

ADVISOR FORUM

Have you been advising your clients to use an annuity in their portfolio in light of recent concerns over insurer defaults? Why or why not?

Institutional Investment Advisors Sticking With Annuities For Certain Clients

Clifford Michaels, principal at the New York City-based firm, told *FA* he's not concerned about defaulting annuities, as long as he's sticking with the top six or seven providers, such as New York Life Insurance Company and John Hancock. The firm is sticking to recommending annuities to its clients, provided it makes sense for them, he said. Michaels recommends variable annuities to clients who are afraid of investing in equities but are looking for guaranteed income. He's also recommending immediate annuities to clients who aren't concerned about leaving their estates to heirs, such as widowers without any children, because it will give them guaranteed income for life and they don't have to worry about losing the principal. He recommends clients stay away from fixed annuities because of low return rates.

Institutional Investment Advisors manages about \$75 million in assets.

Financial Futures Diversifying To Reduce Risk of Default

Jorie Johnson, president of the Manasquan, N.J.-based advisor firm, told *FA* she is still recommending immediate annuities, which guarantee steady income for life in exchange for a lump sum, to clients to cover a portion of their fixed monthly payments. To lessen the risk of an annuity defaulting, she's advising them to spread out the risk by, for example, purchasing four \$250,000 annuities from four different companies instead of a single \$1 million annuity. Due to the long duration of the annuities—most need to be able to payout for 30-plus years—the risk of default is present in most circumstances, said Johnson. "You can analyze a company for its current condition, but the future is always unknown."

Gordon Asset Management Still In The Early Stages

Joe Gordon, founder of the Durham, N.C.-based firm, told *FA* annuities are still in the early stages of implementation in the retirement industry. "When you have first-generation products, firms have to get the logistics and technology down so that a

recordkeeper can provide an annuity as well as any mutual fund," he said, adding he has noticed large providers have set a timeline in the next year for resolving issues such as portability and standardization of products.

Issues aside, Gordon said the industry has felt a lot of frustration over two of the worst years when participants were contributing to savings plans but not amassing wealth. "The human side of things is really upsetting, and you can see they don't have enough time to make up losses," he said. Gordon now asks clients, "Can you afford to take another hit?" Guarantees are a great solution for those who cannot afford the risk and allow those clients to sleep at night, he said.

Gordon Asset Management has approximately \$300 million in assets under management.

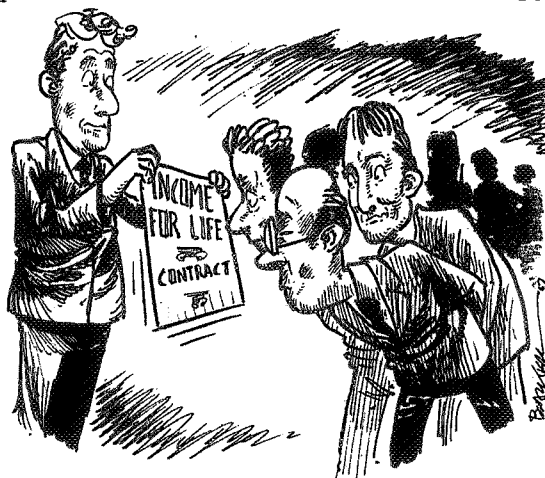
Mayflower Advisors The Sales Process Is Not Clear Enough

Larry Glazer, managing partner for the Boston-based wealth management firm, told *FA* the firm inherits a lot of annuities with clients that have purchased them in other places.

"Clients will come to us about the time annuities failed them... We typically play the problem solver and make the best out of what is a difficult situation," he said. "There are a lot of benefits, and conceptually it's a great idea and serves a great purpose," he conceded, but sees the challenge in matching clients to the appropriate product.

"There continues to be an emphasis in the industry with product introductions, but what clients need is the existing vehicles being explained more thoroughly and more transparently so investors can make the decision that's best for them," he said, explaining that when clients walk into a bank and are aggressively marketed annuity products, there is a lot lost in the communication process. "If the industry can't find a way to improve simplicity in the process, we are going to have a lot of heartache," he concluded.

Mayflower Advisors has \$600 million in assets under management.



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