USING DOLLAR COST AVERAGING TO TAKE ADVANTAGE OF MARKET VOLATILITY

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Lincoln Financial Distributors

The ongoing COVID-19 pandemic and resulting economic repercussions have changed every element of our daily lives and the way we plan for the future. Among top concerns during this time, including physical wellness and financial security, investors are navigating extreme market volatility and the potential long-term impact it will have on their retirement savings. Research from the Alliance for Lifetime Income shows that more than half of Americans are concerned they may need to delay retirement due to the current volatile market,¹ and Lincoln has found that half are interested in exploring protected lifetime income solutions.²

Continued on page 2
More than ever, investors are turning to their financial professional's counsel to help protect their nest eggs and position them for the future – especially if their retirement years are in view. Some clients may feel spooked, agonizing whether to participate in market risk in exchange for potential growth or go to cash but miss the upside potential of a rebound that they may need to reach their long-term goals.

Advisors can help clients feel confident about their investment decisions amidst the crisis by guiding them through the emotional highs and lows of the turbulent market, and providing tax-efficient options that involve a simple, disciplined approach to investing.

LEVERAGING DOLLAR COST AVERAGING DURING MARKET VOLATILITY

One way to help clients see the potential of market movement and keep them steady during the crisis is to explain the value of dollar cost averaging (DCA). This strategy is a simple, disciplined and proven approach where investors follow a regular investment schedule over time, regardless of market conditions. Clients will buy more assets when the market is low and prices decline, like in current conditions, and buy fewer assets when the market is yielding higher prices — generally resulting in a lower average cost per share.

Unlike a single investment, this strategy of easing into the market can help protect against risk. Given the current circumstances, DCA presents enhanced opportunity for investors to boost their retirement savings, particularly when leveraging a variable annuity that combines the power of DCA with an interest rate as high as 8%.

With a systematic DCA strategy, clients will be able to make the most of their investment dollars by smoothing out fluctuating share prices over time. Because DCA involves continuous investment regardless of changing price levels, clients can consider their ability to continue purchasing through periods at all price levels. This steady investment pace requires discipline by clients during periods of market volatility, which may require an advisor’s ongoing guidance.

PROTECTING RETIREMENT INCOME AND GROWING INVESTMENT DOLLARS

DCA can be an especially effective strategy within annuity allocations for investors looking to increase their protected lifetime income. Using a DCA approach within an annuity contract that features an optional living benefit rider allows clients to take advantage of guaranteed interest payments while their money is invested over time, in addition to managing fluctuating market prices.

Here’s an example that illustrates how this concept allows for growth of annuity investment dollars when coupled with a DCA program.

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**Monthly guaranteed cumulative interest earned**

<table>
<thead>
<tr>
<th>Month</th>
<th>Interest Earned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month 1</td>
<td>$337</td>
</tr>
<tr>
<td>Month 2</td>
<td>$511</td>
</tr>
<tr>
<td>Month 3</td>
<td>$440</td>
</tr>
<tr>
<td>Month 4</td>
<td>$322</td>
</tr>
<tr>
<td>Month 5</td>
<td>$223</td>
</tr>
<tr>
<td>Month 6</td>
<td>$108</td>
</tr>
</tbody>
</table>

**Total interest earned**

$1,941

This example illustrates the total interest earned assuming a $100,000 investment into an annuity contract with DCA, assuming an 8% guaranteed interest rate over a six-month period. The 8% guaranteed interest rate that clients would receive over the six-month period is in addition to the annuity’s crediting rate.
Using a DCA strategy within a client’s annuity allocations gives the opportunity to invest in underlying investment options on a regular basis, locking in guaranteed interest payments via a living benefit rider as they invest over a set period of time. Doing so may result in an annual yield that may outpace market interest rates and help accelerate savings for future income.

