Milevsky on DOL Fiduciary Rule: Big Flaws; Annuities Will Suffer

MOSHE MILEVSKY, AN ANNUITY EXPERT, ANTICIPATES A NEGATIVE SHORT-TERM IMPACT BEFORE HOMEOSTASIS RETURNS TO ANNUITY SPACE

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Moshe Milevsky, finance professor at Toronto's York University.

Annuity guru Moshe Milevsky contends that, concerning annuities, the Department of Labor's fiduciary standard rule's overriding emphasis on fees is deeply flawed.

All in all, he says, the rule—which will see the first phase of implementation in April 2017—cries out for the expertise of financial economists.

In an interview with ThinkAdvisor, Milevsky, finance professor at Toronto's Schulich School of Business at York University and a leading annuities consultant to the financial services industry, discussed his views on the controversial rule, which holds advisors and insurance agents to a fiduciary standard for advice regarding retirement accounts.

Milevsky's short-term forecast for the annuity industry: pessimistic.

Long-term outlook? Upbeat. What with widespread confusion about the rule and industry lawsuits seeking to halt it, the professor anticipates two years of uncertainty, if not turmoil, before homeostasis returns to the annuity space.

Following are highlights from ThinkAdvisor's interview with Milevsky:

What affect will the DOL's fiduciary standard rule have on the annuity industry?

There is absolutely no doubt in my mind that it will have a very big impact. It's already having impact. Variable annuity sales have declined quite dramatically in the last year, partially due to uncertainty about the rule.

Indexed and fixed annuity sales have increased, partially because [advisors and agents] thought they wouldn't be covered by the rule.

But if indexed annuities are considered to be part of it and require a BIC [Best Interest Contract Exception], I think they'll decline too.

Do you expect companies to introduce variable annuities with only a basic asset management fee and no commission?

Could be. Commissions will have to change. Commissions will become illegal if you're a fiduciary unless you have a BIC in place.

What do you predict for annuities in the near-term?

Next year is looking bad. It's going to be shaky, especially with uncertainty about the implementation of the rule and the presidential election. If Trump gets in, I really don't know what will happen to a rule like this – but I don't think Thomas Perez will still be running the DOL. [Twenty-eighteen] will probably be a bit better than next year. Projecting beyond, I think there'll be a growing recognition: "When I'm 90 years old, I want my annuity."

What's the current mood of people in the annuity industry?

You sense the uncertainty in their morale. There's a feeling of gloom, especially in the variable annuity [space]—that "this is going to make life more difficult for us for the next year or two."

Could the rule bring better annuity design and more transparency?

I wish it would go in that direction. But what worries me is that it will just make prospectuses longer and create a lot more paperwork for everyone—and [clients] won't necessarily pay more attention to what they're signing.

How do you suggest the rule could be improved?

There has to be a little bit more financial economic thinking. I'd love to have more of a transparent cost-benefit analysis done by financial economists of what products belong in what categories. The notion that something is an insurance contract versus a security was driven purely by lawyers. I look at some of this and say, "Really! That's surprising!"

What else do you find objectionable?

There's an extreme emphasis on fees—that fees are obviously bad, and the lower the better. No, not necessarily. But if you charge too much in fees, you're going to be running afoul of the rule.

Fees, of course, have long been an issue with VAs.

Variable annuities have suffered as a result of the emphasis on fees: their fees are clear and observable, and they seem high. With a variable annuity, fees are quite explicit. Once you read the contract, you see it's 3%, or possibly 4%. On the other hand, with indexed annuities and fixed indexed annuities, it seems like there are no fees because there's no explicit line anywhere saying, "Your fee is 2%." So, because these fees are implicit and very, very difficult to discern, you think you're not paying them.

But are there any "hidden" fees in annuities?

Almost every single fixed index annuity I've seen does not include a dividend. So right off the top, you're not getting the 1% to 2%, or possibly 3%, dividend yield that you'd get if you held the underlying index. I'm sorry—if you're not giving me a dividend, that's a fee because you've taken away that 2% or 3%. Why isn't this explicitly called a fee? If people were told they were losing that, the variable annuity wouldn't look so bad relative to the fixed indexed annuity. This is just one example of [the rule's] obscured thinking and total emphasis on fees.

What's your opinion of the industry lawsuits that seek to kill the rule?

There’s a big debate as to what “reasonable compensation” is for selling an annuity. We all know that annuities are more complicated than index funds. Explaining to a client how an annuity works takes more time than explaining an index fund. So, obviously, an annuity should pay the advisor more. Anyone who thinks that everybody should get paid the same, regardless of how complex the product is, doesn’t understand how incentives work. So I have sympathy for that.

