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IRI Insight

The Leading Newsletter for the Retirement Income Industry

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# The U.K. Heads toward the Brexit

**In the days following the announcement that the United Kingdom will be leaving the European Union, global markets tumbled, setting off a new wave of volatility. In the United States, the Dow Jones Industrial Average dropped 900 points over a two-day span. Since then, the markets have rebounded and soared to record highs. The sharp contrast has whiplashed clients asking questions about what's going on. To help advisors answer their questions, several market strategists provide their insights.**


**What went wrong?**

Sometimes it's all about expectations. A decision by the United Kingdom to leave the European Union would certainly trigger uncertainty, which would likely lead to weakening economic conditions. However, the markets did not price in that outcome, as polling led to the assumption that the "remain" camp would prevail. This paved the way for a big surprise for the markets when the vote outcome was revealed.

"Most agree that the dramatic market response following the vote was in reaction to markets being blindsided by the unexpected vote," noted Quincy Krosby, Market Strategist, Prudential Financial, Inc.

Continued on A2

## Executive Perspective

Quincy Krosby, Market Strategist, Prudential Financial, Inc.

**"Central banks, particularly the Bank of England, made it clear that they were prepared to provide liquidity if financial conditions tightened. This helped provide confidence and allowed markets to normalize following the Brexit vote. In early August, the Bank of England eased policy with a broad range of measures to help credit markets as data in the U.K. suggested that post-Brexit economic conditions were softening."**

*In This Issue:*



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## Executive Perspective

Laurence Boone, Chief Economist, AXA; Head of Research and Investment Strategies, AXA Investment Managers

**"Heightened political uncertainty is likely to prompt a material deceleration in economic activity in the short term in the U.K. and may push fiscal and monetary authorities to provide additional stimulus. While the U.K.'s longer-term outlook remains highly uncertain, we still expect the [U.K.'s] economy to slow to near recessionary conditions."**

Continued from A1

Her view is shared by Ed Perks, Chief Investment Officer, Franklin Templeton Equity, Franklin Templeton Investments. "Expectations really were leaning very much the other way, so there was a fair amount of surprise," he explained.

### What went right?

The short-term market response could perhaps be attributed to a number of measures — including quick action taken by central banks — to reassure the markets and investors in the wake of the Brexit vote.

"Central banks, particularly the Bank of England, made it clear that they were prepared to provide liquidity if financial conditions tightened," Prudential's Krosby said. "This helped provide confidence and allowed markets to normalize following the Brexit vote. In early August, the Bank of England eased policy with a broad range of measures to help credit markets as data in the U.K. suggested that post-Brexit economic conditions were softening."

### What's the outlook for the United Kingdom?

Most experts agree that the United Kingdom is likely to face the highest degree of economic risk as a result of the Brexit vote, as political uncertainty will likely sour economic activity.

"Heightened political uncertainty is likely to prompt a material deceleration in economic activity in the short term in the U.K. and may push fiscal and monetary authorities to provide additional stimulus," said Laurence Boone, AXA's Chief Economist and Head of Research and Investment Strategies for AXA Investment Managers. "While the U.K.'s longer-term outlook remains highly uncertain, we still expect the [U.K.'s] economy to slow to near recessionary conditions."

In gauging the impact of the Brexit, Prudential's Krosby says it will be important to focus on the corporate profits and guidance from both British companies as well as companies who export to the United Kingdom. Despite some gloomy forecasts, she says some of the initial post-Brexit data points have been stronger than estimated. Moving forward, Krosby believes the political negotiations between the United Kingdom and the European Union surrounding the exit will provide new information regarding the relationship between both in the future. As part of this, London's role as a major global financial center will be under consideration.

### What happens next for the Eurozone?

Over the long term, there remain concerns over the future of the European Union in the aftermath of the Brexit. "A more general long-term issue — indeed an existential concern — is the effect the Brexit has on other European Union members, especially Eurozone countries that have been in recession for many years," Krosby said. "Citizens of stronger countries continue to question their responsibilities toward the weaker ones."

Michael Hasenstab, Chief Investment Officer, Templeton Global Macro, Franklin Templeton Investments, also has concerns about nationalism and geopolitical risk across Europe.