This simple, methodical approach can provide clients with a boost to their retirement savings to help them reach their retirement income goals, despite a downward trending market. Additionally, while DCA is an effective way to initially get clients into the market, it’s important to keep an eye on your client’s overall portfolio and rebalance as necessary. An annuity allows this activity to occur in a tax-deferred environment.

**SOLUTIONS FOR A BRIGHT TOMORROW**

In times of crisis, clients can feel empowered by knowledge and solutions. DCA is an option that can help clients navigate their concerns regarding current unstable market conditions by easing them into the markets steadily over time. When describing this strategy to clients, advisors can help them feel more comfortable investing in the market by employing an annuity with a DCA program. While DCA cannot guarantee a profit or protect from a loss in a declining market, it offers a strategic approach to counterbalancing the turmoil.

*By Tim Seifert, Head of Annuity Sales for Lincoln Financial Distributors. Lincoln is currently offering investors a DCA option through its Investor Advantage annuity, offering an 8%, six-month fixed rate special through June 30, 2020.*

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There is no additional tax-deferral benefit for an annuity contract purchased in an IRA or other tax-qualified plan.

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1. Source: Alliance for Lifetime Income: 2020 Retirement Reset Survey
FINDING CONFIDENCE IN CHAOTIC TIMES
Annuities as an income strategy for beleaguered investors

Where do we go from here? That’s the big question on everyone’s minds — individual investors and many professionals included. After COVID-19 emerged, panic entered the market and the ensuing selloff that took place in late February and March was a rude awakening from the euphoria of a historically long bull market.

The rush for liquidity was dizzying, and most asset classes were not spared in the short term. Record highs quickly gave way to staggering new lows with the S&P 500\textsuperscript{®} posting more than a 30% loss, leaving many wondering if we were heading to a 2008-level trough.

For the average investor, fear isn’t easily shook and many are still looking at the markets wondering when the storm will pass. The good news is many of those investors are also revisiting their retirement plans, looking for stability among uncertainty. Now is the time when financial professionals can bring all of their tools to the table and help clients regain some sense of control over their financial futures. For those seeking retirement income, annuities with living benefits may offer welcome diversification and a boost of confidence through guarantees.*

The strategy may be particularly attractive following an event that will likely make many investors more conservative. Over the past 15 years, there has been a sizeable shift in the percentage of Americans who own stocks, even though the last 10 years brought record-setting gains to equity indices. According to a Gallup poll, 65% of Americans owned stocks in April of 2007, prior to the Great Recession.\textsuperscript{1} More than a decade after the financial sector meltdown that left many pockets empty, only 55% of Americans had returned to owning stocks in 2018.

The emotional impact of stock market crashes can have lasting effects on an investor’s outlook. With that in mind, let’s consider what’s happening today.

“Net trading activity in 401(k) saving plans was higher in the last week of February than all of the combined activity in the fourth quarter of 2019,” wrote CNBC’s Lorie Konish on March 6.\textsuperscript{2} By February 24 of this year, the S&P 500 had only slid 4.3% from its previous highs, and already retirement savers began seeking safe havens with all inflows going to bond funds, stable value funds, and money market funds.
With COVID-19 fears lingering among investors, the year ahead brings much uncertainty. Are we in a bear market rally waiting to test new lows, or has the market properly priced in the loss of demand for the rest of 2020? Hopes for a V-shaped recovery seem to be slimming, but will it be an L-, W-, or U-shaped recovery? Those questions are hard to answer at the moment, particularly as more troubling data continues to come forward.

By late April, **80 companies had withdrawn full-year financial forecasts**, leaving analysts less guidance for setting price targets. Not surprisingly, job-loss claims have skyrocketed and the Congressional Budget Office is projecting unemployement will hit 16% by Q3 2020, ultimately settling at an average 11.4% for the year.

For investors nearing retirement, the situation presents a unique challenge. They’re trying to shift from accumulating assets to generating income in an environment where many companies have cut dividends and yield is hard to find due to rising bond prices and low interest rates. And, again, many investors are in a state of despair about using equities at all. These investors might want to hear about a strategy that guarantees income while providing the opportunity to increase that income and combat inflation.

