



Reframing Advisory Annuities as an Asset Class

Why annuities make sense in client portfolios with public fixed income and private credit.

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While fee-only advisors often turn to alternative investments to supplement high net worth (HNW) and ultra-high net worth (UHNW) client portfolios, many remain hesitant to include advisory annuities.

As someone who has attended many advisory industry conferences and capital markets panels that discuss portfolio strategy, I've noticed a recurring theme: Many of the newer strategies discussed are designed to offer downside protection, guaranteed income, and perform independently from the equity market—which just so happens to describe features that certain annuities already deliver. I've heard speakers discuss private credit and hybrid financial instruments such as structured notes and buffered ETFs, I've found myself thinking, "Advisory annuities can do all that."

Are Fee-Based and Fee-Only Advisors Missing the Evolution?

Too many are. It's true that the word "annuity" used to feel like a forbidden term in fee-only circles, with complicated structures and decades of negative attention focused on high fees compared to investment-only strategies. However, over the past few years, annuities have rapidly evolved to address financial advisors' concerns and now fit the specific needs of many HNW and UHNW clients.

- Downside protection? Yes!
- Income guarantees? Check!
- Non-correlation to equities? That too!

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All guarantees are subject to the claims-paying ability and financial strength of the issuing insurance company and do not protect the value of the variable investment options, which are subject to market risk.

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So why are alternatives like private credit, structured notes, and buffered ETFs getting all the love, while advisory annuities are still stuck in the penalty box? If you're willing to hear me out, you'll see why they shouldn't be.

In this article, we'll reframe modern fee-based variable annuities (VAs) with living benefits, registered index-linked annuities (RILAs), and fixed index annuities (FIAs) as an asset class that complements traditional fixed income and alternative investments like private credit and structured products.

Advisory Annuities as Part of a Modern Holistic Plan

By drawing parallels to the fixed income and alternative investments they already use, I hope to help fee-based and fee-only advisors—whether at RIAs, broker/dealers, or family offices—better understand how advisory annuities can fit into a modern, holistic financial plan. Specifically, there are benefits to letting VAs with optional living benefits (available for an additional cost), FIAs, and/or RILAs sit alongside fixed-income allocations, private credit, and structured notes.

Let's explore these types of advisory annuities and how they can be positioned as non-correlated, income-generating assets within an advisory practice.

So, What Do Advisory Annuities Offer?

Annuities can be integrated into unified managed account (UMA) platforms as a sleeve, adding principal protection, defined upside, and optional lifetime income to a portfolio, while keeping everything under one household-level overlay for reporting, billing, rebalancing, and tax coordination. That's something traditional fixed income and private credit simply can't replicate in one packaged vehicle. In addition, insurance carriers have modernized their distribution platforms in recent years to give fee-only financial firms the option to access advisory annuities directly from the carrier. Advisory annuities, designed for fee-based and fee-only financial professionals and their clients, now give financial advisors the option to deduct their advisory fees directly from the contract instead of being paid a commission.

Note: Advisory fee withdrawals are limited to 1.50% of the annuity contract's cash value for the calendar year. Withdrawals from the contract to pay advisory fees will reduce the contract value.

Why Are Advisory Annuities a Consideration for Income, Protection, and Growth?

While annuities may not always be top of mind for fee-only financial firms, they are increasingly used in other channels for income and protection, as well as growth. In fact, LIMRA reports record sales of FIAs and RILAs, driven by risk-averse investor demand for higher protected investment growth.¹ With insurance-backed guarantees and some bond-like characteristics, such as principal protection and yield potential, annuities like the ones listed below may be ideal for clients seeking income and protection over maximum growth.

- **Variable annuities (VAs) with living benefits** such as guaranteed lifetime withdrawal benefits (GLWBs) can offer market exposure and income that will last the client's entire lifetime, regardless of market conditions.
- **Fixed indexed annuities (FIAs)** can provide principal protection with index-linked growth.
- **Registered index-linked annuities (RILAs)** blend upside potential with structured downside buffers.

Not Sure Where an Advisory Annuity Would Fit into Your Clients' Financial Plans?

- Consider using annuities as a **tax-alpha tool** for high-turnover or ordinary income strategies. Because any potential growth in the annuity is tax-deferred, tax drag is eliminated, allowing clients' money the opportunity to grow and compound over time.
- Proper structuring of annuities also can assist with **estate, philanthropic, and even multigenerational goals**, as an annuity can be structured to provide tax-deferred income to heirs and favorite charities.
- Annuities can be used as **a strategic defense against sequence-of-returns risk** that gives a lifetime income spending floor and cash-flow engineering opportunities.
- As mentioned above, annuities offer living benefits to provide **predictable lifetime income** and cash flow.

