EDUCATIONAL COMMENTARY
For Financial Professionals

LET THEM EAT CALAMARI! ANNUITIES ARE SQUID. GET OVER IT.

By Steve Gresham

When my son was about 2, we lived in a New York City apartment near an awesome Italian family restaurant. He loved calamari over linguine. One day another much older patron asked him how he liked his "squid." "It's calamari," replied the confident tot. "Yeah, calamari is squid," pressed the other diner. "Well," my son explained (dismissively), "I like it anyway."

A historic generation of 76 million people with a median age of 66 are rolling out of the workforce at 12,000 per day (a number that's climbing). They need to replace paychecks from work and secure their healthcare. And survive their longevity. Sounds like a job for an annuity with a cost-of-living adjustment and a long-term care rider.

You mean a squid?

When I first earned my Series 7 license, I was a stock analyst. But at that ancient time, the Dow was 800 (just two zeroes) and investors were gun-shy, preferring to invest in 9% munis and 15% T-bills (when inflation was 13%). And why not? As you know, their preferences changed, but not overnight. Both bonds and stocks began an epic climb together, and an entire generation feasted on the returns from funds and managed accounts—initially opposed by a legion of stockbrokers who scoffed at the transparency and "risk-adjusted returns."

Not so fast-forward to today, when commissions are free and managed assets are $40 trillion.

Those same clients are now facing the expenses of retirement. So when the Dow fell 10% and the Nasdaq tumbled 22%, retirees who remember losing half their account values from 2007 to 2009 (not to mention the first tech wreck 20 years ago) became justifiably concerned.

In a recent Financial Advisor flash poll of advisors, Evan Simonoff asked what advisors would do if clients said they wanted less risk. Eighty-five percent opted to "change asset allocation" instead of turning to income strategies and annuities. Another way to look at it is that they are defending capital market theory as an intellectual response to an emotional condition. But it's getting well-intended advisors in trouble with clients who think they are being ignored—or dismissed.

"Retirement planning is like building a family dinner with multiple, complementary ingredients," says a well-respected head of annuity and insurance solutions for a national advisory firm. Having just one dish—even with underlying components like a managed portfolio—should not be expected to satisfy everyone. The menu makes sense of it all.

That's a terrific perspective for both advisors and clients. There is complexity—inherent complexity—in building solutions to fund a 30-year retirement. The portfolio can be the entrée, but what about the side dishes, the salad, the appetizers, the dessert, the wine? To some people, the wine is the highlight. But too much might ruin the meal (and the next day). And anyone with a big family can tell you that it is important to recognize that every member has different preferences.

Watching advisors and their clients wrestle with the myriad needs of retirement, we see their frustration at the lack of certainty. And we see their anxiety. Most of the success factors, like longevity, are unknown. But we cannot and should not allow the unknown to stoke unease. There are other things important to clients: such as peace of mind, comfort and confidence. And these are things they are willing to pay for.

As several smart behavioral experts have said, human brains do not naturally process abstract, long-term planning. But we all love short-term comfort, and advisors need to offer some of it. Sometimes it is OK to add some mac and cheese or dessert to the healthy table. It doesn't mean you're promoting chocolate cake instead of a stuffed turkey.

There's been enough research showing the value of certain annuity products in retirement. But this article is not about solving that problem in a left-brained way. I'm talking about connecting with clients in a very human way.

Annuities face criticism, but some of that is based on folklore from long ago. Anyone lamenting the products' "high cost" should apply the same test to most alternative investments. Or to "no load" mutual funds, with their 4% back-end cost or their forebears, whose cost was 8.5% up front. Demand drives innovation that results in better solutions. That innovation has been taking place in the income product world for years—and there's more room to run. Check it out.

It is simply ridiculous to turn a blind eye to an entire category of potential investment solutions that can give value—peace of mind—to a generation of investors who have earned our respect by supporting us for decades. Especially if there are solutions that can leverage limited assets—something that's true for most clients. Such strategies will appeal to both their brains and their emotions and finally acknowledge that their peace of mind is a valued objective. If we insist instead on promoting what we think is "good for you" over what people say they want, without regard for alternatives, we will drive away our core clientele when a disruptor offers what they want—and it works. Consider the impact of target-date funds as the retirement plan default in lieu of guaranteed interest accounts.

We are watching a new role emerge in the retirement advice marketplace. Let's call them "Next Chapter advisors" instead, people who specialize in helping individuals and their families fund that next stage of life. They are often in the same phases of life with their retiring clients, so they can use their own expertise with accumulation and investing. But now they can focus—on now. That's a different mindset that requires an empathy clients will embrace. These advisors will use planning and products for multiple objectives and help families prepare for those inevitable things that happen in life.

So get everyone to the family retirement table and pass the calamari. Who cares if it's really squid?

Steve Gresham is on a mission to improve "retirement." He is CEO of the consulting firm the Execution Project LLC and leads Next Chapter, an active think tank of 50-plus leading financial companies. He is also the senior educational advisor to the Alliance for Lifetime Income. Steve was previously head of Fidelity's Private Client Group and retail strategy.