Demand for fixed index annuities is expected to ratchet up this year because investors may appreciate the ability to participate in market gains, as the market rebounds, but be guaranteed a floor under foot to protect against losses. If market volatility continues, this type of strategy could give the conservative investor more confidence about remaining invested, allowing them to skip the weekly or monthly gut punch some people experience with large swings in account value.

A similar case can be made for variable annuities. If income is the primary objective, variable annuities often offer a wider array of living benefit options that allow an investor to customize their approach toward gaining income. Once an investor has decided income is the goal, any growth can be set aside and the true value of the living benefit, available for an additional cost, can take the stage.

Withdrawal base guarantees offer certainty, but the current market conditions may lead to even larger growth of the withdrawal base in a relatively short amount of time. Following the 2008 intra-year low of 49%, the market returned 23% in 2009. With an annuity providing guarantees, the conservative investor can potentially still gain the benefit of equity exposure while transferring risk to the insurance company.

Obviously, it’s always important to remember an investor’s plan and be sure an annuity and optional benefits — or any financial or insurance product, for that matter — meets a clearly defined need within the plan. Some of the market’s best days follow its worst ones, and you should consider the timing of adding any instrument and its associated fees with regard to whether the objective is principal growth, income, or something else. It’s never a one-size-fits-all approach.

As we discussed earlier, some clients may have already moved to cash and debt before the major declines took place. For the correct investor, particularly a conservative one who has maintained purchasing power through cash reserves, certain bond funds, or a recently well-performing commodity like gold, an annuity could be an attractive way to add some certainty to their retirement in a time where markets’ near future is murky.

As always, the client’s financial situation and goals are a big part of the equation, but the type of annuity needs to be right, too. If income is the objective, a Transamerica variable annuity with a living benefit like Retirement Income Choice® might work. Open architecture allows its withdrawal base to grow at what could be record market returns, lock in that growth, and then offer a guaranteed withdrawal rate when the client is ready to take income.

Again, it’s an income play in a time where income could be hard to generate for years to come. Even if equity prices rise to near peak levels by year’s end, interest rates are likely to remain low for the foreseeable future. Following the 2008 crash, interest rates didn’t begin to rise until 2015.

The economy needs time to stabilize. The Federal Reserve will likely ensure money remains cheap so that investment is encouraged. For businesses seeking to re-establish themselves, that’s good news. For retirees trying to generate income, it’s not as welcome.

Securing guaranteed income may make a large difference in the timing of when someone...
is able to retire. Entering retirement when planned is often as important to retirees as making their assets last. Americans are living longer than they used to and running out of money in retirement is a big fear for about half of them. Couple that with a turn toward conservative investing, and annuity purchases begin to match risk tolerance even closer.

With the markets looking like they do and emotions running on overdrive, now could be the ideal time to diversify a portion of assets into an income-generating strategy that provides guarantees and allows retirement investors to feel like they’ve stepped off the rollercoaster.

*All guarantees are based on the claims-paying ability of the issuing insurance company.

**Fixed index annuities are not a security and are not an investment in the stock market or in the indexes. Index account interest is based on the index performance. There is no guarantee that the index interest rate will be greater than zero percent or that the insurance company will declare an interest rate greater than the guaranteed minimum interest rate.

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1  “How the Financial Crisis Still Affects Investors,” Barron’s, September 2018
2  “You might be Tempted to Move to Safer 401(k) assets amid coronavirus market swings. What to know before you shift your money,” CNBC, March 2020
3  “Why Next Earnings Season Will be Worse,” Barron’s, April 2020
5  “Annuities Take Center Stage,” Investment News, April 2020
6  “Standard and Poor’s, FactSet, J.P. Morgan Asset Management.” Used with permission.
8  “Almost Half of Americans Fear Running Out of Money in Retirement,” AARP, May 2019
FEE-BASED ANNUITIES' CHOPPY RISE

Sales of qualified fee-based variable annuities fell as non-qualified sales rose, with a trend of overall modest growth in fee-based sales continuing.