¹U.S. Retail Annuity Sales Top \$460 Billion in 2025, Making 4th Year of Record Sales. LIMRA. February 12, 2026.

How Do Annuities Compare as an Asset Class?

In the chart below, we compare public fixed income and private credit to advisory annuities. As more practices move upmarket to serve HNW households—with broader, more sophisticated service menus—we can begin to see how an advisory annuity (FIA, RILA, or VA with a living benefit) might fit into a client’s portfolio alongside public fixed income and private credit.

Feature	FIA/RILA	VA + Living Benefit	Public Fixed Income	Private Credit
Principal Risk	Fully protected (FIA) Full to partially protected (RILA)	Market-linked growth	Issuer credit risk	Credit and illiquidity risk
Return Engine	Equity-linked (capped)	Market-linked growth	Fixed coupon (~3.5–4.8%)	Floating rate loans (~9–12%)
Income Certainty	None (growth only)	Guaranteed lifetime income	Coupon only	Variable, not guaranteed
Tax Treatment	Tax-deferred	Tax-deferred	Taxable annually	Taxable annually
Liquidity	Multi-year commitment	Multi-year commitment; Optional income benefit	Tradable	Lock-ups, gating risk
Portfolio Role	Indexed-based growth potential with downside protection	Core-retirement income	Core-income anchor	Additional yield

Public Fixed Income is the Traditional Portfolio Anchor

Due to its predictable income, defined maturity, high liquidity, and low credit risk (depending on rating), public fixed income remains foundational in retail portfolios. However, low yields and inflation have eroded its effectiveness in recent years. Bonds are taxed as ordinary income and offer no longevity protection.

On the other hand, advisory annuities offer lifetime income, a moderate-to-high yield compared to fixed income, and downside protection. Their liquidity and taxation are similar to bonds, and they also can have low credit risk, depending on the carrier.

Private Credit Has Grown in Popularity Despite Risks

Private credit has grown to over \$1.7 trillion in AUM, projected to reach \$2.8 trillion by 2028.¹ Advisors are drawn to illiquidity premiums, floating-rate structures, asset-backed finance for inflation hedging, and diversification from public markets. Yet, private credit carries risks such as lower transparency, illiquidity, and potential default exposure. Default rates vary by sector and borrower size, and recovery rates depend on structure and collateral.

Private credit often lacks formal ratings or operates in non-investment-grade territory, offering higher yield—but greater risk. As the global financial turbulence of early 2026 exposed, the vulnerabilities of private credit have become more visible, especially among individual investors who may have less predictable behaviors and less appetite for unknown risks than institutional investors.² In contrast, annuities from investment-grade carriers offer contractual guarantees, regulatory oversight, and lower default risk.

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¹“What Role Can Private Credit Play in Individual Investors’ Portfolios?” KKR. June 2025.

²Azhar, Saeed, et al. “Blue Owl Turmoil Adds to Strain in \$2 trillion US Private Credit Sector.” Reuters. February 27, 2026.

Comparing Annuity Carrier vs. Bond Issuer Ratings

When evaluating bonds, financial professionals rely on credit ratings from agencies like Moody's, S&P, and Fitch to assess issuer risk. Similarly, insurance carriers issuing annuities are rated using Insurer Financial Strength (IFS) ratings, which reflect the insurer's ability to meet policyholder obligations such as guaranteed income and withdrawals.

While the symbols may look similar, not all ratings are equal. That means financial advisors should not assume equivalency across agencies or products. Just as they research junk bonds before recommending them to clients, they should do their due diligence on annuity carriers with sub-investment-grade ratings.

Ratings	Bond Equivalent	Interpretation
A / A+	AA/AAA	Strong investment grade
BBB	BBB	Lowest investment grade

Buffered ETFs Are Surging

Buffered ETFs have surged in popularity as financial advisors look for packaged downside protection, with the number of products nearly doubling to about 350 and assets climbing to roughly \$70 billion—projected to reach as much as \$650 billion by decade end.¹ It is forecasted that defined-outcome ETFs could grow fivefold to \$334 billion by 2030 as aging investors prioritize predictability and downside protection.¹ Yet it's worth noting that RILAs first launched back in 2010, nearly a decade before the first buffered ETFs appeared, positioning annuities as the original "defined outcome" vehicle. While buffered ETFs provide liquid, tactical exposure, advisory indexed annuities can complement them by delivering longer-term, insurance-backed accumulation with defined downside protection.

