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## Sharpen Your Competitive Edge With Retirement Options for Annuities

By Wendy McCullough

There's no doubt that the coming retirements of the 78 million baby boomers present unprecedented business opportunities to the insurance industry. All types of annuities—immediate, fixed and variable—offer unique solutions for helping boomers create income streams for their potential 30-plus years in retirement. But how can small- to medium-size insurance companies leverage this opportunity and sell annuities in a profitable and competitive way?

To answer this question, I reviewed several recent forecasts from leaders in the insurance and financial services industries. Their insightful recommendations included targeting underserved markets (especially the middle market) and differentiating company and annuity offerings through positioning, price and service.

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### Without a plan for income in retirement, unknown risk factors like market performance, life expectancy, health issues or changing personal circumstances can prematurely deplete savings.

For example, immediate annuities are popular among middle-income households. According to a 2002 survey conducted by Mathew Greenwald and Associates for the American Council of Life Insurance, 64 percent of immediate annuity owners reported annual incomes of less than \$50,000 and 63 percent had no pension income. Survey results further revealed that policy owners believe these products

make an important contribution to a financially secure retirement; 22 percent rated it as one of the best financial decisions they ever made, while 60 percent thought it was a good financial decision.

#### The Emerging Opportunity In Retirement Income

At Thrivent Financial, we are pursuing a related, emerging opportunity: retirement income planning and management. With the oldest baby boomers turning age 62 this year, the leading edge of this generation has reached two important milestones: it's time for them to apply for early Social Security benefits and to begin the transition from saving for retirement to spending in retirement. Because many pre-retirees don't realize that *how they spend their savings* is as important as *how much they've saved*, retirement income planning is becoming a dynamic business opportunity area right now.

#### How Can It Be This Hard To Spend Money?

A recent survey conducted by Thrivent Financial revealed that many Americans aged 60 to 74 are naïve about how much money they will need in retirement, and many are off base with their actual spending in retirement, with some overspending and others underspending. The research found that 55 percent of those surveyed were unsure of how much money they will need to last throughout retirement and 56 percent of those already retired were off target for their monthly spending in retirement.

At Thrivent Financial, we believe that a retirement income plan is especially important for boomers since many of them will not have the pension plans or other secure sources of income their parents may have had to ensure they are not destitute in old age. Without a plan for income in retirement, unknown risk factors like market performance, life expectancy, health issues or changing personal circumstances can prematurely deplete savings.

#### Thrivent Financial's Retirement Income Platform

Our company is leveraging the boomer retirement income opportunity through multiple, integrated strategies:

- Online retirement readiness assessment.
- Online tool for clarifying retirement dreams and vision.
- Client seminar highlighting the new retirement paradigm.
- Client seminar on creating a retirement income distribution strategy.
- Proprietary strategy for income distribution.
- Annual reviews of clients' retirement income strategies plus recommendations.

#### New Products Meet Retirement Income Needs

At Thrivent Financial, we've launched several product innovations to help boomers create consistent, lifelong income streams.

The Thrivent Retirement Income Optimizer™ (TRIO) is a customized service to help retirees actively manage their invested assets and spending in retirement. TRIO combines one-on-one consultation with state-of-the-art technology to create a customized framework for each retiree. The TRIO analysis tool, used to determine a retiree's financial strategy in retirement, is a Monte Carlo-based tool using 1,000 market scenarios that, as a set, match average return, volatility and correlation characteristics of historical markets. The service is ongoing throughout retirement; during annual reviews, retirees receive guidelines on reallocating assets into growth and income buckets, holding versus withdrawing invested assets given current market conditions and other factors, and moving a portion of assets into life contingent payout annuities when conditions are right, with the option of choosing a level, fixed-percent increase or CPI-adjusted payment stream. These regular financial checkups help retirees actively manage their income throughout their retirement years.

#### Leveraging Retirement Income—It's About Service, Service, Service!

Developing new products or repositioning existing ones is just one way to enhance your





company's competitiveness and make the most of current market trends. How else can you maximize the retirement income opportunity? Consider these strategies:

***Recommend annuities as part of a retirement income plan versus making a single product-specific sale—***

Guide boomers in assessing their sources of retirement income and help them determine how much they will need to fund their desired retirement lifestyle and bridge possible income gaps.

***Show boomers that annuities can create personal pensions that they can count on in retirement—***

In meetings, discuss the many factors that aren't guaranteed in retirement such as when someone dies, how many years will be spent in retirement, the costs for health and long-term care and the expenses related to unplanned life events. Point out

that while they can't control these factors, their annuity payments are guaranteed for their lifetime. Products with inflation-adjustment payment options offer a powerful hedge against the effects of inflation.

***Be prepared to handle the common objections to annuities—***Remind boomers that Social Security and pensions are also annuities. If access to assets is an issue, recommend products with liquidity and investment control features. Annuitizing a portion of a boomer's retirement portfolio as a supplement to Social Security to cover basic living expenses in retirement, while leaving remaining assets to cover other retirement needs, may relieve their anxiety and increase comfort.

***Recommend annuity solutions for early retirees*** who have income and health insurance gaps prior to the start of Social Security and Medicare benefits.

***Target the unique retirement income needs of women and show how annuity products address them—***Women's longer life expectancies and lower retirement incomes make them strong prospects for the lifetime income streams and growth potential of annuities.

**Now Is the Time To Seize the Retirement Income Opportunity**

Remember this advice from industry leaders: to boost revenue, increase penetration of underserved markets, raise sales to existing clients and utilize alliances to provide access to products that your company is not able to manufacture on a cost-efficient basis. To increase profitability, pursue disciplined pricing for an acceptable return on equity and implement effective risk management programs to realize pricing expectations.

Annuities—and the insurance companies that sell them—are uniquely positioned to help boomers create “personal retirement paychecks” and achieve financial security for a lifetime. As the first wave of baby boomers begins their retirements, the time is right to capture this growing opportunity. ●



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