"The concerns in the Eurozone regarding a rise of nationalism, questioning the whole Eurozone construct, the ability to form a fiscal union given all the geopolitical issues developing within Europe, are incredibly problematic, so we favor being short the euro as a hedge against political risks that could continue to unfold."

### How does this impact the global market?

AXA's Boone sees the United Kingdom's political and economic uncertainty as potentially impacting international activity. But she believes the likely outcome is that central banks will be more accommodative.

"Markets will unavoidably ask the question, 'Is this exogenous shock going to trigger a global recession?'" Boone said. "At this stage, our answer is, 'probably not,' but again, it is fair to say uncertainties have increased."

Meanwhile, Franklin Templeton's Hasenstab notes that markets across the

Continued on A3

## Executive Perspective

Michael Hasenstab, Chief Investment Officer, Templeton Global Macro, Franklin Templeton Investments

**"The concerns in the Eurozone regarding a rise of nationalism, questioning the whole Eurozone construct, the ability to form a fiscal union given all the geopolitical issues developing within Europe, are incredibly problematic, so we favor being short the euro as a hedge against political risks that could continue to unfold."**

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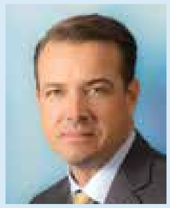
world have proven resilient in the face of a number of shocks, particularly in emerging markets. He believes ultimately the fundamentals on the ground will matter most.

"One of our strongest convictions at the beginning of the year was that despite a lot of global uncertainty, we thought emerging markets have been oversold," he said, noting Brazil as an example, where its currency (the real) is up about 20 percent versus the U.S. dollar, and the 10-year government bond yield has moved from 16 percent at the beginning of the year to below 12 percent in recent days. "Underlying fundamentals in these countries matter, and despite a lot of the headline noise, the fundamentals throughout most of the emerging markets remain sound and markets have progressed through that."

### Executive Perspective



Ed Perks, Chief Investment Officer, Franklin Templeton Equity, Franklin Templeton Investments

**"I think if there were two words to describe the situation in the U.S. right now — the economy and the markets — I would choose stable and resilient."**

**What happens next at home?**

In the United States, AXA's Boone believes the ongoing recovery in economic growth and unemployment is likely to continue as it has been driven mostly by household spending, including consumption and housing investment. That being said, she believes the Brexit – on top of a number of other uncertainties – could impact the Federal Reserve's plans to raise interest rates. Ultimately, she says the Fed's decision will be dependent upon financial and real economy developments.

Perks, with Franklin Templeton, also believes the United States to be moving forward, despite global uncertainties. "I think if there were two words to describe the situation in the U.S. right now – the economy and the markets – I would choose stable and resilient," he said. ∎

# Navigating Clients through Volatile Times

**When the United Kingdom announced on June 24 the results of its historic vote to leave the European Union, it sparked a worldwide selloff. In the United States, the Dow Jones Industrial Average dropped more than 600 points, the eighth-biggest daily point drop in its history. With the financial crisis still fresh in clients' minds, days such as this are a reminder that volatility remains a major concern for today's clients.**

As the market has historically trended upwards and grown, big point swings have become a new norm. In fact, 15 of the 20 largest daily Dow losses have taken place during the past decade. That doesn't mean volatility has become any easier for clients to digest, and helping clients to get through tough times – and avoid making emotional decisions – has become an important part of an advisor's business. To help advisors approach this task, Rich LaVoice, Executive Vice President of Retirement Sales and Distribution for Symetra, offers his perspectives.

**Many clients' natural impulse following a correction or downturn may be to head to the exit. What's the risk in doing so, and how can advisors help their clients stay the course during volatile times?**

Morningstar and DALBAR have done a lot of research on investor behavior. Studies have shown that a certain sub-set of clients tends to sell when volatility picks up and buy when they perceive a "perfect" environment. The result, according to the analysis[1], is that their investment portfolios underperform by an average of 366 BPS, or 3.66 percent, per year.

Investor behavior is a key issue for the advisory and investment businesses, but it's also an opportunity for crucial dialogue. Talk to clients about investor behavior studies. Help them understand that wanting to sell when volatility picks up is a natural reaction, but it's important to avoid big, emotionally driven decisions like exiting the market entirely. Because we see that typically in cases where people opt to get out, they never get back in and fall behind the curve.