Quarterly Fee-Based Variable Annuity Sales Q12003-Q42019: Qualified versus Non-Qualified

Source: Morningstar, Inc.
OVERVIEW
The COVID-19 pandemic, and the resulting pivot to a work-from-home (WFH) environment for many of us, provides an attractive opportunity for cyber threats to occur. Nationwide® has observed phishing attacks — fraudulent emails that come from seemingly legitimate sources used to persuade you to reveal sensitive personal information — that leverage the fear, uncertainty and doubt associated with the virus threat. We anticipate these attacks will continue for the foreseeable future.

STAY SECURE WHEN WORKING FROM HOME

We understand there are new challenges you’re facing today as you work from home, including increased cybersecurity risks. To help you protect your network, our Threat Intelligence Advisory team would like to share these insights and tips to avoid cyber risks.

OVERVIEW
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OPPORTUNISTIC ATTACKS
The volume of coronavirus-themed phishing and social engineering campaigns, designed to manipulate people into divulging confidential behavior, has increased steadily from initial reports observed early this year. The attacks can be placed into three main categories:

- Email scams delivering malware and fake mobile apps
- The sale of fake or counterfeit goods offering deals on medical supplies, etc.
- Social media misinformation designed to create panic
Remote support scams, particularly the fake IT support variety, may also increase as scammers lean on the knowledge that people not accustomed to working remotely could be encountering system issues as part of their WFH transition.

**EXPANSION OF ATTACK SURFACE**

An “attack surface” is the total number of points an unauthorized user could exploit to gain access to your system. Adversaries may be able to take advantage of an expanded attack surface made possible by the WFH environment. These may include:

- Unsecured “internet of things” (IOT) devices such as security systems, thermostats and electronic appliances
- Unpatched home computers
- Phishing campaigns directed against personal email accounts

The significant increase in the number of people doing more work via web browsers opens your business to the risk of browser-based attacks via malicious plug-ins and web-based exploit kits. Additionally, scammers may look to ramp up identity attacks because their malicious network traffic and signaling stands a better chance of staying hidden among the expected increase in legitimate remote traffic.

**OUR RECOMMENDATIONS**

To address the increased risks associated with working from home, we recommend continuing to practice good security habits enforced on your office network, particularly around social engineering scams and phishing attacks. Unfortunately, these good security habits don’t always carry over from the office, as we tend to let our guard down at home (i.e., writing down passwords, leaving sensitive information lying around or leaving devices unlocked).

**RESOURCES**

https://www.sans.org/security-awareness-training/resources/smart-home-devices

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**TIPS FOR SECURING HOME NETWORKS AND IOT DEVICES**

**Secure your home wireless (Wi-Fi) network**

Be sure to change the default admin password, enable WPA2 encryption and use a strong password for your Wi-Fi network.

**Be aware of all devices connected to your home network**

This could include smart thermostats, gaming consoles, baby monitors, TVs, appliances and possibly even your car. Make sure they are protected with a strong password and have had all system updates applied.

**Keep your operating system and your applications patched and up to date**

Whether you’re using Windows or macOS, making sure to update your software regularly is important. If automatic updates are an option, be sure to enable them.

**Make sure each of your accounts has a separate, unique password**

Also consider using a password manager to securely store your passwords.

**WE’RE HERE FOR YOU**

Nationwide is committed to providing you with the support and resources you need as we navigate today’s challenging economic and market conditions together. We appreciate your partnership and the opportunity to work with you.

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The coronavirus (COVID-19) has changed the way we live and work. It has also inspired significant market fluctuations. This checklist below can help you focus on what’s likely to have the greatest impact on your financial success: maintaining a longer-term perspective, being thoughtful about portfolio allocation, understanding risk exposures and minimizing costs and taxes.

