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How Advisors Are Using Fixed Index Annuities

Advisors see value in fixed index annuities, but complexity may be holding them back

Nearly three in four advisors report that they expect their use of fixed index annuities to increase in the next five years. While these products are complex, advisors recognize their value as part of their clients' portfolios. This was just one of the key takeaways from a recent WealthManagement.com survey of more than 200 advisors and financial professionals.

The survey's five key takeaways include:

Part 1: Advisors are already familiar with annuity products

Part 2: Advisors turn to fixed index annuities for income and principal protection

Part 3: Use is expected to increase

Part 4: Use of fixed index annuities lags variable annuities

Part 5: What's holding fixed index annuities back?

Part 1: Advisors are already familiar with annuity products

Most advisors are familiar with fixed index annuities and have used them in their client portfolios

Annuity contracts have become an increasingly consistent part of financial advisors' client portfolios. More than three in four advisors report that they sell some form of annuity product. In fact, most advisors (69%) sell between one and 10 annuity contracts per year, a pattern that has held steady for the past two years.

More than 95% of advisors indicate they have at least some familiarity with fixed index annuities. What's more, nearly two-thirds of advisors indicate they are very familiar with these products and have incorporated them in client portfolios.

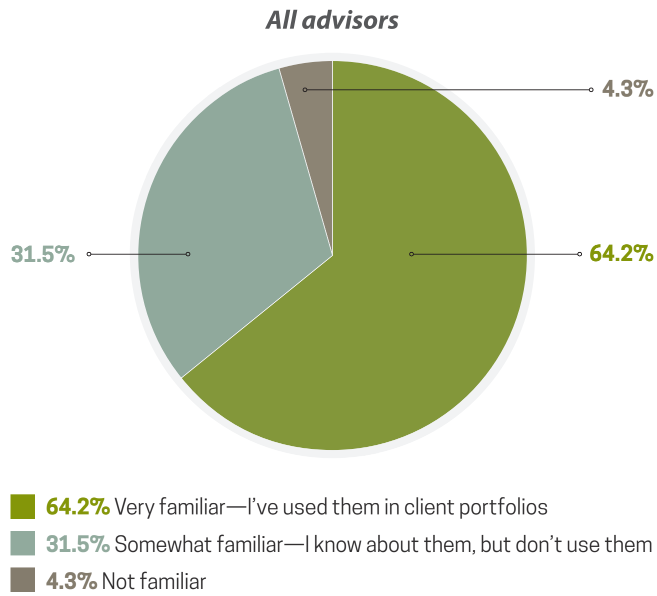
However, survey findings indicate advisors tend to use these products sparingly. Most of the advisors who do use fixed index annuities indicate they only use them sometimes, suggesting there may be room for growth in the product category. Currently, large advisors, including those from wirehouses and regional firms, report they are slightly more likely to use fixed index annuities than advisor from smaller firms.

Part 2: Advisors turn to fixed index annuities for income and principal protection

Fixed index annuities are used most frequently for retirement income planning, principal protection, and tax-deferred growth.

When advisors use fixed index annuities, they appear to do so in a highly targeted fashion. On average, advisors report that their clients hold about 12% of their portfolios in fixed index annuities. Advisors also report using the products in client portfolios most frequently for retirement income planning, principal protection, and tax-deferred growth. These objectives align with survey results showing their use predominantly for clients over the age of 50 with an average net worth over $1 million.

The percentage of advisors who are familiar with fixed index annuities:



How often do you use fixed index annuities to achieve the following objectives?

	Always	Often	Sometimes
Principal protection	32%	40.2%	23.7%
Tax deferred growth	25.8%	32.0%	38.1%
Retirement income planning	13.4%	40.2%	38.1%
Avoid Social Security income offset	8.2%	18.6%	48.5%
Current income	7.2%	20.6%	52.6%
Estate/legacy planning	7.2%	19.6%	50.5%

When considering recommending a specific annuity to clients, advisors report that the most important features are principal protection (87%) and downside market protection (86%), ahead of predictable income (57%). In keeping with their common objectives, advisors see features such as liquidity as much less important. Only 18% of advisors indicate they weigh liquidity as a very important factor when recommending a specific fixed index annuity.