What about the suits themselves?

I sympathize with what NAFA [National Association for Fixed Annuities] is arguing: Why are certain things inside the regulation and certain things out? What requires a BIC? An indexed annuity is in, whereas a deferred income annuity, or a fixed income annuity or longevity insurance is out! It’s a little odd to me that when you buy an annuity that guarantees you $100 a month in 20 years, you don’t need the BIC, but when you buy an annuity that guarantees you between $90 and $130 a month, you do need it.

Why the distinction, do you think?

The DOL is saying that if you sell the product that dominates the income annuity or dominates the deferred income annuity, it’s better in terms of payout and you’re subject to all this regulation. Well, that discourages you from doing it, which then encourages you to sell the inferior product. To a financial economist that makes no sense.

Under the rule, advisors must explain the product they’re recommending for retirement accounts and why it’s in the client’s best interest. What responsibility does that place on those who sell annuities?

The burden of education is much higher now. It’s not enough to be able to explain the annuity to the person who’s buying it; you have to be able to explain it to yourself. It’s no longer about convincing someone to buy something; it’s about convincing yourself that you understand what makes it tick. That takes [up] time.

What else must be explained?

Not only why 30% of the client’s nest egg was put into a particular variable annuity, for example, but why you chose this certain company’s product and not another company’s. That requires you to really understand all the competitors. Again, this takes time.

In a previous interview, you told me that “to condemn annuities as a category is like saying, ‘Money is evil;’ you’ve got to narrow it down.” Please elaborate.

The word, “annuity,” is almost meaningless at this point. It’s like saying “fund.” What sort of fund? What kind of annuity? The word “annuity” is very broad, and the jargon can be confusing. We need a bit more clarity.

What do you recommend?

I try not to use the word, “annuity,” when I’m describing them. I like to say “personal pension.”

Why is “annuity” immediately off-putting to so many investors?

Part of it is that a large segment of writers have tarnished them. And FINRA, the NASD, the NYSE have always said that some of the biggest complaints they’ve had were about annuities. There were some pretty big bad apples that contaminated a lot of barrels. I think the situation has improved. We don’t see the outrageous commission structures anymore. There’s more transparency. Still, [a negative connotation] persists.

Why is it important for people to own annuities today?

We’re in a volatile world. With the decline in [providing] defined benefit pensions, it’s important to [substitute that] guaranteed lifetime income with some other form of guarantee. Guarantees become more valuable to people that are moving into retirement. The vast majority of what you’re buying with an annuity is risk management.

Is relying on an annuity enough?

It’s not the only thing you should be eating. There are many other things that should be on our plate in the morning besides granola.

People are living longer, but this is often accompanied by varying degrees of cognitive decline. Why should one have an annuity in place earlier rather than later?

People need to establish a [specific] plan for what will trigger turning on the [annuity’s] income. It’s either a certain age that they reach or a horrible market. So, if, say, the market goes down 20%, I want the income to start because it’s a living benefit and I have a guarantee. If an insurance company is guaranteeing me 5% for life, and my [investment] account has just collapsed 20%, turn on the income.

Do you personally own an annuity?

When I was 45 [four years ago], I purchased some annuities and [established] that I’d like to turn on the income in 20 or 30 years. I don’t want to be in my late 80s or 90s and have to start thinking, “Is this the optimal time, or should I have more exposure to equities?” The last thing I want to be doing at that age is running simulations. At 97, I’m not going to call Wade Pfau and Michael Kitces: “So, guys, what do out think? I’m 97. What’s a sustainable withdrawal rate?”

Tell me about your Portfolio Longevity Extension Corp.

I help endowments and individuals measure the longevity of their portfolios. I run analyses and tell them things they can do to extend the longevity. Annuities are part of that, but there are many other instruments that can help.

Sounds like you’re acting almost as a financial advisor.

Absolutely not. It’s all about education. In fact, with the DOL rule, “advice” is the [verboten] “A-word” for me. It’s now even more important for me never to use the word “advice” in a conversation.

Final thoughts about annuities long-term?

I certainly think that annuities will be in the news for the foreseeable future. It’s not a product that’s going to disappear. Annuities are how people will be paying for their retirement. I want 100% of my income to come from annuities and pensions. I want annuity income forever.