**KEY TAKEAWAYS**

- Behavioral biases, especially in volatile times, may inspire investors to focus on short-term returns rather than long-term goals.
- Financial professionals can play a critical role in helping maintain perspective and avoid costly mistakes.

| Don't forget your long-term financial goals: | Try to maintain perspective by focusing on your long-term investment objectives rather than worrying about short-term market fluctuations. Emotional decisions are often not the wisest. |
| Revisit your risk tolerance: | If short-term market moves are getting the better of you, perhaps it's time to revisit your risk tolerance with your financial professional. This exercise may inspire you to stay the course, or to trim additional risk from your portfolios. |
| Reaffirm (or write) your Investment Policy Statement: | An Investment Policy Statement (IPS) can help determine the appropriate allocations and the guidelines for effective implementation. Make sure you and your financial professional have clearly defined your objectives, so that you can keep them in mind during emotional times of market fluctuations. |
| Review your cash needs: | Do you have immediate liquidity needs? If not, you may be in a strong position to ride out short-term market shocks. |
| Stay diversified: | Portfolio diversification, in line with your objectives and risk tolerance, can help mitigate volatility and potentially produce more consistent outcomes. |
| Rebalance regularly: | Meet with your financial professional to ensure your asset allocations are aligned with your long-term targets. Regular portfolio rebalancing instills a disciplined approach to decision making and sometimes inspires investors to take actions that may be emotionally uncomfortable but financially productive. |
| Consider tactical shifts: | Every investor is different. For some bouts of market volatility there may be an opportunity to buy equities. Others may look to add hard duration through core and long-duration strategies as a way to add resiliency to their portfolio. Check in with your advisor to review strategies. |
| Consider tax planning strategies: | Consider talking with your financial professional about mitigating tax implications now instead waiting until year-end. |
INVESTOR EDUCATION | 2020

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The world has changed so much in the last year. But, at the same time a lot of things remain the same. For planners, insurance agents, and advisors, the goal remains the same: take care of our client’s needs and goals. That being said, the coronavirus (COVID-19) pandemic has upended daily life across the country and Americans remain focused on safety for themselves, their families and their retirement plans. In fact, new data from New York Life and Morning Consult found that 57 percent of Americans say physical health takes increasing priority. Fifty-three percent of respondents say they are increasing their prioritization of their finances and 28 percent say their retirement is taking increasing priority. The reality is that goals and needs, especially in the short term have shifted. Americans are looking for safety, liquidity, and fixed income in an increasingly challenging environment.

In general, this article will focus on three main themes. First, a rising desire to see lifetime income and retirement income plans in place from consumers. Second, the creation of a fiduciary safe harbor for annuities in retirement plans. And thirdly, and most importantly, a new wrinkle and concern that has arisen with regards to qualified annuities in retirement accounts after the SECURE Act’s passage.

When you try to put everything that is going on together for clients, with Covid-19, market volatility, plummeting interest rates, and...
constant legal changes, it can feel extremely daunting. Specifically, when you look at retirement income planning, it can be a complex arena where academics, theory, practice, products and people collide. I often describe income planning as trying to hit a moving target in the wind. The target is each individual’s goals for retirement – what they want to do and how they want to spend their money. It moves because you can’t predict how long a person will be in retirement – it could be one year, or it could be 40 years.

And the wind? External factors like the markets, laws and other more macro-level events that fluctuate.

Lately, there has been a lot of external influence with COVID-19 and the resulting market volatility. A retiree during this time might wish to have some level of secure income in retirement rather than check their retirement portfolio each day. This is where bond ladders and annuities come into play. And if the SECURE Act, which was passed at the end of 2019, has the impact many anticipate, investors can expect to see more and more annuities showing up in their 401(k) plans over time.

Annuities generate income in a retirement plan by creating a floor of income that the individual cannot outlive and that is not impacted by the ups and downs of the daily markets.

