



2016 Investment Trend Monitor Report: Variable Annuities

Variable Annuities: A Tool for Retirement Income Planning

Variable annuities offer advisors a way to help clients manage risks and make their assets work harder.



Advisors are most likely to use variable annuities in clients' portfolios for retirement income planning purposes, but they also turn to these products for principal protection and tax-deferred growth. This was one of the findings of a recent WealthManagement.com and FUSE Research Network survey of more than 630 advisors and financial professionals about their use of variable annuities.

Among the study's additional findings:

- The likelihood that an advisor will recommend variable annuities to clients differs based on the industry channel in which the advisor works. This disparity persists even when advisors' ultimate objectives for variable annuities differ.
- Advisors who are less inclined to use variable annuities (that is, those for whom the product represents less than 10% of the assets they manage) also are less inclined to use other types of annuities, such as fixed and fixed index annuities.
- Fees are a significant reason why many advisors avoid using variable annuities, although many advisors are also deterred by the prospect that capital gains will be taxed as ordinary income upon withdrawal.
- A "typical" client invests in a variable annuity in his mid-50s, with approximately 13% of his \$1.7 million portfolio.



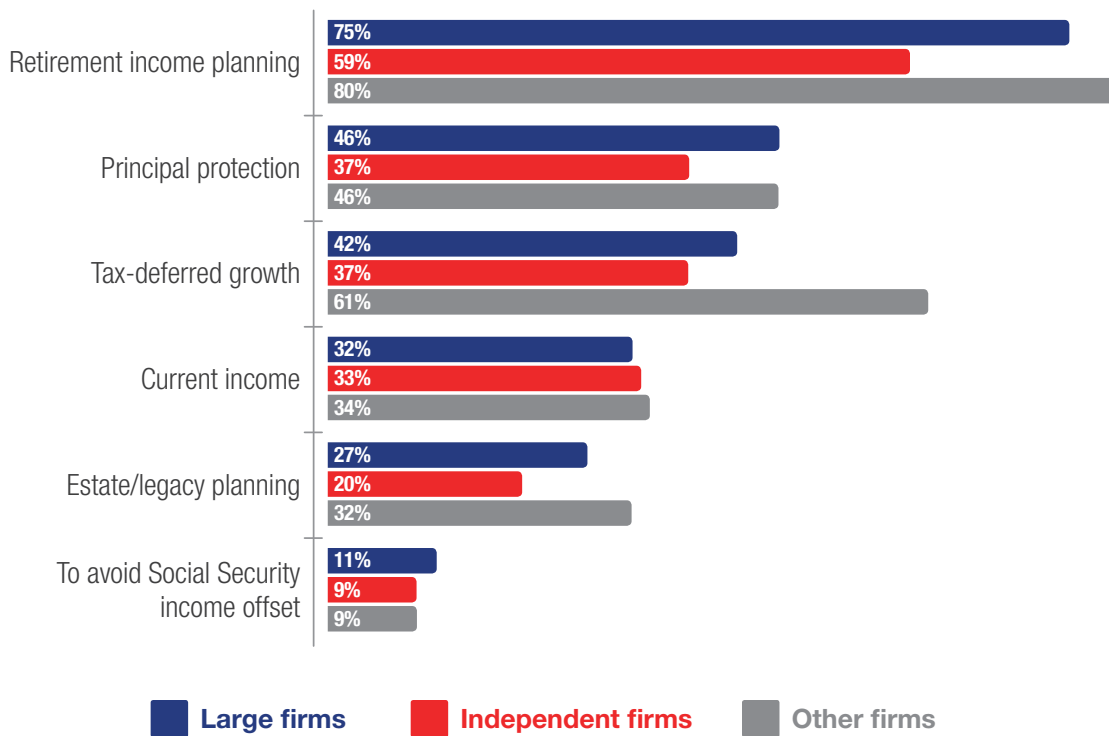
2016 Investment Trend Monitor Report: Variable Annuities



More popular with some advisors than with others

Advisors are more likely to use variable annuities for retirement income planning (67%, including those advisors who reply often and always) than for other objectives. This finding aligns with the fact that most advisors (57%) typically recommend these products to their clients in their 50s. Nearly half of advisors use the products for principal protection (44%) and to generate tax-deferred growth (44%). By comparison, only a quarter of advisors (24%) use variable annuities for estate planning purposes, and just one in 10 (9%) use them to avoid the Social Security income offset. According to a financial advisor from an independent broker dealer, variable annuities “offer protection in today’s crazy market and world markets.”

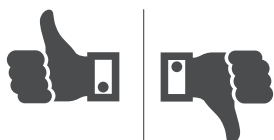
Percentage of advisors who recommend variable annuities for the following objectives often or always





2016 Investment Trend Monitor Report: Variable Annuities

While these preferences are fairly consistent across advisor channels, there are differences in degree. Advisors at large firms tend to recommend variable annuities more frequently than advisors at independent firms for all objectives except generating current income, where independent advisors make that recommendation more frequently. Meanwhile, advisors from insurance firms, bank brokerages and private banks (grouped under the “other firms” category) recommend variable annuities for retirement income planning and tax-deferred growth more than advisors in any other channel. As one might expect, advisors from insurance firms account for much—but not all—of this disparity.



