

Episode 82: More on Annuities with the Author of Annuities for Dummies - Part 1

00:00

Bob French

The purpose of Retire With Style is to help you discover the retirement income. Plan that is right for you. The first step is to discover your retirement income personality. Start by going to RISAprfile.com/Style and Sign up to take the industry's first financial personality tool for retirement planning.

00:40

Bob French

You know, it's always better to avoid the obvious jokes, but with the author of Annuities for Dummies joining Wade and Alex, I'm really tempted.

00:51

Wade Pfau

Hi everyone. Welcome to retire with style. I'm Wade. I'm joined by my co-host Alex. And today we're joined as well by Kerry Pechter, who is a longtime editor of the Retirement Income Journal and well known leading professional in the industry and the author of Annuity for Dummies. The first edition of which we'll talk about, came out in 2008, but we're now celebrating and the particular reason to have you this week on the show on July 20. Annuities for Dummies. The second edition is being released 15 years after the first edition, so it is available for preorder on Amazon because it's part of that Dummies series that you see in bookstores everywhere. You'll be able to get it at your local bookstores as well, being published this week. We're happy to have you on the show, Kerry. Welcome.

01:44

Kerry Pechter

As they say, it's great to be yeah.

01:48

Wade Pfau

Just as we get started, often we find it's easier to let our guests give a little bit of their own background in terms of us trying to read a paragraph. So can you just tell us a little bit about I know you've been at

Vanguard, you've done all kinds of things throughout your career, so could you give us a little bit of background about that?

02:07

Kerry Pechter

Yeah, I bring kind of an unusual background to the annuities field in general. I was a business reporter for a long time, and then in 1997, I went to work for the Vanguard Group and was assigned to help market annuities and work in their retirement resource center. So that required me to learn to take a deep dive into the single premium immediate annuities and the variable annuities deferred variable annuities that were selling and to learn how to explain annuities to the public and also working on many different other gnarly tax issues associated with retirement planning and RMDs and things like that. And then from there, I became editor of Annuity Market News in New York at Source Media. And while I was there, I wrote the first edition of Annuities for Dummies. And then during the financial crisis, there was a lot of change and closing of publications and reopening.

03:19

Kerry Pechter

Anyway, I started Retirement Income Journal on my own with largely the same audience of professionals that was a business to business newsletter. So I wasn't writing about retirement, I was writing about the business of retirement. And my audience was financial advisors and insurance executives. And I covered the industry as a reporter who had also worked somewhat in the industry for 13 years. I published retirement income journal every week. And that gave me a lot of exposure to the people who build annuities, who could explain how they build them and how they distribute them and how the entire industry works, not just in the United States, but the whole world. And then while publishing that, I've also taken a great interest in comparative Social Security systems around the world. And I've been to Costa Rica and Israel and France and Spain and Iceland to research and write about and publish articles about their Social Security systems and compare them to ours because ours will soon be reformed in one way or another.

04:43

Kerry Pechter

And then over the past couple of years, I've been writing about what I think is the most important recent trend in the annuity industry, which is the entry of private equity companies into the life insurance, life annuity business. So maybe that'll come up a little bit later. But what I bring to the table in terms of publishing is a reporter's background, the experience inside the business experience covering the business as a business, and comparative studies, as well as owning annuity. So I've looked at and my main contribution to the industry has been to go to the different to write about the different silos of the industry. Most of my readers focus on a particular silo, and my service was to go from silo to silo and sort of cross pollinate.

05:50

Alex Murguia
That's great.

05:51

Kerry Pechter
And that's what I've tried to do. I've tried to be consistent in practicing that.

05:58

Alex Murguia
So, Kerry, you're saying you're not only.

05:59

Kerry Pechter
Right about but you own them.

06:01

Alex Murguia
So you're like the size pearling of the well, the Hair Club for Men guys.

06:08

Kerry Pechter
As I got closer to retirement and I said, I thought, well, am I going to walk the walk? I can talk about that. It'd probably better later in the podcast to talk about that. But I can talk about my own experience. I don't want to make it into an endorsement of any particular.

06:32

Alex Murguia
I meant the more like the size commercial where he's like, not only am I the CEO of the Hair Club for Men, I'm also a client. And not only do you write about.

06:41

Kerry Pechter
Annuity.

06:47

Alex Murguia
So it goes.

06:52

Kerry Pechter

Instructive. I think that I thought to speak with any authority because that's what people would already ask me okay, about annuities. Do you own one?

