

## FINANCIAL PROFESSIONAL INTERVIEW

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# CLIENTS AND FINANCIAL PROFESSIONALS CAN BENEFIT FROM ANNUITIES

**Financial professional Chris Hernandez is living the dream, but it didn't start that way.** "October 1, 2008, was my first day on the job. I was excited and ready to serve," says Hernandez of Strategic Capital in Austin, Texas. "I soon realized that I began my career in the worst economic time since the Great Depression. And I failed completely."

Between October 6 and 10, 2008, the Standard & Poor's 500 Index fell more than 20% and the country tumbled into the Great Recession. By 2010, Hernandez was ready to quit and find a more stable career.

However, his wife Veronica and a veteran financial professional convinced him to stick with it. He did. And he came through the crash with a clear understanding of how annuities can help clients.

"I saw how important annuities were as the crash was happening. The people I met who already owned annuities weren't as concerned with the downturn, unlike those who didn't have annuities."

During his first few years in the business, Hernandez worked with many teachers. He found their pensions helped ease their retirement worries. So he decided to model his income planning after the state pension program. "I took this into the private sector where I ask my clients what they need their guaranteed income base to be. Then I use some of their assets to buy annuities," he says.

For Hernandez, education is step one. He starts by showing his clients exactly how annuities work and the benefits they provide. It's ground

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zero for any future discussion on income distribution planning. He explains that if they live within the contract of the annuity it can be a valuable part of their retirement portfolio.

"If someone comes to me with a million dollars, I find out what their essential expenses are. Then we look at additional expenses like trips. And that helps us understand their requirements. Then I build the strategy that fits reality," explains Hernandez.

Hernandez says that his happiest clients have protected income for life. "Annuities generate guaranteed income to pay for fixed expenses," he says.

A big part of Hernandez's success when recommending annuities comes from the early planning phase. At the beginning, he asks about their retirement goals and their philosophies on money. "It's a key part of the advisory process," he says, considering there are important differences in what various annuities provide. "I approach prospective clients with the idea that I'll be their personal CFO and they'll be the CEO who makes the final decisions."

The question that comes up over and over again is: "I hear annuities are bad. Why do you use them?" Hernandez will ask his clients why they think annuities are bad. Most say they don't know. From that point, it's an educational process of helping them to consider the benefits objectively.

"I ask them to forget the name 'annuity' for a minute, so we can discuss what they do and how they work." Once they learn that an annuity can provide protected lifetime income, many clients change their minds and are open to learning more. Hernandez also provides clients with documentation and articles on annuities. And that includes discussing the negative articles on annuities.

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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"I let them know that not all annuities are equal, but I can help them find the right fit for their situation."

Trust is another important part of his success. A core philosophy at Strategic Capital is something they refer to as ECAT. That stands for education, confidence, action and trust. Hernandez feels that his job is to establish trust, whether clients work with him or not.

Another way he builds that trust is by creating a side-by-side comparison of two different retirement plans. One he calls the "interest only path," showing what a client's income would be if they invested entirely in fixed income securities and used only the interest (i.e., no principal) as income.

"In our next meeting, I show them what their current path looks like. Their income is always lower than what they expect," Hernandez says. "So if I can beat that with income guarantees, it is much more relevant than a negative article about annuities."