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Why Ken Fisher Hates Annuities

THE FISHER INVESTMENTS FOUNDER TALKS TO THINKADVISOR ABOUT WHAT HE CALLS THE 'LIES' ANNUITY SALESPEOPLE TELL AND HOW HE BUYS CLIENTS OUT OF THEIR SURRENDER FEES

"Almost always, anything that can be done with an annuity can be done a better way," Fisher says.

The prevailing tack for selling annuities is the same type of shifty pitch on which every Ponzi scheme is premised, top money manager Ken Fisher contends, in an interview with ThinkAdvisor.

Indeed, for two years now the outspoken investor's ubiquitous print and online ads have trumpeted: "I Hate Annuities…and So Should You!" Fisher particularly hates variable annuities, which "should not be legal as they currently exist," he says.

What Fisher likes about annuities is his annuity conversion program, which buys folks out of their annuity surrender fees if they become long-term clients. The penalties incurred to liquidate are amortized against quarterly advisory fees.

The chairman, CEO and founder of Fisher Investments, managing $65 billion in client assets, has been Forbes' "Portfolio Strategy" columnist for more than 30 years and is the author of 10 financial books, including four New York Times bestsellers. In the early 1970s, he developed the price-to-sales ratio.

More recently, Fisher has been incensed over what he calls too-good-to-be-true promises made by annuity salespeople. They mislead customers to believe they're buying a smooth, high return *on a "safe" investment*, but what they in fact receive in income stream is a return *of their capital*, Fisher maintains. On top of that, folks fail to read their lengthy, complicated annuity contracts.

Fisher kicked off his buyout program in 2012, a year before he launched the "I Hate Annuities…" ad campaign. He now has 15 annuity conversion counselors and plans are to expand the team.

In 2016, 37 years after founding his firm, Fisher — who turns 65 on Nov. 29 — is scheduled to step away from day-to-day management. He will remain chairman and co-chief investment officer, which means no change in his investment responsibilities.

ThinkAdvisor chatted with Fisher by phone earlier this month. Also on the line was Fred Strame, program manager of the annuity evaluation team. The renowned Fisher, speaking from his Camas, Washington, headquarters, talked annuities — "magical words," lying, steep VA commissions — as well as a "fiduciary standard lite"; and he graded the Financial Industry Regulatory Authority. Here are highlights from the interview:

ThinkAdvisor: Your ads are headlined "I Hate Annuities…And So Should You!" What's your beef with annuities?

Ken Fisher: It's very rare that the customer understands the long, convoluted annuity contract, where magical words are used that have nothing to do with what the contract actually does. And almost always, anything that can be done with an annuity can be done a better way.

What "magical words"?

Promises like "guaranteed income, guaranteed principal, guaranteed return on investment." They're used in the sales process, too. Salespeople rattle off whatever it is that they know is a lie or that they believe to be true but isn't. If this were in my industry, it would be completely illegal. I'm obligated to operate under the fiduciary standard.

If the fiduciary standard, under Dodd-Frank, is imposed on Series 7 registered representatives, how might that change the annuity industry?

If it's a hard fiduciary standard, it would kill the sales of annuities by commissioned salespeople. I know that a huge percentage of your readers won't like anything I say, including all the people that are stockbrokers that call themselves advisors and all the people that say, "I only sell variable annuities when they're appropriate" — and then get a huge amount of their total net income out of variable annuities. I'm not appealing to your reader base, and I understand that.

Why are annuity commissions high?

As a general rule, the higher the commission — in any category — the harder it is to sell with full disclosure and honest information. Annuities are sold as safety of principal and high return on investment. But the notion that you’re getting a high return on your investment is a lie. You’re getting a return of your capital. If it’s too good to be true, you know it isn’t.

Why is it “a lie”?

This is the way every Ponzi scheme has ever been predicated — selling something too good to be true and having the customer go for the comfort of the too-good-to be-true. Ponzi schemes’ promised returns are at a level that you can get only with lots of variability and volatility. Annuity salespeople tell consumers that they’ll get a smooth, high return on their annuities. You show me a great investor who hasn’t had a lot of variability in their return, and I’ll show you somebody that hasn’t existed.

Please elaborate.

If you think that stocks and bonds won’t do well, you can’t put money into principal underlying securities, pay a fee and somehow do a lot better than the principal underlying securities.

But people feel secure and comfortable buying an annuity.

People feel good when they smoke cigarettes, too. The consumer wants all upside and not have to worry. They want that comfort – the notion that they’re getting a nice, smooth, safe [promised] “13% a year” forever. That’s taking advantage of a weakness on the part of the consumer.