Avoiding that scenario is one reason a key message for advisors and clients is: What can you do today? It's very difficult to undo the outcomes of an event that's already occurred. A call to action for advisors would be to galvanize their messaging so that clients are thinking about the issues and acting appropriately when markets are relatively calm.

Continued on A4

[1] DALBAR, 22nd Annual Quantitative Analysis of Investor Behavior (QAIB)

Continued from A3

This is the perfect time for advisors to work with clients to evaluate their options and ensure their investment objectives, risk tolerance and time horizon line up with their financial plan. And because it's often difficult to truly determine a client's risk tolerance until you're in the heat of a situation, it can be useful to conduct little stress tests on a portfolio to help both the advisor and client better gauge actual risk tolerance. This is the time to have the conversation, when there have been little tremors versus a major earthquake, such as the events of 2008-09. If you haven't prepared, there is very little you can do after the earthquake has hit. You can't lash the grandfather clock to the wall after the fact. It's going to be tough to pick up the pieces. And no advisor wants it to be tough on their clients.

**What strategies can advisors utilize to help their clients cope with volatility and/or soften its impact?**

One way to help clients cope with volatility is to take a sub-set of the client's assets and put them into something that has an asymmetric risk-and-reward profile that can only increase in value and never decline. Our industry has a tremendous role to play in reducing the overall volatility of the entire portfolio. As the market continues to test the nerves of retirement-age clients, a portfolio strategy incorporating fixed deferred annuities and fixed indexed annuities may help deliver both the stability and growth these clients need.

Fixed deferred annuities and fixed indexed annuities (FIAs) can be rocks of stability. Allocating a portion of a client's portfolio to a fixed deferred annuity or FIA provides guaranteed growth and a product that will never show a loss, assuming no withdrawals are made during the surrender-charge period. Selling bonds for additional cash places clients at the mercy of the market. Annuities take market fluctuation off the table.

If one-third of a client's assets are held in a stable asset, those assets never decline in value. De facto, it provides more stability to the investor. Now, it may not be enough for some clients, but it will be for many. If it isn't, then the advisor and client need to get serious about reducing risk even further.

**Following a drop in the market, what can advisors do to be proactive and reach out to clients to boost their confidence and position them to meet their goals?**

I can't overemphasize the importance of regular dialogue. As advisors, we need to be mindful of our responsibilities in terms of helping clients make educated decisions and creating a financial plan that sets them up for long-term success and that they're able to stick to through thick and thin. Because as financial professionals, we understand it's not always going to be calm waters moving forward. But we also know that there are vehicles — such as CDs and annuities — that can have an overall dampening effect on portfolio volatility.

You want clients to have a plan they can live with — something that aligns with not only their investment objectives, but also their risk tolerance and time horizon. You want to help them effectively calibrate risk, and a discussion around the issue of volatility and how it may affect them is one way to do that. This is the kind of talk that advisors need to have with clients. And the best time to do that is before the horses have left the barn. ∎

## Executive Perspective

Rich LaVoice, Executive Vice President of Retirement Sales and Distribution, Symetra

**"This is the perfect time for advisors to work with clients to evaluate their options and ensure their investment objectives, risk tolerance and time horizon line up with their financial plan. And because it's often difficult to truly determine a client's risk tolerance until you're in the heat of a situation, it can be useful to conduct little stress tests on a portfolio to help both the advisor and client better gauge actual risk tolerance."**

