

predict what will come from the hearings, they “think the most likely action is increased disclosure requirements regarding the risk(s) associated with the [target date] funds, the amount of current and future anticipated equity exposure of the funds, and if the glide path of the fund goes ‘to’ retirement or ‘through’ retirement.” Idzorek and Bare noted in the report that Ibbotson “has always felt that the use of a target retirement date in fund names is less

than ideal, and Ibbotson advocates the use of birth date as a superior convention.” Additionally, they said, “we prefer to use the word ‘lifetime’ in the naming of our solutions to emphasize that our solutions continue to glide throughout an investor’s lifetime.”

Surz also notes that the hearing solidified the fact that “plan sponsors are responsible for selecting and monitoring target date funds—no one else.” Standards also need to be placed on

target date funds. For instance, funds with the same target date may not invest alike. “A crying need remains for standards, so plan sponsors and their advisors can make informed decisions,” Surz says. “The definition of quality is ‘meets or exceeds standards,’ so we need standards that describe the way target date funds should be structured.” **IA**

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## BEHIND THE NUMBERS

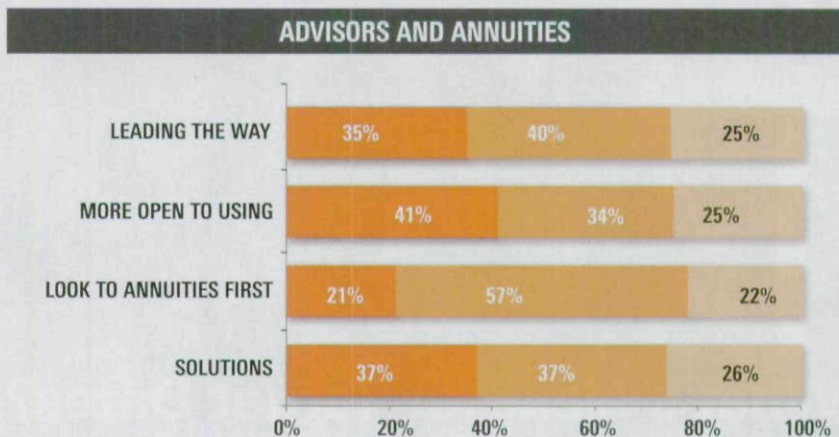
# More Annuities Used in Income Portfolios

## Annuities with guarantees help provide basic needs in retirement

BY MELANIE WADDELL

**AT A TIME** when the market downturn has caused some advisors to question their ability to construct adequate retirement income portfolios, advisors are increasingly turning to annuities to help cover their clients’ basic needs in retirement.

As clients’ portfolios have diminished in tandem with the markets—in some cases substantially—advisors are increasingly using annuities with guarantees to address clients’ retirement income floor—the cushion that will provide ample money for the basic necessities in retirement. Many advisors are now “looking at annuities or some type of income guarantee, an immediate annuity or variable annuity,” says Dennis Gallant, president of GDC Research in Sherborn, Massachusetts, who recently penned a report with Practical Perspectives called *Examining Best Practices in Constructing Retirement Income Portfolios*. The research found that of the advisors polled, 41% agreed that they are now more open to using annuities. Providing a guarantee for retirement income portfolios “is part of the solution, not the entire solution,” Gallant says.



Source: Examining Best Practices in Constructing Retirement Income Portfolios by GDC Research and Practical Perspectives

Once advisors have addressed the retirement income floor via a guaranteed product, they must then address how to provide clients with the extra cash that will satisfy their “wants” in retirement, he says. Advisors must still tackle the inflation and longevity hurdles by investing in the equity markets, Gallant says.

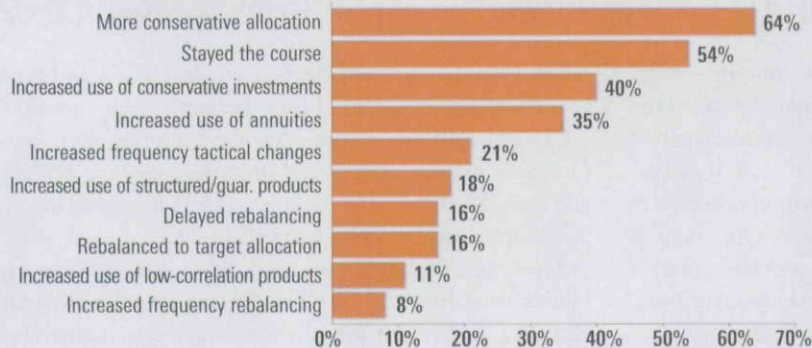
Gallant’s research found that, understandably, the volatility in the markets has forced advisors to make changes in

their asset allocations.

