

# Asking the Right Questions for More Annuity Sales

*How a targeted behavioral approach can lead to product allocations that work*

» BY JOSEPH W. JORDAN

There's an old joke about a tourist asking a local for directions; in the end, they're told, "You can't get there from here." This punch line could apply equally to consumers carrying their bag of cash along the bumpy road to retirement — not only is the bag likely to be lighter today than it was before the market meltdown of 2008-09, but the pre-retiree traveler has no directions for turning that cash into a reliable retirement income after their working years. The good news is there is a road map that can be extremely useful to financial representatives and clients alike.

Along with the best route, a reliable map should indicate the location of any potential obstacles standing in the way of a safe journey. There may be a formidable trio of barriers. One — inflation risk — is familiar to many, but the other two have just recently appeared on the road map and are tied closely to the income distribution phase of retirement.

The first is longevity risk — the risk of outliving one's money as people live longer; the second is the sequence of

returns, or timing and relative impact of market ups and downs.

Younger workers are better positioned to ride out a market downturn and see portfolios recover. On the other hand, a sharp loss closer to retirement — or even in retirement — can profoundly affect the amount of retirement income a retiree can expect to generate. The way to help minimize these roadblocks is through a relatively new and comprehensive strategy: product allocation.

For decades, professionals have preached the importance of asset allocation as a proven way to attain a secure retirement nest egg. There's also been a pronounced tilt over the years toward the accumulation of assets, with an implicit assumption that if the client has enough, they're all set.

However, while asset allocation is extremely important during the accumulation years and beyond, it does not protect a client's portfolio against key risks all by itself — as witnessed during the recent financial crisis, when virtually all asset classes collapsed in value. More and more, professional planners

realize that accumulation must be supplemented by a cohesive strategy to generate adequate income after the working years, especially as people live longer. In the decumulation years, new risks emerge, and appropriate product allocation combines several financial vehicles to create a diverse set of retirement income sources to help manage those new risks.

## 3 PATHS TO RETIREMENT INCOME

There are three major financial and insurance categories to consider when creating a retirement income strategy:

- 1 Systematic withdrawals from traditional investments
- 2 Variable annuities with guaranteed living benefits
- 3 Income annuities (single premium immediate annuities and longevity insurance)

The amount that clients should allocate to each category or product type will depend upon their personal

and financial goals and unique situations. The innumerable charts, graphs, PowerPoint presentations, brochures, and spreadsheets that the financial industry has deployed over the years to guide retirement planning are virtually all based on the basic premise that people make cool, dispassionate decisions when it comes to investing and retirement. However, it is often too easy for clients to become bogged down in the swamp of financial and risk management terminology, as well as by a daunting number of clinical questions and examples that don't really resonate.

To complement and provide balance to the purely analytical approach, financial professionals should practice behavioral economics by developing a relatively short list of non-technical questions or statements meant to help clients show how they see themselves earning income and managing their assets in retirement. There are no rights or wrongs in these exercises, and a simple "yes" or "no" is often the only response required.

These questions or statements are designed to help the client create their own solution. This approach recognizes that you can't take the emotion out of financial decisions any more than you can take away the rational. As modern science and psychology have discovered, the left brain processes (thinking, knowing) and right brain processes (feeling, connecting) often complement and balance one another. Emotions need to be accommodated as much as logic. «

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## » WHAT TO ASK YOUR CLIENTS TO UNCOVER THEIR BEST RETIREMENT STRATEGIES

### THESE CAN BE ASKED IN

#### AN "AGREE/DISAGREE" FORMAT:

- ▶ I prefer a predictable retirement income check each month, like a regular paycheck, in exchange for giving up some of my ability to take more income when I may need it.
- ▶ It's important for me to have a large portion of my retirement savings available at all times for things like unexpected home repairs or family emergencies, even though that may mean less income is available throughout my retirement years.
- ▶ Having the flexibility to use my assets to generate the income I want today is important to me, even if it means I may run out of assets and have no income later on.
- ▶ I would be comfortable giving up access to my retirement savings in order to receive the most income possible.