## Dow Jones Industrial Average All-Time Largest One-Day Losses

| Rank | Date | Close | Net Change | Percentage Change | Rank | Date | Close | Net Change | Percentage Change |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 9/29/2008 | 10,365.45 | -777.68 | -6.98 | 11 | 8/21/2015 | 16,459.75 | -530.94 | -3.12 |
| 2 | 10/15/2008 | 8,577.91 | -733.08 | -7.87 | 12 | 8/10/2011 | 10,719.94 | -519.83 | -4.62 |
| 3 | 9/17/2001 | 8,920.70 | -684.81 | -7.13 | 13 | 10/22/2008 | 8,519.21 | -514.45 | -5.69 |
| 4 | 12/1/2008 | 8,149.09 | -679.95 | -7.70 | 14 | 8/4/2011 | 11,383.68 | -512.76 | -4.31 |
| 5 | 10/9/2008 | 8,579.19 | -678.91 | -7.33 | 15 | 8/31/1998 | 7,539.06 | -512.62 | -6.37 |
| 6 | 8/8/2011 | 10,809.85 | -634.76 | -5.55 | 16 | 10/7/2008 | 9,447.11 | -508.39 | -5.11 |
| 7 | 4/14/2000 | 10,305.78 | -617.77 | -5.66 | 17 | 10/19/1987 | 1,738.74 | -508.00 | -22.61 |
| 8 | **6/24/2016** | **17,400.75** | **-610.32** | **-3.39** | 18 | 9/15/2008 | 10,917.51 | -504.48 | -4.42 |
| 9 | 8/24/2015 | 15,871.35 | -588.40 | -3.57 | 19 | 11/5/2008 | 9,139.27 | -486.01 | -5.05 |
| 10 | 10/27/1997 | 7,161.14 | -554.26 | -7.18 | 20 | 9/1/2015 | 16,058.35 | -469.68 | -2.84 |

**Sources: *Wall Street Journal, Historical Index Data;* and *Wikipedia.***

# Addressing Advisors’ Top Fiduciary Rule Questions

**The Department of Labor (DOL) fiduciary rule, which was finalized in April, represents the biggest regulatory change to impact the industry in decades. In fact, a survey by the Nationwide Retirement Institute found that 87 percent of financial advisors expect the rule to require them to change the way they do business. Given the magnitude of change on the horizon, it’s understandable that advisors have lots of questions about the rule, the new requirements it imposes, and how to comply with these requirements.**


“This is a significant change in regulations that will fundamentally impact the way advisors and their firms service their clients,” said IRI President and CEO Cathy Weatherford. “Understandably advisors have lots of questions, and it is my goal for IRI to be advisors’ trusted partner in navigating through the days ahead. We have brought together more than 800 industry experts to help support financial professionals by delivering the answers they need.”

To help address advisors’ top questions related to implementing and conducting business under the new rule, IRI has developed the following responses to the most common, pressing questions from around the advisory industry. It’s important to note that ultimately each firm will make its own decision about how it intends to comply with the rule and will establish their own policies and procedures needed to satisfy its requirements. The following responses are designed to help advisors better understand the rule and better anticipate what to expect as firms begin to approach implementation.

**What does the DOL rule do?**

The new rule significantly expands the universe of activities that would make someone a fiduciary under ERISA by treating almost any suggestion about investments as fiduciary advice. This includes recommendations to roll over retirement savings from a 401(k) to an IRA, to hire a professional to provide financial advice, or even to transition from a commission-based brokerage account to a fee-based advisory account. The rule also may consider other types of activities as fiduciary in nature, though it is less certain. These activities may include providing a mere factual description of the features of an investment product and explaining how the product can meet certain needs; offering examples of how particular investment products could be used to implement an individual’s asset allocation plan; and counseling a recent retiree about his or her likely income replacement needs and the features available under various annuity products that could help meet those income replacement needs.

**What does it mean to be a fiduciary under ERISA, and how does fiduciary status affect advisor compensation?**

The DOL has emphasized the fact that a fiduciary under ERISA is required to act in his or her client’s best interest. We know the vast majority of advisors are already committed to acting in their clients’ best interest, but this is more than just an affirmation of that commitment. It changes advisors’ legal status and holds them to new legal obligations that go beyond doing what’s right for their clients.

Specifically ERISA fiduciaries and their firms have a duty of loyalty. This means they must act solely in the interest of their clients. They also have a duty of prudence, meaning they must act with the “care, skill, prudence, and diligence under

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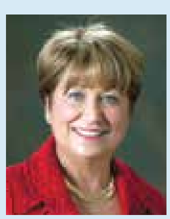
## Executive Perspective



Cathy Weatherford, President and CEO,
Insured Retirement Institute (IRI)

**“This is a significant change in regulations that will fundamentally impact the way advisors and their firms service their clients. Understandably advisors have lots of questions, and it is my goal for IRI to be advisors’ trusted partner in navigating through the days ahead. We have brought together more than 800 industry experts to help support financial professionals by delivering the answers they need.”**

Continued from A5

the circumstances then prevailing that a prudent man acting in a like capacity would use." Compliance with these duties is not judged based on outcomes but rather on the process followed by the fiduciary.

