio Manager on the fixed-income team with Goldman Sachs Asset Management. “We think the place where you would want to be shorter is 10 years and out on the yield curve. That’s where you will see interest rates rise the most in the near term.”

Longer-maturity bonds provide extra yield to compensate bondholders for taking on the additional risk. But they are also more sensitive. The Barclays Capital Aggregate Bond Index has a duration that hovers around four years. Shortening duration to the three-year range can be achieved by trading into shorter-maturity bonds.

Lower the Quality

High-quality bonds like Treasuries and agencies are the most interest-rate sensitive because their prices are determined primarily by the direction of interest rates. But corporate bond prices are also the reflection of the health of corporate balance sheets, so they provide some cushion when rates climb.

For years, corporations have been churning up their balance sheets and are now the healthiest in decades. Nonfinancial companies now have about $2 trillion in cash sitting on their balance sheets and that amount is steadily rising. That makes their short-term bonds not only less interest rate sensitive than longer-duration government bonds, but also of higher credit quality than they were a decade ago, said Wayne Lin, Portfolio Manager for Legg Mason Global Asset Allocation.

“Instead of interest rate risk, you’re basically taking on credit risk that is backed by corporations, and corporations have all the cash,” Lin said. “That’s a pretty good trade-off.”

In the early stages of an economic recovery, the difference between corporate and Treasury bond yields, known as the spread, tends to fall as corporate bond price improves, said Goldman’s Arons. “Though there is some interest rate exposure, you should see some spread tightening as rates rise,” he said.

But there is a caveat. For high-yield bonds, rising interest rates can lead to financial strain eventually, especially later into the economic cycle. Bonds with credit ratings double-B or lower, would see their borrowing costs increase if interest rates were to spike, which could make them more vulnerable to defaults.

Floating-rate Funds

Bank loans, sometimes called floating-rate loans, can benefit from rising interest rates. These securities have exceedingly short maturities of 40 to 50 days. The loans are made by banks to companies and are then securitized and sold to investors. Bank loans usually offer coupons based on a fixed interest rate above the London Interbank Offered Rates (LIBOR).

Unlike fixed-rate bond funds, floating-rate funds can offer more attractive yields when interest rates rise because they reset so quickly. However, floating-rate funds tend to be more volatile than fixed-rate bond funds, often moving in concert with stock market performance. Therefore they should be used sparingly.

Keep an Eye on Inflation Too

There are several potential drivers of higher interest rates. One might be inflation. While it has been fairly tame for years, should commodity prices and other costs start to climb, inflation could creep higher, leading to higher interest rates.

“When interest rates are increasing, you have to ask why,” Lin said. “If it’s because of inflation expectations, then at least Treasury Inflation-Protected Securities, or TIPS, offer some sort of protection against that.”

Unlike ordinary government bonds, TIPS have an inflation component. Their yields are set at issuance, however, the bonds’

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Strategies for Retirement Income

The reason for the higher payouts of deferred income annuities compared with fixed income, is the combination of income, plus principal, plus mortality credits. Furthermore, as Horrocks notes, with a deferred income annuity, unlike bonds, you get income as long as you live. Deferred income annuities, in comparison to VAs, can be viewed as roughly the annuity equivalent of a bond, with a VA analogous to a stock. Deferred income annuities do not have the same potential for the upside of VAs if the market does well, but they do offer a higher guarantee instead.

Horrocks reveals that the average age of the buyer of the product from New York Life is 58 with a nine-year average deferral. “By buying in their late fifties, clients are going to have a base of guaranteed income they can marry with other assets,” he said. The annuity allows clients to precisely match their income with future expenses, unlike using a mutual fund drawdown strategy in which the client risks outliving their assets. Also, because their basic income needs are guaranteed by the annuity, the client can now take more appropriate risks with the rest of their portfolio.

One additional key advantage of deferred income annuities is their flexibility. This includes the choice of selecting payout start dates, with a client having the ability to push income forward if needed or delay it for a higher payout. “Deferred annuities offer people the flexibility to change their plans,” Horrocks said.

Tax Considerations

When thinking about retirement income and portfolio construction there is another dimension often overlooked in most planning conversations: tax efficiency. Adding taxes to the annuity equation leads to more decisions for the planner and client, but it also leads to a better financial outcome for current and future generations.

“Retirement income planning should not overlook estate planning and wealth-transfer considerations as well,” explained Michael Harris of Lincoln Financial Group. Tax deferred is, of course, one of the original selling points of VAs, before living benefits were added. Harris points to contemporary strategies for achieving both estate preservation and income objectives.

As Harris notes, one tax consideration is that annuities do not have a step-up in basis at death, unlike stocks. In practical terms, investors often spend down other assets such as stocks or bonds before an annuity, because the annuity enjoys tax-favored growth. “This may not be the most efficient strategy,” said Harris. “It isn’t bad because you have had tax-free growth but you don’t have the step-up in basis.” Instead, he argues that it might be optimal to spend down the annuity first and let the other investments grow to take advantage of the step-up in basis in death.

Another tax-efficient strategy is putting an annuity into a trust in which the benefits can be passed to children. “The advantage is the tax-deferred growth moves to children, and they will still have guarantees in places from the annuity,” Harris said. Though many advisors think of annuities as not being tax efficient, Harris added, “If you are willing to use a trust, make a gift into the trust and buy the annuity inside the trust for your children—that improves things substantially.”

Thinking through tax efficiency shows that annuities are not only useful for retirement income—with deferred income annuities perhaps an underexploited resource—but they can be useful for wealth transfer as well. As Harris concluded, “Advisors need to learn annuities are not your granddad’s Oldsmobile anymore. They are great retirement income vehicles, and they are great planning vehicles as well—if you take the time to really understand them.”