For many in this environment seeking safety, financial products like annuities can become more attractive. The same New York Life study discussed earlier found that among people who are likely to seek financial advice, 62 percent of people say they are more interested in a product with a predetermined payout that does not change, regardless of how the market is doing and 56 percent say they are more interested in a product that allows them to benefit from stock market growth, while also providing a floor for how much you could lose. Additionally, in a recently published survey by Carson Coaching, it was found that individuals who had a retirement income analysis completed by their advisor felt more value for the fee they paid their advisor and more secure about their own retirement preparedness. Income planning is important to client goals and needs, especially in this challenging environment.

Let’s start by reviewing the new law. Congress passed the SECURE Act during the final days of 2019. Think of the SECURE Act as enacting three key changes for retirement income planning. First, it gives annuities a big boost. Second, it encourages small business owners to set up retirement plans. And third, it significantly changes the distribution rules around IRAs.

When it came to annuities and the SECURE Act, most articles and analysis has focused on Section 204 of the SECURE Act, which created a Fiduciary Safe Harbor Provision for the Selection of Lifetime Income Providers inside of qualified retirement plans like 401(k) plans. The goal of this provision was to lessen the liability of a plan fiduciary when selecting an insurance company to provide annuities as investment options inside of the plan.

Reducing this liability and providing a simplified vetting process for plan fiduciaries is one way to introduce more annuities into retirement plans. The fiduciary must follow a number of steps in the vetting process to receive the safe harbor.

For instance, the fiduciary must still review whether an insurance company can meet its financial obligations, consider the costs of the annuity contracts, and conclude that at the time of the selection, the insurer is able to carry out its promised obligations. The fiduciary will be deemed to understand the financial capability of the insurer if they:

- obtain written representation from the insurer that it is licensed to offer the contracts
- have not had their license revoked or suspended for the last seven years
- file appropriate documents with the state regulatory department
- maintain appropriate state-mandated minimums in all states where they do business
- are not under a supervisory operating structure
- undergo a financial assessment by the insurance commissioner at least once every five years.

The insurance company must agree to notify the fiduciary of any changes to the aforementioned provisions.

"Sixty-two percent of people say they are more interested in a product with a predetermined payout that does not change, regardless of how the market is doing and 56 percent say they are more interested in a product that allows them to benefit from stock market growth, while also providing a floor for how much you could lose."
Will this new safe harbor provision open the flood gates, and lead to all 401(k) plans soon adding annuities to their investment options? The answer I got when I spoke to Dylan Huang, Senior Vice President and Head of Retail Annuities at New York Life, surprised me.

He said that he did not see the SECURE Act’s provision as “opening the flood gates” because many 401(k) plans and participants were not yet ready for the conversation.

Huang stressed a very important point when it comes to adding annuities inside of retirement plans: “The value proposition of income annuities as part of a retirement income plan is a very strong one, but annuities need to be used inside of a retirement income plan and not in silos.” Ultimately, the introduction of annuities into employer sponsored retirement accounts will take time and education. However, in the long run it could be a significant game changer in providing individuals with more access to annuities through a workplace retirement plan.

INCOME FOR LIFE?

The fiduciary safe harbor provision is the good news for annuities in the SECURE Act. The bad news? Well that might be found in a small but significant tax provision in the SECURE Act that is cause for concern. This provision removes the lifetime stretch for many beneficiaries of inherited retirement accounts and requires that accounts be distributed within 10 years after the year of death of the owner. The issue? Many qualified income annuities being sold today are presented as allowing payments longer than 10 years after the death of the owner.

Drafters of the bill were somewhat aware of this potential issue and built a provision into the bill that grandfathered certain existing annuities under the old lifetime stretch provisions as long as they were qualified income annuity products sold before December 20, 2019 (prior to enactment of the SECURE Act) where the income annuity payments were fixed and irrevocable. Certain other products were then subject to the 10-year term. While I use December 20, 2019, there are some uncertainties around the right dates here, especially with some potential look back and free look provisions at the state level.

