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With markets off their highs, I think that if I recommend a lifetime annuity to a client, they will miss out on any rebound in markets. Should I wait?

A recommendation to restructure a client's retirement assets and make a partial allocation to a lifetime annuity will need to consider a variety of factors.

Advisers and licensees may have in place frameworks or guidelines for this recommendation. For example, some advisers and licensees view a lifetime annuity as part of the defensive asset allocation of their client's portfolio, while others will separate the annuity from the broader asset allocation of the portfolio altogether.

Where an annuity is considered as part of the defensive asset allocation of the client's portfolio, an allocation to an annuity does not reduce the portfolio's exposure to growth assets.

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Take, for example, a couple with $800,000 invested in a 50% growth/ 50% defensive portfolio, looking to allocate 25% of their total portfolio ($200,000) to a lifetime annuity to ensure guaranteed income for their lives. To ensure these clients retain their current exposure to growth assets, they could reallocate the lifetime annuity investment from existing defensive assets. Or, where the clients hold diversified investments, they could, at the time of the allocation to the lifetime annuity, re-balance the remaining assets accordingly.

Existing portfolio

Growth: $400,000 (50% total assets)
Defensive: $400,000 (50% total assets)

New portfolio

Growth: $400,000 (67% of assets excluding annuity)
Defensive: $200,000 (33% of assets excluding annuity)
Annuity: $200,000

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Note that while the asset allocation of the residual assets (not allocated to the lifetime annuity) appears to be more aggressive at 67% growth/ 33% defensive, these clients' allocation to growth assets remains unchanged in dollar terms – they had, and have, $400,000 invested in growth assets.

If growth assets were to subsequently rise in value, the new portfolio would rise by the same amount as the old portfolio would have. In this case, there would be no need to wait for markets to rebound for fear of missing future growth by investing in a lifetime annuity.

Please note, however, where a lifetime annuity is excluded from the total asset allocation of a client's portfolio and residual assets (excluding the allocation to defensive assets in the form of the lifetime annuity) are not re-balanced and, instead, remain invested with the original asset allocation, the effect is to reduce the exposure to growth assets at a total portfolio level. This de-risking of the total portfolio can reduce the potential for returns over time and should be appropriately considered in any comparison of outcomes.

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