

The Adviser View

Using annuities to bridge the income gap

We were delighted to talk to Michelle Galvin, Director at Acorn Wealth, about the role annuities play in her strategies for high-net worth clients.

Lifetime annuities referred to in this article are Challenger's Lifetime Annuity (Liquid Lifetime) CPI indexed options.

“Most of our clients who are using annuities are using them because they are high-net wealth and they want to protect an element of their income for the future.”

We have a diverse range of clients and a lot of them come to us for retirement planning. We do a lot of direct style investments and for the defensive component of a retirement portfolio, we tend to use a Challenger lifetime annuity in retirement so there's regular income payments, and then we have term deposits in place as well in case they need to access funds for things like a holiday or new car, so we're never selling down from their shares.

Delivering retirement income

We also use annuities and account-based pensions to give clients a sense of regular income - that wage experience - and a lot of clients also have rental income coming through. We try to bundle it up so they're getting a payment every fortnight: one payment from the monthly annuity alternating to the next fortnightly payment from the account-based pension, and then the rest is just cream on top.

A feature of some lifetime annuities is that regular income payments are set and forget: it's always coming in, it's never going away. It still forms part of our review, but it's like a pension for them. One way we look at it is if you look back at the 80s and you worked for the government, you had a pension out of your super and you never had access to the super. We treat it like that. I like to think of it as like a defined benefit pension from the old days, but with voluntary withdrawal and death benefit options.

I think a lot of advisers still see annuities as just a product. They're only looking at the rate, but we view annuities as an income tool that bridges a gap in income. It can be as simple as that. It's not there to beat the market or do anything like that. It's there as a safety net - pretty much to say if everything else hits the wall, I've still got this.

Confidence in volatile markets

Volatility was more of an issue for our clients coming off the back of 2021, than it is now. They didn't want to go through an event like what happened in 2020 when the markets were flat and dividends were taken away from them because some companies decided to hold back on dividends. They didn't want an event like that to affect their spending in the future. It's been quite easy to use that regular annuity income to complement a defensive approach in portfolios.

Keeping up with inflation

We used to combat inflation through our direct shares and other investments, but we can factor in inflation elements into annuities. Every lifetime annuity we have done this year has been CPI indexed. The cost of living is on the rise and we don't see that it will get any better for a long time, so we want to illustrate to clients that their annuity increases with indexation.

Protection for the future

We mention annuities in estate planning because of the guaranteed death benefit that is payable for the first few years, if someone does pass away early, they get the 100% back or it is payable to the beneficiaries you nominate to your estate. That's always a massive tick with people because they are worried that if they did pass away that the whole thing's lost. It's quite the opposite: you get the whole thing back if you die early. That is such a massive selling tool.

When we talk to clients about lifetime annuities, we talk about an income generating tool that you just put it in the bottom drawer and forget about it. Most of our clients who are using annuities are using them because they are high-net wealth and they want to protect an element of their income for the future.

A lifetime annuity from Challenger could be the missing piece in a portfolio, and the shape that piece forms can vary to meet your client's goals. Not only can it work as a reliable income source, but it can also augment portfolio structure and processes, rounding out a thorough approach to retirement planning.

We're always ready to support you and your clients

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