In other words, if you bought an income annuity prior to December 20, 2019, in an IRA, that qualified income annuity is exempt from the 10-year period if it was irrevocable in the manner that the annuity would pay out. It also appears that a joint and survivor annuity for life to the beneficiary as the beneficiary of the IRA would have been exempt. It also means these types of qualified income annuity products sold on or after December 20, 2019 are not exempt.

Here are two simple examples where this issue might arise:

- A financial professional sells a qualified income annuity to a married couple in 2020 in the husband’s IRA. The annuity is a deferred income annuity that will pay income to life for the husband and then continue payments for life to the surviving spouse as beneficiary of the IRA. However, the wife is 15 years younger than the husband. A few years later, they divorce and the IRA and beneficiary is never changed. The surviving ex-spouse now has no exception to the 10-year distribution rule but the annuity promised to pay for life.

- A father bought an annuity in his IRA that pays out for life and then 20 years. However, the beneficiary is a non-minor child of the IRA owner. The initially expected 20-year period won’t adhere to the new 10 year stretch. Or simpler, a joint lifetime annuity with a non-minor child of the IRA owner as the beneficiary.
IMPACT ON FINANCIAL PROFESSIONALS

At the same time financial professionals continue to promote the value of guaranteed lifetime income, they also continue to highlight lifetime payments for annuity owners and beneficiaries. We know that for certain products, this won’t be the case – putting financial professionals in a difficult position.

Here’s why: Most contracts of this nature have commutation or endorsement clauses or language about legal changes that occur that give the insurance company the right to modify the contract to adhere to current law. Income annuities sold after 2019 could be modified to adhere to current law and commutation clauses could be used to fix contracts that do not adhere to the 10-year rule. Insurance companies may look to do a present value analysis and calculation of the benefit and offer it as a lump sum or in a 10-year payment in order to comply with current law. There were modifications occurring before the SECURE Act in order to help annuity distributions to comply with applicable beneficiary rules.

Insurance companies are afforded the flexibility within annuity contracts to make these adjustments, but the beneficiary might not receive the same benefit that was promised originally by the agent who placed the contract – putting financial professionals in the position of promising a benefit that the consumer may not ultimately receive and the consumer purchasing a product they do not fully understand. Today, professionals across the industry are not being equally equipped with the right tools to express the details of how these policies might play out with the SECURE Act changes in place.

WHAT CAN BE DONE

In the immediate term, insurance companies and IRI members should work together to get the right education and information into the hands of their agents and the end consumer to inform them that not all contracts will pay out to beneficiaries for longer than 10 years. Here are some questions that financial professionals can ask:

- Was the income annuity contract sold on or after December 21, 2019?
- Is the annuity a qualified annuity in an IRA or qualified plan?
- Is the beneficiary an eligible designated beneficiary?
- Is the joint annuitant a non-spouse?
- Does the contract pay for life to a beneficiary?
- Does the contract pay for a term longer than 10 years to the beneficiary?
- Is the beneficiary more than 10 years younger than owner?

Is there a real issue here? Well, I spoke to Gary Mettler, an annuity expert and CFP® professional, and he is very concerned about the complexity of the issues. Mr. Mettler wants to see insurance carriers get ahead of this issue as soon as possible to explain how they plan to modify the contracts to comply with the SECURE Act. Recently, in May 2020, Mr. Mettler ran a Cannex report finding all 20 carriers quoted in the report were showing a quote for selling a qualified joint and survivor single premium immediate annuities with a 100% joint survivor option where the age difference is 15 years. This is a clear situation where if a divorce occurred before the death of the owner, there could be a SECURE Act issue with the 10 year payout and the upfront expectation to get income for life to the survivor. This is something that could easily become an issue in the future if sold today. As Mr. Mettler pointed out, it’s not clear all of the carriers would issue the contracts, but the quotes are showing up in Cannex for all of them.