What are your thoughts about variable annuities?

They should not be legal as they currently exist. But the power of the insurance industry in lobbying won’t allow that to change — anytime in my career stand, for sure. The commissions that go to the salespeople are at such nosebleed levels that this is a tremendous market.

What about immediate annuities and indexed annuities?

What I think about immediate annuities is what I think about indexed annuities. The entirety of the annuity world has a huge amount of complexities. A lot of annuities are sold where somebody thinks they’re getting “X” but what they’re really getting has nothing to do with any letter of the alphabet. The annuity world is like looking at a matrix with various flavors: You get indexed annuities that are variable. You get immediate annuities that are variable. You get immediate annuities that aren’t variable.

But you wrote in your Forbes column of December 15, 2014: “Some fixed types [of annuities] are OK.” To which were you alluding?

A simple annuity that doesn’t act very differently from what you think you’d get when you’re buying a bond — a low return on investment and a simple return of your capital that’s clearly disclosed — of which there are not many because that’s not where the money is.

I get the feeling that you don’t agree with Harold Evensky, chairman of Evensky & Katz/Foldes Financial — and known as “The Father of Financial Planning” — when he told me in a March 2015 interview: “The single most important investing vehicle of the next 10 years is going to be the immediate annuity.”

Right. I don’t agree.

Let’s get back to the fiduciary standard issue. If it turns out to be a watered-down version, how will that affect the annuity market?

I fear that if the commissioned salesperson must [only] disclose that they’re getting a commission, it will be a form of “fiduciary standard lite” and buried in some other disclosure. The customer will never see it. Part of the [industry] would love to be able to say, “We operate under the fiduciary standard just like [RIAs] do”; but they want [their] fiduciary standard to be a different fiduciary standard.

What’s more likely: a hard standard or a “lite” standard?

Not hard because the lobbying money is all lined up on the side of the broker-dealer world. In Washington, most of the time money talks and a lack of money walks.

Nowadays many Series 7 advisors are also RIAs. Is that a plus for investors?

The customer doesn’t understand what any of that is: [FAs] have an RIA hat, and then they can take that hat off, put the other hat on, put the third hat on, put the 15th hat on. One of my bitch points is the lack of transparency that comes from the obfuscation and stealing of the English language by the broker-dealer world to their benefit and at the expense of the consumer. That’s why [brokers] get away with calling themselves “advisors.”

What do you mean by “get away with”?

Most people that call themselves “financial advisor” use [the term] illegally. Series 7 registered salespeople are not supposed to call themselves advisors, but they do it all the time and against the word of the law. The media, FINRA and the [Securities and Exchange Commission] should all be ashamed of themselves because they’ve allowed this for so long.

What precipitated “stealing” the language, as you call it?

At the center of it all was allowing what we today call FINRA to oversee broker-dealers. FINRA opened the door.

When FINRA succeeded the National Association of Securities Dealers (NASD), was more power conferred upon it?

Not particularly. But that was another step in the process of co-opting the English language because FINRA is *not* the financial industry regulatory authority, if you assume the totality of the financial industry. They are a small subset — the broker-dealer part. But consumers hear the words, Financial Industry Regulatory Authority, and they presume this is the government and that it oversees everything about finance.

Is FINRA carrying out its mission as a self-regulatory organization?

Through takeovers during the last 40 years, the money is all with a few big broker-dealers. It’s a very tight little world that isn’t very far removed from an oligopoly in that 20 firms at the top have all the money; and they can pretty well signal to one another what they do and what they don’t do. That operates pretty well through FINRA.

So who’s watching out for the consumer?

It’s up to consumers to protect themselves — that same consumer who has an unfailing desire for comfort over reality.

How does your annuity conversion program work?

Our people talk with investors about the annuities they have versus what they think they have. That commonly leads to our having a discussion with them and the annuity company’s [service] people. They learn that what they heard from the salesperson who sold them the annuity is almost never true.

Fred Strame: Lots of folks we’ve met with that own variable annuities gleefully explain that they have a 5% guaranteed return. Variable, by definition, is variable — there is no guaranteed return.

Do investors believe it when you give clarification about the various annuities?

Fisher: At the very moment that we say, “This product doesn’t do what you think it does, and we can prove it to you,” they don’t believe it.

What's the reaction after that?

For the most part, they're pretty appalled. So they blow up at the person who sold it to them, who tells them the exact same things they told them before. And that further infuriates them.

What action, if any, do they take?