The study found that while most advisors say they have not made significant changes to how they construct retirement income portfolios, many advisors have made some changes. “The most important steps they have taken in the past year are shifting the portfolio to a more conservative allocation, increasing the use of annuities, and increasing use of more conservative investments such as cash or fixed income securities,” the study says. A

## RETRENCH OR STAY THE COURSE?

MOST IMPORTANT RETIREMENT INCOME PORTFOLIO CHANGES



Source: Examining Best Practices in Constructing Retirement Income Portfolios by GDC Research and Practical Perspectives

significant portion of advisors, the report says, define the most important step they have taken in response to market volatility as inaction—namely, staying the course without making major changes to allocations or investments.

The study also notes that many advisors have chosen to reduce exposure to U.S. and international equities, while increasing allocations to cash and U.S. fixed income investments. The research found that there has been “only modest change in the use of non-traditional strategies such as real estate, commodities, or hedging strategies, or other types of alternative investments.”

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## NEWS & PRODUCTS

**THE HOUSE EDUCATION** and Labor Committee approved in June the 401(k) Fair Disclosure and Pension Security Act of 2009 (HR 2989); two other bills, the Conflicted Investment Advice Prohibition Act of 2009 (HR 1988) and the 401(k) Fair Disclosure for Retirement Security Act of 2009 (HR 1984), were combined into HR 2989. While many in the retirement industry applaud HR 2989’s defined benefit funding relief provisions, groups like the American Benefits Council (ABC) say the investment advice portion of the legislation does not protect the many non-conflicted advice arrangements approved by the Department of Labor (DOL) prior to the enactment of the Pension Protection Act of 2006, chief among them being those established under the Sun America advisory opinion. Jason Hammersla, an American Benefits Council spokesman, says ABC is “hopeful that protections for those arrangements can still be added in.” HR 2989 has been referred to the House Ways and Means Committee, but no timing for consideration of the bill has been announced. ABC President Joe Klein stated in a release that ABC also has some concerns about the underlying 401(k) fee disclosure bill, which he said “continues to expose employers to unacceptable levels of fiduciary liability.”

The recently released first national study of long-term care insurance buyers, conducted by the **American Association for Long-Term Care Insurance** (AALTCI), found that nearly half of individuals purchasing asset-based long-term care insurance in 2008 were under age 65. Two-thirds (66%) of purchasers were women, the study found, and the average

single premium paid was just shy of \$71,000 (\$70,975). The study, which examined 2008 sales data for more than 5,000 new policies, found that asset-based long-term care is growing in popularity because it offers the dual benefit of access to LTC benefits as well as life insurance protection. Jesse Slome, AALTCI’s executive director, predicts “the market for asset-based long-term care protection will increase in the years ahead,” as “leading insurers such as Genworth Financial and Lincoln Financial Distributors are focused on the growth of this market and policy sales.” The average single premium paid for an asset-based LTC policy in 2008 was \$70,975, according to the Association study. This represented a 4% increase compared to 2007 when the average premium was \$68,300. Just under half of all policies (49.7%) had a base face amount of between \$100,000 and \$200,000. Some 30% had a face amount of life insurance protection of between \$50,000 and \$100,000.

**Jefferson National’s Monument Advisor**, which the company says is the first flat-insurance fee variable annuity with the largest supermarket of more than 175 tax-deferred investment options, now offers what it says is the industry’s most subaccounts—50—with a five-star Morningstar rating. Other top competitors include Schwab’s One Source, with 28 Morningstar five-star rated subaccounts; Nationwide’s Best of America Advisor, with 22 five-star subaccounts and Ameritas, offering 13 Morningstar five-star subaccounts. In addition, Jefferson National’s Monument Advisor offers 46 subaccounts with four-star Morningstar ratings.

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