So where do carriers sit today? Many of the carriers I’ve spoken with are well-aware of and preparing for the issue. According to Dylan Huang, Senior Vice President and Head of Retail Annuities at New York Life, “In order to ensure financial professionals and consumers understand how the provisions in the SECURE Act might impact their retirement plans, we began offering resources on the SECURE Act and its implications – including on the 10-year stretch provision and the impact on non-eligible designated beneficiaries – to our agents and third-party advisor partners early this year. We have also included a summary of SECURE Act policy impacts in all of our annuity policy delivery kits since January.”

Guaranteed income has always been an important component of Americans’ retirement planning, but it becomes even more critical in the current environment when other sources of retirement income are under stress. Financial professionals play a key role in helping retirees ensure guaranteed income is part of their plans and we must continue to set them up for success. However, without more certainty around how these contracts will be modified, it puts fiduciaries and insurance agents in a tough spot with clients as their messaging might not align with what the carrier eventually does with the contract in order to comply with the new provisions of the SECURE Act.
Dual Direction Segment

About Structured Capital Strategies® PLUS

Structured Capital Strategies® PLUS is a tax-deferred variable annuity that offers you a way to save for retirement with a straightforward path through the ups and downs of the investment world. It’s designed to help you protect against some loss and take advantage of market upside that tracks well-known benchmark indices, up to a performance cap.

How the Dual Direction Segment works

The Dual Direction Segment is an option for putting Structured Capital Strategies® PLUS to work for you. It lets you lock in potential growth that tracks the S&P 500®, up to a cap that’s set up front. At the same time, the built-in downside buffer offers protection against some loss. The Dual Direction Segment offers some upside potential when the benchmark index goes down. Your investment will receive a positive return of the same percentage if the benchmark index shows a loss up to and inclusive of -10% at maturity. If the benchmark index shows a loss of more than -10%, you can still stay confident because you receive partial protection against loss up to -10%.

Let’s look at a hypothetical example

Assumptions: 80% Performance Cap Rate; $100,000 Initial Investment

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<thead>
<tr>
<th>Return (%)</th>
<th>$100,000 Initial Investment</th>
<th>$180,000</th>
<th>$148,000</th>
<th>$108,000</th>
<th>$98,000</th>
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<tbody>
<tr>
<td>80%</td>
<td>80% Performance Cap Rate</td>
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<tr>
<td>60%</td>
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<td>40%</td>
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<td>-5%</td>
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<tr>
<td>-10%</td>
<td>-10% Segment Buffer</td>
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</tbody>
</table>

Scenario 1: Index Gain above Performance Cap
- Performance Cap Rate: 80%
- Index Performance: +85%
- Result: Your gain is +85%
- Segment Maturity Value: $180,000

Scenario 2: Index Gain within Performance Cap
- Performance Cap Rate: 80%
- Index Performance: +48%
- Result: Your gain is +48%
- Segment Maturity Value: $148,000

Scenario 3: Index Loss within Segment Buffer
- Level of Protection: -10%
- Index Performance: -8%
- Result: 8% Return. Since the loss is within the Segment Buffer, your investment receives a positive return of the same percentage, which is 8%.
- Segment Maturity Value: $108,000

Scenario 4: Index Loss below Segment Buffer
- Level of Protection: -10%
- Index Performance: -12%
- Result: -2% Return. Segment Buffer absorbs first 10% of loss.
- Segment Maturity Value: $98,000

This example is a hypothetical intended for illustrative purposes only and is not indicative of actual market, index, investment or financial product performance. The example assumes the optional Return of Premium Death Benefit is not elected. Please note that individuals cannot invest directly in an index. Please note that due to spacing constraints, the index name in this document were abbreviated. The full name is the S&P 500® Price Return Index.

1 May not be available in all firms and jurisdictions.
2 If the negative return is in excess of the Segment Buffer, there is a risk of substantial loss of principal.