Some want to get out, some just want to be ostriches and bury their heads in the sand and try to forget about it. You could whack them on the rear end as much as you want, but they'll still keep their heads in the sand.

What's your next step should the investor be amenable?

We go through a process and put together a proposal.

And you amortize their annuity surrender charges against your advisory fees?

Yes, we're making a presumption about how [long] these accounts will remain in tenure. Relative to normal accounts, we assume it will be about the same and that they'll be clients for a long time. But if they're not, then [the surrender cost] gets clawed back against them when they depart.

Strame: We may rebate some of our fees when they join us to offset the surrender penalty that they incurred. That's dependent upon other variables such as how much money they're hiring us [to manage].

How well do the "I Hate Annuities…" ads pull?

Fisher: Well enough to keep us running them. About one in five of people who respond become clients. That's a small percentage because most people don't want to go there. They'll say, "Maybe most annuities are bad, but my advisor who put me in mine wouldn't do anything that wasn't in my best interest."

But that usually isn't the case, you maintain.

Right. There are salespeople who know they're rippin' and dippin' the customer. They don't care because they're thinking, "I'm getting my commission, and I'm gone." I've met some who said, "I used to sell variable annuities, and I knew exactly what I was doing when I was lying to people."

What about the rest of the sales folks?
I've met lots of variable annuity salespeople who believe that what they're saying is 100% the truth, and they don't know that what they're saying isn't correct. They believe in their heart that they're doing the best thing for their customers, but they don't understand what the contract is.

What's the future of annuities over the next 10 years?

I hope the world of variables will be [made] illegal. They should be, but they won't be.

What can FINRA do about it?

I believe that FINRA itself warns about the risks of annuities. But FINRA does a good job of serving the broker-dealer world. We went through the financial crisis, and you don't see FINRA leading the charge for financial services integrity. You don't see FINRA slapping on penalties. FINRA has not done a great job leading the charge because – and I may be wrong – FINRA is overwhelmingly run by the big broker-dealer firms.

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Why Ken Fisher Is Wrong on Annuities: Milevsky, Finke

'THERE IS A MAGICAL, SECRET INGREDIENT, A SECRET SAUCE, INSIDE AN ANNUITY THAT CAN'T BE REPLICATED' BY OTHER RETIREMENT PRODUCTS, MILEVSKY SAYS

Tarnishing all annuities over some bad sales practices is "ridiculous," Milevsky says.

Ken Fisher hates annuities, and annuity experts aren't exactly in love with what the famed money manager said about those retirement products in an interview with ThinkAdvisor last week.

The chairman and CEO of Fisher Investments, who runs a three-year-old annuity conversion program, likened annuity sales approaches to the too-good-to-be-true promises of Ponzi schemes and charged that annuity salespeople often lie to make high commissions.

He insisted they "rattle off whatever it is that they know is a lie" and that other salespeople say what "they believe to be true but isn't." Attacking variable annuities, he thinks they should not be legal in their current form and marketing mode.

For the most part, the experts vehemently object to Fisher's take on annuities.

"A lot of advisors don't quite understand what it is they're selling when they're selling annuities — but to tarnish the entire industry is ridiculous," says Moshe Milevsky, associate professor of finance at York University in Toronto and executive director of the IFID Centre at the Fields Institute for Research in Mathematical Sciences, in an interview.

Fisher declined to comment for this article.

Other interviews with ThinkAdvisor found experts taking umbrage, in particular, at what they called Fisher's overgeneralization of annuity products. There is a variety of annuities, with differing characteristics, and several are unique, they say.

"Lumping immediate annuities with all the other types is rather disingenuous," says Wade Pfau, professor of retirement income at The American College of Financial Services and director of retirement research at McLean Asset Management in McLean, Virginia. Fisher "is trying to act like he's doing his clients a service by paying their annuity surrender fees when he's really just taking it out of the investment management fees he collects," he says.

Fisher's enmity was directed sharply at variable annuities, whose salespeople, he says, take advantage of consumers' annuity naivete. Moreover, customers don't understand VAs' complicated contracts, a situation that works against their getting clarity about what they're buying.

"Yes, as soon as you slap a living benefit onto an annuity, it becomes even more complex; but complexity doesn't equal bad," says Scott Stolz, senior vice president of private client group investment products at Raymond James, who is responsible for insurance and annuities, among other products. "Ken Fisher took a pretty drastic position."

Annuity experts say that now, more than ever, Americans in retirement need the protection and income that annuities afford partly because of fast-disappearing private pensions and the planned elimination next year of some Social Security claiming strategies that can be used to boost retirees' monthly checks.