Nowhere to Go But Up

principal amount is adjusted for inflation based on the Consumer Price Index, so it is constantly rising.

Building Ladders

A bond laddering strategy allows investors to constantly roll over money from maturing bonds into newer bonds. It is well suited for a rising rate environment because the portfolio is always getting an interest rate boost. The strategy works like this: An investor purchases a series of bonds in staggered maturities, for example, three, five, seven and 10 years. When one bond comes due, proceeds from the sale are reinvested on the long end, which often has higher yields. By doing this, investors get higher yields without increasing durations substantially.

Consider Stocks

Unlike fixed income, dividend-paying stocks can offer both rising yields and the potential for capital appreciation. “In a rising rate environment, you should be thinking about allocation more to stocks,” said Lin. “They provide a real return versus a nominal return.”

Even if interest rates do not rise for some time, a greater allocation to dividend payers could still be advantageous. “You get paid for waiting,” Lin said.

Further, notes Nelson of Franklin Templeton, fixed-income investors most likely want to trade into conservative equities. “Dividend-paying stocks tend to be more defensive and their valuations are fairly compelling,” he said.

Lin suggests targeting dividend-paying stocks with pricing power that can pass on rising pricing to consumers.

The Silver Lining

There could be an upside to higher interest rates. For income-seeking investors, higher rates can be beneficial to help them stay ahead of inflation. Those that own bonds directly will not see any price declines if they hold bonds to maturity. New bonds can be purchased with higher income. “Higher rates aren’t necessarily a bad thing,” said AXA’s McCarthy.

After decades of falling, bond investors would welcome the potential to receive more income on their bonds.
ne holdover from the financial crisis of 2008 is that clients still may lack confidence that their advisors are working in their best interest. Not only were clients deeply shaken by the severity of the declines, but many were disappointed that their advisors were not able to prevent such heavy losses. A series of high-profile investment scandals further eroded trust in the financial services industry.

In its most recent global survey of consumers, public relations giant Edelman found that only 46% of respondents trust the financial services industry. Surprisingly, this year’s survey is a vast improvement over 2011 results that showed that only 25% trusted the industry.

It’s understandable why some think the client/advisor relationship needs retooling. The good news is that advisors can take multiple steps to restore confidence and build strong relationships. “If the client comes in and has confidence in you, your job is a heck of a lot easier than if the client thinks you’re not to be trusted,” said Scott Stolz, President of Raymond James Insurance Group. The key is putting clients’ interest first and communicating that commitment.

Strong client relationships make good business sense too. As a flood of Baby Boomers begins retiring in the coming years, many will look to pare down the number of advisors they work with. “The average customer may have two to three advisory relationships,” said Jim Supple, Executive Vice President for Distribution with Fidelity Investments. “When they make the decision to consolidate and work with one or two when they need to generate income, it’s going to be the advisors who they’ve built up trust with over the years.”

A Holistic View
For Kevin McGarry, Director of the Nationwide Institute for Retirement Income, building trust is a simple mathematical formula: credibility plus reliability plus empathy divided by self-orientation. The more self-oriented an advisor is, the less trust he or she probably has with clients. But the more credibility, reliability and empathy the advisor engenders, the greater trust clients will place with him or her. In other words: clients want an advisor that puts their interests and concerns first.

By acknowledging a client’s fears and listening carefully to their concerns, advisors can understand the entirety of what a client wants to accomplish, said Stolz of Raymond James Insurance Group. “When a client comes in, make sure they feel that the meeting is just about them,” he said. “Set aside half an hour just to talk and put the client at ease.”

That may mean that investment and financial planning advice takes a back seat, at least for a while. Clients want to know how their advisors will help them realize their life goals. They may not necessarily be looking for stock tips.

Outcomes, Not Products
Advisors who were able to frame the downturn in financial planning terms versus strictly investments were able to retain clients. Clients want to know how they will achieve their financial goals. Conversations about products are useful in demonstrating how they will do that, but they are not ends in and of themselves.

“Successful advisors have been able to establish a repeatable process for their customers, so they have a touchstone to come back to during difficult times,” Supple said.

Furthermore, Supple said, advisors who can manage expectations throughout market climates will be the ones who clients come back to time and again. “Advisors must articulate for the customer the experience they’re going to have, what the relationship with the advisor will be and where the whole team is going,” he said.

This does not suggest that clients do not require an advisor with a solid grasp of investing and markets. They want to know that the person they are entrusting with their investments has the financial know-how to do a good job. “You need credibility if you are going to have a conversation around retirement income,” McGarry said.

However, those conversations need to be placed in context, he added. “It’s not just a product, it’s a solution set that the advisor is providing and tying it back to what is important to the client,” McGarry said.

The Value Proposition
From the outset, advisors should lay out their unique value proposition in well-defined language. A client needs to understand what the advisor does and what the processes he or she will use to accomplish that outcome.

An advisor who can quickly assess what a client is trying to achieve and then can insert his or her expertise, is in a position to succeed. “It clarifies what that advisor does and allows the client to ask more questions,” McGarry said. “The client wants to retire but may not know what that involves and may not necessarily know what questions to ask.”

Transparency
One of the biggest hurdles for advisors can be communicating about fees. It is important for clients to know what the advisor charges and what services are provided in exchange for the fees paid. Again, advisors need to be upfront and not avoid these conversations.

To be sure, financial advisors have been migrating to a more transparent fee model in recent years to clear up some confusion. “A growing number of advisors are being compensated on fee-based assets and trails,” Stolz said. “Clients welcome it because it’s more transparent. They know exactly how their advisors are getting paid.”

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