Indexed Annuities Can Provide Principal Protection and More Predictable Outcomes

Both FIAs and RILAs credit interest based on an external index, such as the S&P 500®, and use caps or participation rates that limit upside potential. But, in exchange for a capped interest credit, they offer principal protection. While FIAs guarantee that the initial purchase payment will never lose value, RILAs offer either a buffer or floor to help protect against market declines. A buffer prevents losses beyond a certain percentage. As an example, a RILA with a 10% buffer and a 15% market drop would only lose 5% of the contract value. With a floor, the insurer absorbs the loss once it hits a certain point. So, a RILA with a 10% floor and a 20% market drop would leave the contract value with only a 10% loss. FIAs and RILAs also offer clients tax-deferred growth and more predictable outcomes without as much downside risk.

In many ways, the boom in private credit and buffered ETFs validates the core reason indexed annuities were introduced years ago: Clients want more predictable outcomes. Advisors embracing these vehicles should take care not to overlook the annuity-based versions that helped pioneer the categories.

Seeking Yield? Consider a VA with a Living Benefit

Similar to private credit and public fixed income vehicles, annuities can provide clients with income during retirement. But annuities do something private credit and public fixed income can't. Annuities are one of the only financial tools available, besides Social Security retirement benefits, that offer an income stream that can last as long as the client lives, even if the account value drops to zero.

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¹"Ballooning 'Buffer' ETF Market Leads to More Complex Array of Products." US News and World Report. August 2025.

While lifetime income can be accessed through annuitization, many VAs offer living benefit riders for an additional fee. These benefits can allow the client to withdraw money or take income for as long as they live without losing all control or access to their contract value. Keep in mind that if they take more than is allowable under the rider, their lifetime income feature could be affected.

In the fee-only advisory world, I often hear: “My clients will never run out of money, so they don’t need a VA with a living benefit.” My response: “Wealth doesn’t immunize clients from risk—it just changes the nature of it.”

Living benefits aren’t just for clients who fear running out of money. They’re for clients who want income certainty without sacrificing control, prioritize income security over maximum growth, or want to ease the psychological stress of managing drawdowns. Regardless of wealth level, they can provide clients more freedom. That could mean freedom to invest differently with less concern for income sources, freedom to create legacy plans with certain investments, or freedom to take additional financial risks they wouldn’t otherwise consider.

Living benefits also are for advisors who want to transfer risk to an insurance company instead of managing it manually. And they’re for portfolios that already include public fixed income and private credit but need a contractual income layer that doesn’t depend on market performance or client behavior. In short, living benefit riders are not a drag—they’re a hedge. And in a world where even the wealthy are looking for stability, they’re more relevant than ever.

Stand Apart—Dismiss Outdated Views and Become an Advisory Annuity Advocate

As affluent retirees face rising financial and emotional pressures, demand for reliable income and protection continues to grow. Advisory annuities—especially VAs with living benefits, FIAs, and RILAs—are no longer fringe products. Fee-based and fee-only advisors who embrace advisory annuities now are positioned to lead the shift—meeting clients where their needs are heading and elevating their own value in the process.

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Annuities are long-term contracts designed for retirement. Annuity withdrawals and other distributions of taxable amounts, including death benefit payouts, will be subject to ordinary income tax. For nonqualified contracts, an additional 3.8% federal tax may apply on net investment income. If withdrawals and other distributions are taken prior to age 59½, an additional 10% federal income tax may apply. A withdrawal charge also may apply and a market value adjustment (MVA) also may apply. Withdrawals will reduce the contract value and the value of the death benefit, and also may reduce the value of any optional benefits.

Under current law, a nonqualified annuity that is owned by an individual is generally entitled to tax deferral. IRAs and qualified plans—such as 401(k)s and 403(b)s—are already tax deferred. Therefore, a deferred annuity should be used only to fund an IRA or qualified plan to benefit from the annuity’s features other than tax deferral. These features include lifetime income, death benefit options, and the ability to transfer among investment options without sales or withdrawal charges.

A fixed indexed annuity is not a security and does not participate directly in the stock market or any index, so it is not an investment.

Insurance products and their guarantees, including optional benefits, annuity payout rates, and any crediting rates, are backed by the financial strength and claims-paying ability of the issuing insurance company, but they do not protect the value of the variable investment options. Look to the strength of the insurance company with regard to such guarantees because these guarantees are not backed by the independent broker/dealers, insurance agencies, or their affiliates from which products are purchased. Neither these entities nor their representatives make any representation or assurance regarding the claims-paying ability of the issuing company.

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