More than two-thirds of advisors say they combine traditional mutual fund spend-down strategies with insurance products such as annuities as a way to increase the potential for income success for clients dealing with retirement issues. As one survey respondent noted, "clients have peace of mind knowing that their fixed expenses are covered with guaranteed income from annuities that they can't outlive."

Part 3: Use of fixed index annuities is expected to increase

Advisors expect their use of annuities, including fixed index annuities, to increase over the next five years.

Some advisors appear to expect a change in the mix of annuities they use with their clients over the near term. Though advisors report that their overall use of annuities has remained steady over the past two years, they expect their use of fixed index annuities to grow over the next five years. Half of advisors expect their use to increase somewhat, while nearly a quarter (24%), say they expect their use to increase by 10% or more.

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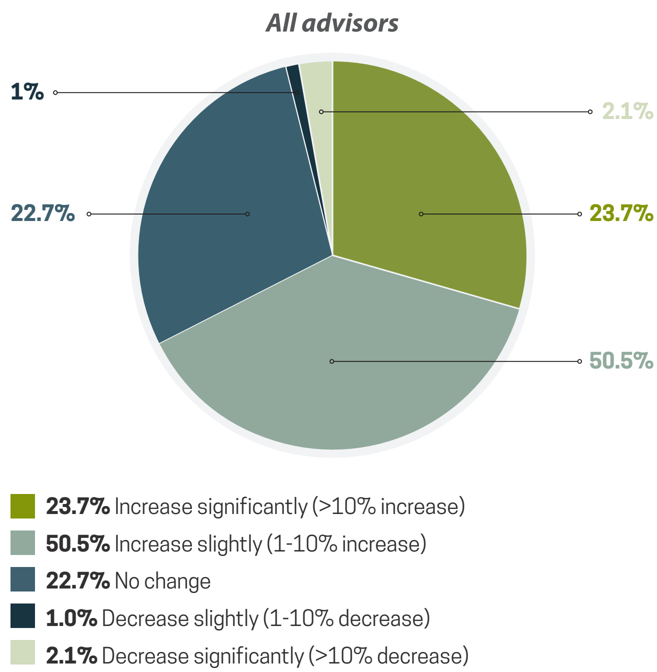
Just over half of advisors expect to increase the number of all types of annuities they use in the next two years, but this expectation does not necessarily reflect an increase in the popularity of annuities overall. Among advisors who believe their overall use of annuities will remain flat over the next two years, 70% expect to increase their use of fixed index annuities over the next five years. These results suggest advisors either see a shift in the mix of annuities they use, slow adoption of fixed index annuities over the next two years, or a mix of the two.

Part 4: Use of fixed index annuities lags variable annuities

Advisors sell variable annuities at a rate almost twice that of fixed index annuities.

Despite their growing optimism about the use of fixed index annuities, advisors report their current use trails use of variable annuities by nearly two to one. While 23% of advisors report selling fixed index annuities, 42% of advisors report selling variable annuities. The discrepancy is even greater among larger firms, such as wirehouses and regional firms.

How do you expect your use of fixed index annuities to change in the next five years?



Which of the following types of annuities do you sell?

	All Firms	Larger firms
Variable annuities	41.9%	54.1%
Fixed index annuities	22.5%	24.3%
Fixed annuities	11.7%	8.1%
I don’t sell annuity products	23.9%	13.5%

However, fixed index annuities are more popular among independent RIAs: Just 8% of independent RIAs report selling variable annuities while more than 20% of these advisors sell fixed index annuities.

Part 5: What's holding fixed index annuities back?

The most common objection to using fixed index annuities is their complexity

Nearly a quarter of advisors cite complexity or a lack of understanding as their number one objection to using fixed index annuities. These findings suggest that, while more advisors are recognizing the value of these products and using them in their clients' portfolios, their complicated nature may be holding them back.

Nearly one in five advisors cited objections related to surrender charges or other fees associated with fixed index annuities, suggesting the cost of these products may be a secondary issue holding back their growth. Other common objections cited caps on gains, which advisors say is limiting the growth potential of these products for their clients.

What are the three most common objections you receive from clients on fixed index annuities?

"Too complex."

"Too difficult to understand."

"They do not understand them."

"Surrender charges and/or fees."

"How high the fees and expenses can be."

"Locked in too long."

"I have to keep them for a very long time for them to be effective."