07:05

Alex Murguia

Yeah, I got you.

07:08

Kerry Pechter

I had to put up or shut up.

07:11

Alex Murguia

No, I get it. I will say this. Obviously you have a book out and everything like that, but something that Wade, I don't know if you remember me speaking with you about this, but obviously know has forgotten more about annuities than I'll ever know kind of thing. And as I was starting to just beef up on it this is years ago, I remember telling Wade, I heard this podcast by this guy called conveyed he's the first person that has sort of I've heard speak about annuities in such a clear way. Do you vaguely remember that or anything like that? I remember I know him remember that years ago, Wade, where I kind of said that he's great. He explained it in a manner that I think anyone would understand. I forgot which podcast it was, and I'm sure you do a bunch of them, but you were just talking about, look, at the end of the day, annuity is a contract that's risk off, investments are risk on.

08:13

Alex Murguia

And you went in that sort of thread, and when you framed it like that, the light bulb really went out went off in my head. From the standpoint of, oh, I got to use this way of conveying how annuity is different from an investment and so forth, I just thought you hit the nail on the head. Hence, I think that's why you wrote that book Annuities for Dummy, because you got it at such a great angle from my vantage.

08:37

Kerry Pechter

Well, well, the angle came know, having to explain it to people at Vanguard and then realizing that the previous explanations had not worked. And that podcast, that was an epic podcast with Christine Benz of Morningstar.

08:57

Alex Murguia

Is that the one? It was okay. I don't remember because I just kind of, like, go crazy on the podcast at a certain point. I just remember youth, and I remember thinking, wow, this guy's on it. He's really clear about this.

09:09

Kerry Pechter

Yes, many people heard that podcast, and that was a turning point, kind of for a little bit of my exposure. And because Christine has such stature in the financial services industry, the fact that she was interviewing me brought annuities a little bit in from Nicole, too.

09:34

Alex Murguia

Got you. I didn't even think about it.

09:36

Kerry Pechter

That was a fun interview.

09:38

Wade Pfau

Well, a lot does change in the annuity world. And you had the first edition in 2008, and I don't know if you had that early on, if you're able to track sales numbers, but we hear so much about with the financial crisis. Did you see an increase interest during the financial crisis and then going beyond that now with the second edition? Can you just talk about how did you restructure reframe the conversation with a 15 year gap and so much changing in the annuity world? What's new in the second edition?

10:13

Kerry Pechter

Well, everything has changed, of course. 15 years ago, the variable annuity with a guaranteed lifetime withdrawal benefit was the top product, and companies from overseas were piling in to sell it, like AXA and Ing. So that was the go to. They were on their way toward building up what is now like \$2 trillion in liabilities in that product, and it was huge. And then it would then run into a lot of trouble with the crisis, and that's not the leading product anymore. And at that time, the fixed index annuity was called the equity index annuity. And it was still in the Wild West of insurance agent sales and regulated by states rather than the variable entity being regulated by the SEC and FINRA. And so besides that was pre retire, the registered index linked annuities. It was pre a lot of turnover. It was pre the entry of private equity companies into the business.

11:38

Kerry Pechter

And so I've tried to incorporate all of those changes into the new one. I would say that what's similar about it has been my overall take. And going back to Alex's question about trying to explain this clearly, what I tried to do with the first book, and it's still true of the second book, is that I took each of these annuities as separate products for separate purposes, for separate different kinds of people at different times. I broke them out into complete I wanted to emphatically make them different products for different purposes. Because what I had found was that in almost everything I read was that people came to annuity when people asked, what are annuities? Well, first of all, annuities was just this one big umbrella, as if they're all just variations of the same kind of product, and they were all supposed to be variations of you get annuity when you're relatively young, you contribute to it for many years as a long term investment to take advantage of the tax deferral.

12:50

Kerry Pechter

And then when you get to retirement, you flip on the income stream and you keep that till you die. Well, that's kind of an idealized use and description of the product, which is not really the way the product is ever used and is rarely used. And then also people would anyway say, okay, we have annuities and there are fixed annuities and there are variable annuities. One has a fixed income stream, the other has a variable income stream. And then there are immediate and then there are deferred annuities, immediate annuities, where you start payment right away. And a deferred is where you wait several years until you switch on income. Well, this is the way most descriptions go. I realized when I was trying to explain it to people, like what? I mean, this is not what we're dealing with. Because the first thing I was told know no one annuitizes deferred annuities.