Moreover ERISA fiduciaries and their firms are not allowed to receive compensation from any third parties in connection with their recommendations or compensation that varies depending on the particular investment being recommended. These are considered "prohibited transactions." The DOL can provide exemptions to allow individuals and firms to engage in "prohibited transactions" and receive compensation under certain conditions. Under the new rule, the primary exemption for most situations is the Best Interest Contract (BIC) exemption.

**What does "reasonable compensation" mean?**

"Reasonable compensation" is a vague and undefined standard, but the DOL has held ERISA plan fiduciaries plans to this standard for many years. Under the DOL rule, to the extent you are relying on the BIC exemption, PTE 84-24 or other prohibited transaction exemptions, this standard will now have to be applied to the IRA market as well. Advisors to IRA owners have never before had a legal obligation to follow ERISA's "reasonable compensation" standard, so this will be an adjustment for that part of the industry.

"Reasonable compensation" has traditionally been interpreted and applied by the DOL as a market-based standard. Compliance with this standard will be determined based on whether your compensation is in line with amounts being received by others in the market in connection with recommendations of similar products, as well as the services, rights, and benefits you and your firm provide to your clients. This standard does not dictate any specific amount of compensation you and your firm can receive, but it can be expected to target at least true outliers (compensation that is far out of line with the market). The reasonableness of your compensation will depend on the particular facts and circumstances at the time of the recommendation.

**What do I need to know about the new disclosure requirements under the BIC exemption?**

If you or your firm intends to use the BIC exemption, your firm will be required to notify the DOL in advance of that intention and must conform to data retention and recordkeeping rules.

In addition, the BIC exemption does impose significant disclosure requirements. General information about the best interest standard and material conflicts of interest must be provided when your firm enters into best interest contract with your client, and when your client executes a recommended transaction. Your clients will have the ability to obtain more detailed information about fees and compensation upon request. Your firm will also have to maintain a free website that is updated at least quarterly with information about arrangements with product manufacturers and other parties for third-party payments, and information about the firm's business model and advisor compensation arrangements.

**How will the DOL rule impact my ability to provide education to my clients?**

While the rule broadly treats almost all interactions between advisors and clients as fiduciary advice, it does make clear that you can provide educational information about financial, investment, and retirement matters without becoming a fiduciary. This includes education about:

- The terms or operation of a 401(k) plan or IRA, including, for example, the benefits of participating and increasing contributions, the impact of early withdrawals, and available distribution options.
- General financial and investment concepts, estimating future retirement income needs, determining investment time horizons and risk tolerance, and general strategies for managing assets in retirement.
- Model asset allocation portfolios for hypothetical clients with different time horizons and risk profiles.
- Interactive investment materials plan participants or IRA owners can use to estimate retirement income needs, evaluate distribution options, or estimate how much retirement income could be generated by a hypothetical account balance.

There are limited circumstances when you may be able to include specific investment options in an asset allocation model. But in general, talking about specific investment products will cause you to cross the line from education, which would not make you a fiduciary, to advice, which would make you a fiduciary. ■


Have more questions? Visit myIRIonline.org to access IRI's entire FAQ for Advisors, which offers advisors information and guidance on compensation, BIC compliance, being an ERISA fiduciary, and working with clients.

# First Baby Boomers Reach Critical RMD Age of 70½

**The oldest members of the Baby Boomer generation started reaching the critical required minimum distribution (RMD) age of 70 ½ this summer. This means that RMD rules are now starting to apply to a large cohort of Americans, with millions more to follow. Though RMD rules aren't new, their impact on such a large group of retirees necessitates reviewing RMD rules and strategies to effectively manage these distributions. It also presents an opportunity for advisors to engage their clients to plan ahead.**

With the oldest Baby Boomers, those born in 1946, reaching the age of 70½ this year, RMD rules are starting to apply to one of the largest cohorts of Americans. For Boomers who reach this milestone in 2016, those with IRAs will need to take their first required distributions by April 1, 2017. The same will apply to retired Boomers who are participants in workplace retirement plans, such as 401(k) and 403(b) plans. [See chart "RMD Reminders" on page A8 for a complete overview of RMD rules.] Clients should take care to ensure they follow the rules and take these required distributions on time, as the penalties are quite steep.

