

## Summary

The origins of the Annuities industry date back to the eighteenth century in the United States, but it was not until 1912 that the concept of retail, or “individual” annuities were made available to the general public. Annuity growth from that point on was steady, but annuities really accelerated in earnest in the 1930s. Concerns about the overall health of the financial markets prompted many individuals to purchase products from insurance companies. During the Great Depression, insurance companies were considered stable institutions that could make the payouts that annuities promised.

Since then, a lot has been written about the industry, both good and not so good. Certainly, with the almost complete eradication of the defined benefit pension plan, annuities have been designed to fill that void whereby financial professionals are using this tool to provide guaranteed income for life as a piece of the overall portfolio construct. However, the industry has been under attack by those who consider the cost of the protections too high (e.g. fees) and aggressive criticize the industry.

This report is a 5-part series looking across the industry from different perspectives. They include the Industry, the Consumer Perspective, the Agent Perspective, Criticisms, the Future.

## Part 3: The Agent Perspective

This report provides a perspective on the Annuities industry from the agent perspective. The report will discuss some important demographic shifts in the United States, retirement income concerns, and the value of annuity products, and do so from the perspective of an agent.

### Author



**Don Desiderato**  
**Founder and CEO Mantissa Group**  
**[d.desiderato@mantissagroup.com](mailto:d.desiderato@mantissagroup.com)**

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## Demographic Data on Retirees

When considering the Agent perspective of annuities, it is first important to understand the demographic landscape that makes up much of the retirement population. Americans age 65 and older are a rapidly growing demographic in the United States. According to demographic data, there are 76 million baby boomer retirees that will be approaching 65 years old by the end of this decade. With the average life expectancy approaching 80 years, up from 68 years old in the 1950s, a 20-year retirement can be expected.

Further, according to the Population Reference Bureau (PRB), the over-65 age group is projected to almost double from 52 million in 2018 to 95 million by 2060. Older adults are also working longer, providing them more time to save for retirement. The PRB detailed analysis showing that in 2018, 24 percent of men and about 16 percent of women age 65 and older were a part of the labor force, but these levels are expected to rise to 26 percent of men and 18 percent for women by 2026.

There are other interesting trends to consider. *Education* levels among people age 65 and older are increasing. For example, the PRB has pointed out that among people ages 65 and older in 1965, 5 percent had completed a bachelor's degree or higher. By 2018 that figure had risen to 29 percent. As stated earlier we are seeing a rise in *life expectancy*. CDC data shows that the average U.S. life expectancy has increased from 68 years to 78.6 years (blended for men and women, and independent of race and origin). Along those lines, the gender gap in life expectancy is also narrowing. In 1990 there was a seven-year gap in life expectancy between men and women; however, the most recent CDC data from 2017, this has narrowed to five years.

As discussed, trends show that people are working beyond age 65 attributed to a variety of factors. One such factor, Social Security has increased its full retirement age, so people are choosing to work longer to fill the income gap so they can maximize their social security benefits. Another factor, as discussed in previous sections of this series, is the reality that employers are shifting from defined benefit plans (pensions) to defined contribution plans (401k). Not having guaranteed payouts in the form of a pension leaves those who are considering retirement to work longer to grow their retirement nest egg.

This demographic reality has an impact to *Agents* who offer retirement solutions. Consumers are living longer, are more educated, and seek for solutions to their retirement needs. The concern for agents is that a growing number of employees aren't replacing their defined benefit pensions with a defined-contribution plan such as a 401(k). Thus, many Agents turn to annuities to fill the retirement income void.

## Annuities as a Retirement Tool for Agents

In the previous report, *Part 2: The Consumer*, we introduce the idea and challenges of the *retirement puzzle*. The demographic statistics discussed in this report bring to light some challenges agents face when working with clients.

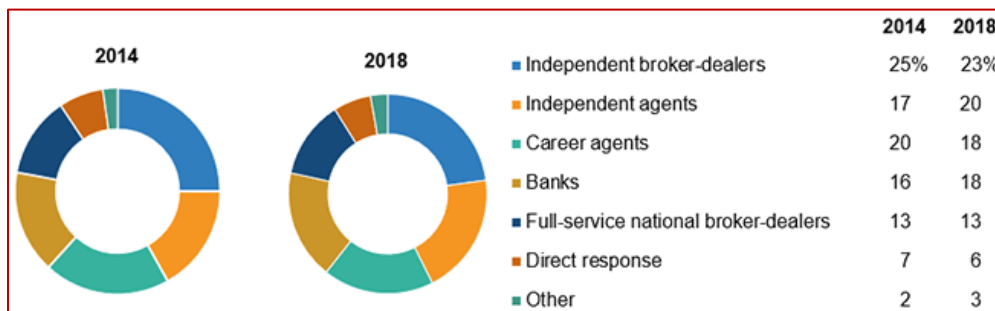
With retirees living longer, there is certainly a need for agents to help clients replace the nearly extinct defined benefit pension plan. However, agents are facing additional concerns such as an increase in people needing longer-term healthcare and other critical living health related needs. It is more important than ever from an agent perspective to help provide clients build a retirement income stream that can also account for concerns such as nursing home care, rehab, or other types of long-term care planning.