"There is a magical, secret ingredient, a secret sauce, inside an annuity that can't be replicated in any conventional financial product or synthesized by traditional money managers," says Milevsky. "I'm a big fan of annuities that behave like pensions."

Variable annuities can substantially benefit consumers, according to the experts.

"Dismissing variable annuities is like dismissing ETFs or mutual funds," says Michael Finke, a professor and coordinator of the doctoral program in personal financial planning at Texas Tech University.

In fact, Finke says, "VAs could serve as an ideal default for most Americans rolling their defined contribution assets into an IRA. A competitively priced variable annuity product is hard to beat compared to an unprotected investment portfolio, as long as the fees between the two are similar."
New low-cost deferred variable annuities "deserve to get more respect," insists Pfau. But he singles out the immediate annuity – also called an income annuity or a life annuity — as packed with the most potential because it offers "a ton of benefits to consumers."

"This is a very important retirement tool," Pfau says. "It's very straightforward: a simple lump-sum payment, and you get income for life. It pools longevity risk across a large [group] of individuals; and because of its mortality credits, those who don't live long subsidize those who live longer. The mortality credits are part of a [retiree's] spending power. An income annuity can help preserve the remaining portfolio when someone lives a long time in retirement."

In last week's interview, Fisher said that salespeople mislead annuity buyers into thinking they'll get a high return on their investment when actually what they receive is a return of their capital.

"That's blatantly wrong," Milevsky says. "It's not true. As soon as the account hits zero, you're getting money for as long as you live – and that's the insurance company's money."

Most portfolios can benefit from a mix: stocks and an annuity, academics say.

"By combining an income annuity and stocks, you get the most efficient outcome," Pfau says. "Annuities are [better] suited [than stocks] for protecting against longevity risk and investment volatility. Partial annuitization of a portfolio stabilizes the legacy value of the assets."

To build an efficient retirement strategy, Pfau says, "you need to integrate both stocks and [an annuity] into the plan. For essential spending, you don't want to be exposed [just] to the stock market; you want to have something more secure in place. For discretionary expenses, that's where you can be invested in stocks and be more aggressive."

In lauding annuities, Stolz stresses that "a longevity annuity or a deferred income annuity is like buying insurance against living too long. An immediate annuity from an insurance company is the only means out there that will guarantee you payment for life. If you live to 130, they're still sending you checks. People buy immediate annuities for the certainty of knowing that they don't have to worry about what the market did yesterday. It's a way of providing peace of mind – basically you're funding your own pension."

Milevsky proposes "a reasonable allocation" on the annuity side of "20% to 40%." "The portfolio should be balanced," he emphasizes.

Further, he points to the value of annuities as long-documented by academia, as well as more recently by the U.S. government.

"There is almost a consensus in the 'ivory tower' that annuities make sense for the consumer," Milevksy says. "There have been 2,000 articles about annuities written by card-carrying professors since the 1960s, and 99.9% of them are pro-annuities."

Moreover, the U.S. Department of the Treasury last year issued a statement "encouraging 401(k) plans to offer annuities," Milevksy says. "But people are still saying that annuities are horrible."

However, Milevsky points out that for about 40% of the U.S. population, an annuity makes no sense: that is, those who are receiving most of their income from Social Security and have only a small amount of savings.

"They're already annuitized," he says.

As for the future of the annuities market, Finke, in calling for “better automatic decumulation products,” holds that a variable annuity is “ideal because it allows a retiree to accept a certain amount of investment risk while providing that pooling and longevity protection.”

Finke continues. “I don’t think paying 100 basis points per year for an investment portfolio that provides no mortality credits and exposes retirees to longevity risk is better than a competitively priced variable annuity.” And, as he writes in this month’s Research magazine, “income from a VA can provide a paycheck in retirement that lasts forever.”
Milevsky believes that annuities could be ready for rebranding. “Maybe a new category of product needs to be created that does essentially what a pension does but isn’t called an annuity. We may have to stop using that word,” he says.

Milevsky believes that the introduction of tontines — group funds with increasing benefits to the longest survivors — will likely be part of the solution. A tontine, whose concept dates from the 17th century, is a way to annuitize without using an insurance company.

“The pool is sharing the risk amongst themselves, which means that traditional money managers can get into this business, and that is important regarding compensation,” says Milevsky, author of the book “King William’s Tontine” (April 2015). “If financial companies can manufacture a tontine scheme, they may be able to beat the insurance companies at their own game.”