Advisors like variable annuities...or they don't

The tendency for advisors from independent firms to be less likely to recommend variable annuities is particularly noteworthy given that independent advisors tend to have a slightly higher percentage of client assets invested in this product than do advisors from large firms (22% vs 17%, respectively). Perhaps not surprisingly, advisors from “other firms” have the highest average (24%) of the three channels.

However, the average figures mask a distinct difference in outlook among advisors from independent firms. Those who have 10% or more of their clients' assets invested in variable annuities see strong value in recommending the product for retirement income planning and principal protection, while those with less than 10% invested find those objectives much less compelling.

Differences in rationale for variable annuities among advisors from independent firms (separated by client assets invested in the product)

	Less than 10%	10% or more
Retirement income planning	22%	86%
Principal protection	17%	50%
Tax-deferred growth	16%	41%



2016 Investment Trend Monitor Report: Variable Annuities

Interestingly, part of this difference may be attributable to the nature of the firm. Advisors from independent RIAs make up two-thirds (66%) of the group that is less likely to recommend variable annuities, while advisors from independent broker dealers are by far the majority (84%) of those in favor of the products.



Preferences carry over to other investment types

Advisors across all channels who are less inclined to use variable annuities (that is, those who invest less than 10% of client assets they manage in variable annuities) also are less inclined to use other types of annuities, such as fixed and fixed index products. But they are more likely to be committed to other investment vehicles, specifically individual bonds and stocks, and cash or money market funds. The pattern makes sense given that an advisor who leans toward an active management strategy, which would result in a preference for selecting individual bonds and stocks and managing a strategic cash reserve, might be less inclined to accept the limited control available in a variable annuity.

Percentage of all advisors who use the following often or always (separated by client assets invested in variable annuities)

	Less than 10%	10% or more
Fixed annuities	3%	12%
Fixed index annuities	3%	14%
Individual bonds	32%	13%
Individual stocks	47%	28%
Cash or money market funds	71%	49%



2016 Investment Trend Monitor Report: Variable Annuities

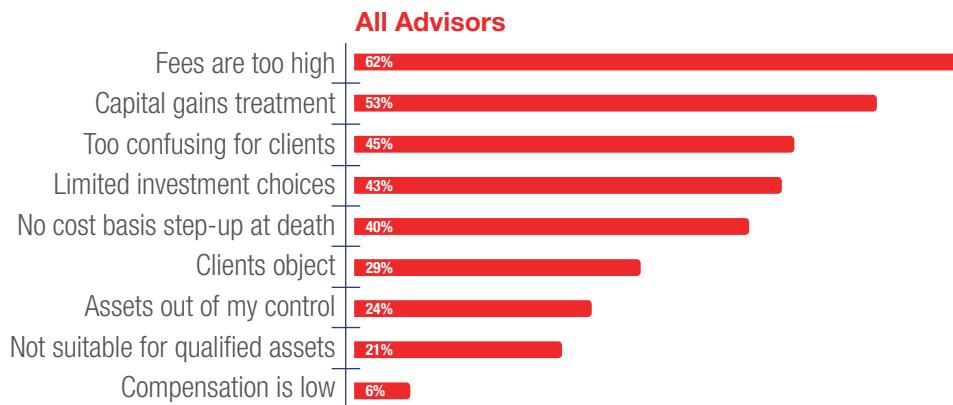


Pros and cons among advisors and clients

Advisors largely agree on the factor that limits their use of variable annuities: Nearly two-thirds of advisors surveyed (62%) report that high fees are an obstacle to investing more heavily in the product. Meanwhile, a little over half (53%) are deterred by the unfavorable tax treatment that results from the conversion of capital gains into ordinary income when clients draw income from their annuities. The fact that clients find annuities too confusing is the third most common limitation, cited by 45% of the advisors surveyed.

These three reasons are the top objections across all advisor groups. That said, advisors from large firms and advisors who have less than 10% of client assets invested in variable annuities are more likely to emphasize their clients' potential confusion (58% and 57%, respectively) than the unfavorable tax treatment of capital gains.

Advisor concerns about variable annuities as products



Meanwhile, clients tend to have similar objections about variable annuities as their advisors—at least according to the advisors. Advisors say their typical client invests in a variable annuity in his mid-50s using approximately 13% of his \$1.7 million portfolio. Clients most commonly object to variable annuity's high fees and relative complexity.

By comparison, advisors say that clients most often appreciate the guaranteed income and peace of mind that variable annuities provide. "Clients who are beginning their income distributions with a living benefit like the fact that they cannot outlive their money," says one registered investment advisor who works at an independent broker dealer.