"IRA owners or plan participants who fail to make required distributions for a given year must correct the error and pay a 50 percent penalty," explains Brandon Buckingham, Buckingham, Vice President and National Director of the Advanced Planning Group for Prudential Annuities. "This is one of the largest penalties in the Internal Revenue Code. The tax-deferral benefits of IRAs and 401(k) plans were created to incentivize and encourage people to save for their own retirement. But eventually, retirees will have to pay the tax bill."

Buckingham encourages advisors to reach out to their Boomer clients to begin having conversations about RMDs and how these distributions can impact their retirement income plans, portfolios, taxes and estate plans. Conversations should not be limited to those at or near their RMD age. He says advisors should be engaging clients in their 50s and 60s to lay the groundwork and prepare accordingly.

"Managing RMDs is an important factor in retirement income planning," Buckingham said. "RMDs can push a retiree into a higher tax bracket, which in turn could increase the tax on other income and Social Security benefits. It could also impact a client's Medicare premiums." In fact, monthly Medicare Part B premiums can be nearly four times as much depending on your level of retirement income.

### Strategies for Managing RMDs

There are a number of strategies that clients can employ to manage RMDs effectively, and early planning may be the key to effective execution.

**Tax Diversification.** Just like a retirement savings plan should be well diversified, so too can a retirement income plan benefit from being tax diversified. Buckingham says having taxable, tax-deferred and tax-free accounts will allow clients the opportunity to better control their tax bracket, the timing of taxes, and their overall tax liability.

**Converting to a Roth IRA.** Strategically converting an IRA to a Roth IRA will reduce future RMDs and increase tax-free income in retirement, as Roth IRAs are not subject

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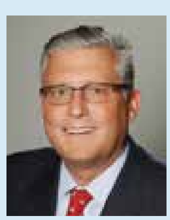
### Executive Perspective



Brandon Buckingham, Vice President and National Director, Advanced Planning Group, Prudential Annuities

**"IRA owners or plan participants who fail to make required distributions for a given year must correct the error and pay a 50 percent penalty. This is one of the largest penalties in the Internal Revenue Code."**

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to RMD rules during the owner's lifetime. Advisors can help their clients determine how much should be converted, but Buckingham says a common practice is to convert an amount that would fill up the client's current tax bracket. That is, no more than would cause the client to enter into a higher tax bracket.

**Taking Early Distributions.** In order to reduce future RMDs for tax planning purposes, Buckingham says advisors may consider having a client take distributions sometime after age 59½ but prior to age 70½. This may provide the IRA owner the opportunity to defer Social Security and maximize those benefits for increased cash flow later on. And by taking early distributions, this can help manage future distributions and control how much of their Social Security benefits will be taxed. For single filers, those with combined income between $25,000 and $34,000 will pay income tax on up to 50 percent of their Social Security benefits, and those with combined income of more than $34,000, up to 85 percent of their Social Security benefits may be taxable.

**QLACs.** Qualifying longevity annuity contracts (QLACs) are deferred income annuities (DIAs), which offer clients a guaranteed lifetime income stream later in retirement when they are most vulnerable to outliving assets. QLACs are the result of a 2014 Treasury rule designed to facilitate access to longevity annuities in workplace plans and IRAs by allowing the value of the annuity contract to be excluded from RMD calculations, reducing the total RMD amount. Clients can allocate the lesser of $125,000 or 25 percent of their account balance to a QLAC, explains Buckingham.

**Charitable Distributions.** For clients who do not need the income but have other legacy goals in mind, they may want to take advantage of a qualified charitable distribution. Buckingham says clients who have reached age 70½ can distribute up to $100,000 annually from their IRA and distribute to qualified charities. The distribution can be used to satisfy the client's RMD, but the distribution will not be added to his or her taxable income.