13:55

Kerry Pechter

That's what they told me. The first thing I learned about annuities at Vanguard was nobody turns a deferred annuity into an income annuity. And so that was the beginning of the light going on, the illumination. And so I said, okay, in 2008, when all of that was very much fresh in my mind, then I said, okay, we're going to write this book. I'm going to structure this book as these being separate products for different purposes. And that's true. The other thing I wanted to get into the original book and which I continued in this book, and we can talk about some of that later with my Meet the Empty Nesters column sort of was that the original book had a chapter called Getting Creative with Annuities. And I really wanted to impress upon people, I wanted to empower people that you can take these things and they're malleable in your hands and you can add them in doses this way and that way, and you can control how you use them in retirement, for different periods of retirement, for different kind of risks in retirement.

15:06

Kerry Pechter

That this is something that you can put into your hands and use as your own personal shop tool. It's not something that you just have to go to a salesman and the salesman say, here's what you're going to do, here's what you're going to get. This is going to be and you're going to get this pile of paperwork. And that you're on the receiving end of something you don't really understand. I really wanted this to be to turn it around and turn annuities into do it yourself retirement products because I thought that you could very easily do that once you get a handle on how they work and how you could modify them.

15:47

Bob French

Are you a financial professional looking to learn more about the RISA and Retirement Income best practices? Well, if you are, you should join our retirement income masterclass on Monday, August 28, and Tuesday, August 29, you can sign up at RISaprofile.com/advisors. That's RISaprofile.com/advisors.

16:08

Wade Pfau

So you mentioned those who are listening to this annuities arc. We started with the trying to explain annuities as fixed versus variable and immediate versus deferred. I still try to stick to that organizational structure, even though it's tough, because fixed annuities can have variable returns. Variable annuities can have fixed returns. Immediate versus deferred means the two different things, whether you're annuitizing the contract or whether when the income begins, it's completely different topics. So could you emphasize again how you were able to move away from that sort of organizational structure? It's more a matter that you go through the different types of annuities one by one and don't worry about those distinctions. Or what exactly did you do to break away from having to talk about that overarching framework?

16:59

Kerry Pechter

Because I put them each in a different chapter. I just gave them their own chapter and didn't make it into a branching kind of conversation. And I started fresh with each cache. This product is for this. This product is for this. This product is for this, and speaking directly to the individual as a pre retiree and then reinforcing it in the copy whenever I could of every time. It wasn't something that I had to learn how to do. I had learned how to do that at Vanguard and where I had a lot of excellent help, especially from a guy named John Amarex, who is one of the original retirement gurus from Tia. And then he went to Vanguard, and maybe he's retired now, but John had written seminal papers which, Wade, you probably are familiar with, John Washovsky and Know wrote that article, which was one of my entry points into and I got to work with John side by side on the web articles that were doing about annuities.

18:25

Kerry Pechter

And so I didn't have to hear secondhand. I mean, I didn't have to learn about it secondhand. I learned about it from John, who had come from Tia. And so it was excellent education. So I'm drifting off a little bit, but let's go back to the right.

18:46

Wade Pfau

But yeah, that was a foundational article. I think it came out in 2001, one of the first to look at this idea that if you put part of the assets into annuity, it has the potential to improve retirement outcomes, higher probabilities of success and so forth. So that did lay the foundation for what all came after. For sure.

19:06

Kerry Pechter

Yeah. So I had a good teacher.

19:13

Alex Murguia

In the book. Is there just for folks thinking about it? Because one of the things we did is we've gone through the various types of annuities and the like instead of going through any of them. Is there one in particular in the book that you give an interesting treatment to that serves as the epitome of how you treat all of these different types of annuities? Just to kind of give somebody an example or a flavor of what they would be looking at if they picked up the book and wanted to read a chapter on, I don't know, FIAs.

19:46

Kerry Pechter

Or something like that. Well, I cover in each case, and I separated out in different parts of the book there's the description of the products and how they work. And I wanted people to know precisely how they work, mainly because this was a black box. These products were a black box that really needed some sunlight. And so I talk about how they work, and then I talk about how they're used and how you can use them and what to look out for, where they fit in. And I talk about every part of the food chain from what's going to happen when you meet with an agent, what you're going to hear, where they're coming from, what their incentives are. But what I'm really interested is, once you get them, then where they fit in, and you might use three or four different kinds of annuities in your retirement plan.

