EDUCATIONAL COMMENTARY

For financial professionals

ANNUITY WORDS THAT WORK: START THE CONVERSATION WITH CONSUMER-CENTRIC LANGUAGE

The Alliance for Lifetime Income has put out an updated glossary and a discussion guide that financial professionals can use to help demystify key industry and annuity product terms for their clients. Use these resources to get the conversation off to the right start.

You know annuities can play an important role in a comprehensive retirement plan. The need seems obvious. In a landmark study, the Alliance for Lifetime Income found that 63% of American adults have no source of protected income other than Social Security[1]. So, how do you start the conversation with clients? With language that they understand.

"Your whole business can benefit by improving the terminology you use and using words that make sense to your clients," says Michael Harris, CFP, CLU, ChFC and a senior educational advisor with the Alliance for Lifetime Income. The Alliance has updated an annuities language glossary and developed a discussion guide to help financial professionals discuss annuities in layman's terms. Here's how you can use it to help demystify key industry and annuity product terms for your clients.

THE CONSUMER MINDSET

Through a consumer survey and testing, the Alliance has found that over half of people say they only somewhat understand the terms and language financial professionals use. And compared to other financial products, an annuity is more than 30% less understood. Yet most people who haven't purchased an annuity haven't necessarily decided against putting a portion of their portfolio in one or more. It makes sense to tweak your language to reach these potential clients.

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EDUCATIONAL COMMENTARY

For advisors

The goal is to make the language of annuities more familiar and intuitive to consumers. In some cases, you'll want to replace terms altogether. And in other cases, you'll want to emphasize consumer-facing definitions.

FOUR KEY INDUSTRY TERMS

When you start the conversation about a client's overall retirement goals and how annuities can fit in, there will be general industry terms that get pulled into the discussion. "These are terms that aren't annuity-centric, but there can be confusion with them as well," Harris says.

1. FINANCIAL SECURITY:

Your clients are looking for financial security: the ability to cover their financial needs and reach their financial goals. Consider using this term instead of financial independence or financial empowerment. Why? The term financial security was heavily preferred by consumers at 46% over financial independence (26%) and financial empowerment (7%) according to Alliance research.

Consumers said they prioritize protection and security as their reasons for purchasing an annuity. One survey respondent put it this way: "One of the most important reasons for saving for retirement is for security and stability in the later years of my life when I either choose not to, or no longer can earn income." The word security connects to the behavioral science principle of loss aversion—the tendency to prefer avoiding losses over earning equivalent gains—and the control consumers crave in the face of uncertainty.

2. MARKET UPS AND DOWNS:

Instead of saying market volatility or market fluctuations, consider saying market ups and downs. The term speaks more directly to what some annuities can help protect against—market downturns. It's also a good alternative when you want to speak to potential upsides as well.

3. RISK COMFORT LEVEL:

Instead of asking about your client's risk tolerance, consider asking them about their risk comfort level—the level of market risk they're comfortable with. Why? It's more consumer-friendly and feels geared toward the individual. And it makes it clear that the risk is about their personal comfort level. Other terms you could replace with risk comfort level include appetite for risk, degree of certainty, risk appropriateness, and investor confidence.

4. SUSTAINABLE WITHDRAWAL RATE:

Some terms don't need changing, but their definitions do. What's a sustainable withdrawal rate, for example? The Alliance definition says it's the estimated maximum percentage that you can withdraw each period without running out of money during your lifetime. This definition clarifies what sustainable is referring to with the addition of maximum percentage and without running out of money during your lifetime.

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THREE KEY PRODUCT TERMS

1. PROTECTED LIFETIME INCOME:

The Alliance found that leading the conversation with the term protection instead of guarantee speaks to consumers on a more emotional level. Consider saying that annuities offer protected lifetime income instead of guaranteed income. Protected lifetime income can last your whole life — and potentially go to your beneficiaries. Why? A prospective annuity owner is thinking "I need to help protect my money and loved ones," not "I need to guarantee my money and loved ones."

2. FAMILY BENEFIT:

To add further clarity, you may want to note that the term beneficiaries can apply to situations where their money is going to an endowment or charity rather than a person. But when possible, if the beneficiary is a family member or loved one, you may want to use the term family benefit to speak on a more personal level. Today, words like legacy, inheritance or heirs don't feel as relevant to consumers as loved ones or beneficiaries.

3. INCOME BASE:

Consider saying income base instead of withdrawal base to describe the amount that the annuity owner can withdraw money against. Why? The term income base shows consumers how they can receive some form of payment from their annuity when they are ready for income— and makes it clear that that money is coming from their income base.

KEEP THE CONSUMER IN MIND

By starting the conversation with easier-to-understand key industry and product terms, you'll be on the right footing to delve into features and benefits of annuities, and help your clients secure their retirement.

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[1] *Alliance for Lifetime Income.* Americans are Confronted by a Looming Retirement Income Shortfall, 2019, https://www.allianceforlifetimeincome.org/feature/pli-study-and-fact-sheet/.

Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate. Product guarantees are subject to the claims-paying ability of the issuing insurance company. Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½. Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Investments in annuity contracts may not be suitable for all investors.

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