Agents and financial advisors often rely on annuity products to help meet all these needs. For example, stand-alone Long-Term Care (LTC) policies can be extremely expensive for families if they are not purchased when a person is much younger. Worst, once a person reaches retirement age, often LTC insurance is cancelled by retirees since the premiums can become unaffordable, especially given one’s lowered income in retirement. If a person subsequently requires LTC benefits, this can put additional strain on their retirement savings, and will often draw it down much quicker than anticipated.

Agents often look for an annuity that can be purchased to annuitize if the need for LTC arises but can also be used to cover normal retirement expenses. Another example of health-related expenses is the need for individual health insurance coverage. Since employer sponsored healthcare plans are likely no longer available, individual or supplemental healthcare plans are an additional expense that gets transferred to the retiree at a much higher rate than while still employed. Annuities can also be purchased to account for these expenses, plus mortgage payments, utility expenses, funding for annual vacations, and other health related expenses.

Agents will take into consideration what is important to each retiree and will often make recommendations for situations where they believe an annuity is appropriate. These can be complex products, so the challenge may come down to the ability for an agent to effectively explain how an annuity is designed, the fees associated, how they can provide a broad array of benefits, while also developing alternative approaches for their clients.

### Explaining Annuities



Source: U.S. Individual Annuities, 2018 Year in Review, LIMRA, 2019

As the illustration indicates, annuities are very commonplace and sold by several different channels.

The examples in the previous section highlight how agents frame annuities with prospective clients, as a tool that serves as a multi-purpose insurance policy against outliving retirement savings.



The biggest pushback agents receive when proposing an annuity to a client who is in or approaching retirement is what sort of investment return, he or she will receive. While certain types of annuities offer tax-deferred growth potential, that is largely missing the primary purpose an annuity looks to address. One should consider, “what am I most concerned about in retirement?” Often that is running out of money and not being able to maintain the same quality of life in retirement years. Having a guaranteed income stream from an annuity allows a retiree to maintain their lifestyle and spend their money without the risk of running out.

Putting annuities into the context as an insurance product rather than an investment allows the client to properly understand what it is designed to do. The freedom to spend income and have the peace of mind that it will continue to come every month/quarter/year will go a long way in highlighting an annuity’s value.

### Technology Expectations

As noted in our previous report, the most indicative sign of a growing industry is the emergence of the start-up community. We continue to see activity in agent tools that assist with the product explanation, education, retirement planning tools and direct to consumer approaches to educating retirees. Agents, particularly in this digital age, have high expectations of technology despite being a “face to face” business. Agent technology comes into play in three areas: *education*, the *purchase process*, and when the annuity insurance contract is *in-force*.

The start-up community been active with solutions for the **education** process. For example, a start-up firm *Tangram Solutions* has launched *IncomeWizardPro*. This solution gathers actual annuity data from published information on insurance company annuity products. It goes on to supply annuity analytics for their income wizard tool. This tool is designed for agents and provides a solution for the concern we have discussed in our Annuities series, the need for guaranteed income. This is one of many examples where the startup community is providing creative solutions in the education process.

During the **purchase process**, insurance companies will use technologies to create a fully digital experience. The backbone tool for Agents is a CRM platform such as *Salesforce* to use in guiding the consumer and typically vendors such as *iPipeline* or *Ebix* for the electronic application process. Documents will normally be electronically signed via technologies such as *DocuSign* and the use of platforms such as *Firelight* for e-delivery of insurance documents. All of this creates a digital experience that consumers come to expect and tools that agents are becoming proficient with.

Finally, once an annuity policy is purchased and is **in-force**, an online web portal and mobility app is enabled. This will allow for normal transactions, (e.g. address changes), financial transactions (e.g. adding money), or rebalancing funds in the case of variable annuities. Statements will be available online, and virtually anything needed to administer the insurance policy is made available to the consumer.

### Concluding Thoughts

In this report we discussed the demographics of the retiree population and how annuities can serve as a retirement solution to address many of the complexities that will be faced in retirement. As an agent, having the ability to be clear and concise in explaining how annuities can be used to solve many of the income issues is particularly important. It is up to the agent to have a deep understanding of how different annuities work and how the various products can be used as a solution to a number of problems. It is also equally important that agents understand the criticisms of annuities (*part 4* of this series) and honestly address them. There should be an expectation that clients have little knowledge with annuities, so the more well versed in the topic a person is as an agent, the more effective they will be.

Having the ability to be specific and clear will go a long way in illustrating how annuities can be an appropriate and valuable retirement solution. Aiding in this process are the technology tools available to people today. These tools can work quite well in illustrating different scenarios in a concrete way, and may help to overcome many of the criticisms that are associated with annuities. As we continue to learn and understand the industry, we should be equally aware of industry criticisms to have a more holistic understanding of annuities.

### About the Author



**Don Desiderato** is a former Fortune 100 Executive and Founder of Mantissa Group LLC, a strategy consulting firm serving the CIO executive and their extended leadership teams. Don is a recognized industry expert, and a deeply experienced senior technology executive helping leaders with their **technology strategic plans**, as well as simultaneously focusing on **leadership development and culture**.

### About Mantissa



**Mantissa Group** provides business and technology strategic consulting services. Mantissa supports the Chief Information Officer executive and their leadership teams, with a focus on CIO engagement as a business leader. Mantissa has practical experiences supporting leaders with **technology strategy, executive coaching, leadership development**, and relevant **research** for technology organizations.