20:56

Kerry Pechter

And that's what I wanted to show, that these are like Legos that you can put together. That the important thing to emphasize at the beginning was that every retirement is different. Everyone's retirement is mean. I'm going to tell you some things now that these are things I learned from Wade. We're going to come full circle here. Wade's written a lot about Know, about how people are different and they have different needs. And that's true not only in the personality of the person, but also in their specific assets. And liabilities going into retirement. So I had to try to explain that without scaring people, because I think the single hardest thing for people to do, and we underestimate it maybe, is because this starts with, let's estimate what your expenses are going to be in retirement. Well, bong. I mean, if you've ever tried to do that in your

life and sit down with your spouse and your house and what you own and projecting it into the future, that is a heck of a piece of homework.

22:13

Kerry Pechter

Just estimate your expenses in retirement. No, first thing that happened when I retired was I got told that I needed a new drain field for the sewer system behind my house. I had not planned for that whatsoever. I had to impress upon people, okay, well, then you just pick a number and then work through a little bit at a time of, well, okay, what's the difference between that and your expected, you know, assets and your expected guaranteed income streams and yada things that Wade has written about in great depth. So does that answer the question? I hope I haven't.

23:11

Alex Murguia

I'm trying to think we have consumers listening in and so is it possible for somebody to drill down, like one of your chapters, like, okay, let's take a fixed index annuity. This is the situation where this would make sense for somebody. This is how they would view their fees or something like that. Just something that gives somebody some practical kind of utility that they can see. Oh, okay. This book is about this is the kind of treatment that this book gives this type of annuity. So if I check it out, then I'm going to get the same type of treatment for the other type of products. That way they get something.

23:51

Wade Pfau

That might be an example if we have some case studies in the book with the Mt. Nesters family.

23:58

Kerry Pechter

Yes. Their initials are Mt. And then Nestor KN.

24:06

Wade Pfau

And that's a series of case studies. I think that's what's addressing Alice's question, where you really work through here's. Some examples of this is what they're.

24:15

Kerry Pechter

Trying to actual I talked to actual people near retirement with assets, with people with a million dollars or more, which is what most advisors case histories look like, but it could be less. And I took their case histories and I got their numbers from them, their financial numbers. And then I went to a practitioner of

what I call Ambidextrous Investing Ambidextrous Advice and Retirement, which is people who can combine investments in and annuities in synergistic ways in the same retirement think, you know, Wade is definitely in the same school, right? We've been swimming in that same water forever on that. So I would take these taste studies to people that advisors who I had met through the old Retirement Income Industry Association and Ambidextrous Advisors and turn the case over to them and ask them to provide a one of them was Mark Washarsky, who has written about a particular kind of drawdown method.

25:46

Kerry Pechter

So I would turn it over, and then they would come up with the plans for the individuals. And so a person could go to there's five or six case studies that I published or maybe five or ten in retirement income journal, where you could go there and see, okay, I'm an upscale person. Two professionals. \$1.2 million in savings, a \$1 million house, children who are grown and on their own. What legacy goals do they have? Et cetera, et cetera. What are their necessities? What are their luxuries, bucket list items, et cetera. What are they trying to finance on retirement? And then come up with a plan. And each of these practitioners so I would show with these case studies not only specific people, but also a range of advisors, a range of approaches to these kinds of challenges. And that's something that I definitely wanted to get in the book.

26:50

Kerry Pechter

I thought that case histories were important. I also in the course of writing about registered index linked duties, which are they're not so new anymore. They're ten years old, but they're still new to a lot of people talked to someone who had experience with the investment returns. This was turning it around. This is a person who wasn't trying to plan a retirement. This is a person who bought Aryla and had gone through several years of the not easily predictable returns of this type of product. And so he talked about his returns. And of course, it all depends on when you get in and when you get out of the market. That's a complication. But I thought it was very useful people to say, okay, here's what one guy in these circumstances in the 20 teens experienced with his registered index linked annuities. And I thought that's something that I never saw in the popular literature, and I thought that it should be included.

27:56

Alex Murguia

No, I think that's great. I think some of the calls and granted in this series that we've been running on annuities, it's been just teaching it, and we've been a little short on the knowledge, actual practical use case or even, hey, how to read annuity contract kind of thing. We haven't really delved into those. And so I'm just curious, does your book get into that? Because we give the definitions, and we haven't been able to get into the nitty gritty of, okay, this is the calisthenics of getting annuity. And so with your book, is there a definitive before and after, like, someone before they read your book? Is this someone, after they read your book, has been transformed to be able to do that? What would you say that transformation is for those contemplating, hey, should I pick up this book?

28:46

Kerry Pechter

Oh, yes. I mean, I go through every step, meeting the agent where you'll meet them. What are the different kinds of people who distribute annuities. I talk about the documents that you will see and that you will have to sign and that you should probably read and talk about how they can't possibly read all of it, but that there are certain particular parts of each document that they need to look at very carefully.

29:17

Alex Murguia

This would be interesting. Would you mind going through, like, one of these?

29:21

Kerry Pechter

One of these?

29:23

Alex Murguia

No, not for, like, 60 minutes of oh, these are the five pages, but okay, who do they meet? Where do they meet them? For our folks listening in. Okay, you said they would meet this advisor. How would they do that?

29:36

Kerry Pechter

Oh, okay. Well, now, that would depend in part on the type of annuity. Exactly. This was a structural issue in the article. I would have to mention some of that stuff in the article on the particular annuity, but then come back to it later in greater depth. When I was talking about the distribution, the general public, I think, needed to know a couple of things about manufacturing and distribution that they did not know. If they met someone, got an invitation to a seminar or a luncheon or a free dinner. I talked about what kinds of advisors or agents distribute this way, what kinds of products that those people are likely to be selling, and that you need to know not only about the different annuity, but that different people sell different kinds of annuities. And it was an extremely important point to make was that the type of advisor you go to is going to largely determine the type of product that you see to the exclusion of the other products.

30:51

Kerry Pechter

I always wish that there was an agent who said, spread out, these are all the things that you could be doing. And of course, they can't there's no way it would not be overwhelming but to say, okay, you're going to meet somebody from brokerage. Okay, that kind of person is going to be interested in selling you a variable annuity, perhaps with a living benefit, and that's changed a little. Or a registered index linked annuity. And

because they are licensed by the Federal Reserve and they sell registered I mean, by the SEC, and they sell registered products, well, it's just I'm doing to break this down in a way that did not just pile everything in at once. So I tried to like, with a particular kind of annuity, I tried to say, okay, we're talking about this annuity here's. Who sell this annuity? Here's who sell this annuity.

31:56

Kerry Pechter

Here's where they sell it, how they sell it. Here's the contract that you will see and be asked to sign. Here's what you should look at very closely in the contract in addition to the boilerplate, what's not boilerplate, and what's vital, what's going to commit you, what could you make a mistake with? If you don't read this and you overlook checking a particular box. So all of that is done in a way that it had to be carefully constructed so that it did not turn into a lot of no.

32:39

Alex Murguia

I think that's great, I think that's missing. So I think your book really adds this piece that frankly Wade and I could be doing a better job at in this series. But what you're doing is you're taking them soup to nuts to be an informed consumer so they know what they're getting into, how they get into it and how they go through this process from A to Z.

33:03

Kerry Pechter

Really that's what I'm trying to get. I definitely wanted to write a consumer book. The first book was a consumer book. This book is a consumer book. There are a lot of things are written from the perspective of the manufacturers, a lot of things that are written from the perspective of the advisors or based on things that they but I had the privilege of having. Been on the other side of the window in marketing these things. And I was working for a direct company that sold directly to the public at Vanguard. And so it wasn't a huge stretch for me to sit down in the consumer seat. And everything that I had learned from working on the inside and from writing about the industry formed the consumer view. But this is a consumer book. I should mention as a kind of plug is that the first book one of the reasons that Wiley wanted to do a sequel or revision was that the first book is still selling.

34:17

Kerry Pechter

It had a 4.3 out of five rating from 242 different reviewers on Amazon. And many people said that this book was the first book that had enabled them to understand what annuities were and that they are not just one thing with different that's that was my goal and that was building on having to break things down for consumers in my previous job.

34:53

Bob French

Join us for the next episode of Retire with Style to hear the rest of Wade and Alex's conversation with Kerry. Wade and Alex are both principals of McLean Asset Management and Retirement Researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only and are not intended to provide specific advice or recommendations for any individual or on any specific securities. To determine which investments may be appropriate for you, consult your financial advisor. All investing comes with a risk, including risk of loss. Past performance does not guarantee future results.