**Surviving Spouses.** The IRS tables used to determine RMDs require IRA owners to take a larger percentage of their account each year. Buckingham contends that the annual increase in the RMD withdrawal rate can also increase the risk that the account will be insufficient to provide retirement income to a surviving spouse. To protect against this outcome, some annuities will offer certain protective riders that can address the market, longevity and timing risks inherent in all IRAs, as well as provide guaranteed income over the lives of both spouses.

For instance, a Guaranteed Minimum Withdrawal Benefit (GMWB) with a "spousal" rider could guarantee a withdrawal rate over the lives of both spouses. The withdrawal rate is guaranteed regardless of market performance and regardless of how long the IRA owner and his or her spouse live. Furthermore, some GMWBs "spousal" riders are RMD-friendly, meaning that at any time the RMD exceeds the rider's allowable withdrawal rate, the annuity will permit such withdrawal without adversely affecting or reducing the guarantee. In other words, the IRA owner and his or her spouse will be assured to receive the greater of the guaranteed withdrawal amount or the RMD each and every year for the rest of their lives. ∎

## RMD Reminders

**You can't spell reminder without R-M-D. Here's an overview of RMD rules.**

- IRA owners and workplace plan participants must take their required minimum distributions each year, beginning in the year in which they turn age 70½.
- The first distribution can be delayed until April 1 of the following year. For all subsequent years, the distribution must be taken by December 31 of that year.
- Workplace plan participants who are still working can wait until they stop working to take distributions, even if they have turned 70½. This exception does not apply to IRA owners or plan participants who own 5 percent or more of the business sponsoring the plan.
- IRA owners or plan participants who do not take required distributions for a given year must correct the error and pay a 50 percent penalty.
- IRA owners and 403(b) contract owners must calculate RMDs separately for each account, but can take disbursements from one or more contracts. For all other plans subject to RMD rules, disbursements must be taken separately from each account.
- Different RMD rules may apply to pre-1987 contributions to a 403(b) plan.
- Worksheets to determine RMDs are available on the IRS website.

# Holistic Retirement Planning: Breathing *Life* into an Old Conversation

By: Andrew Bucklee, Senior Vice President and Head of Insurance Solutions Distribution, Lincoln Financial Distributors

Andrew Bucklee
Senior Vice President and Head of Insurance Solutions Distribution,
Lincoln Financial Distributors

**Planning for a sound financial future goes well beyond the traditional retirement savings plan – encompassing many different elements and points of consideration. Much of the conversation around retirement planning focuses on how much clients should save – but as important should be where they save, and what tools they've put in place to ensure wealth is protected and they're able to leave a legacy for their family and loved ones.**

A holistic retirement plan is more than just a savings plan. It's ensuring wealth is protected and that a client can leave a legacy to family and loved ones.

> "Today's conversations about retirement planning are not just about products. They're about understanding needs across generations, and helping clients find the right mix of solutions that can put them on a path to protecting the retirement savings they've worked so hard to build."

Today's conversations about retirement planning are not just about products. They're about understanding needs across generations, and helping clients find the right mix of solutions that can put them on a path to protecting the retirement savings they've worked so hard to build.

This September, the insurance industry shines a light on life insurance – a solution in the marketplace that has all too often been viewed as a death benefit. Advisors have a chance to breathe new life into an old conversation, and educate clients on the need for life insurance at any age. Life Insurance Awareness Month provides advisors with an opportunity to communicate the relevance of this benefit for all ages and stages of saving.

The industry-wide opportunity to elevate the conversation surrounding life insurance from a nice to have to a necessity is helping consumers understand just how this benefit can meet various needs throughout their lifetime, helping them to achieve short- and long-term goals.

## A World Living Longer

Research shows that consumers are underprepared for retirement, and 48 percent say it's likely they could run out of retirement savings altogether. Alarmingly, savers also are planning for a shorter retirement than advisors would recommend. A Lincoln Financial Group study shows that 71 percent of advisors recommend consumers plan for more than 25 years of retirement, yet only 27 percent of consumers expect to plan for a retirement longer than that length[1]. This

Continued on A10

[1] Lincoln Financial Group and Hanover Research, Inc., "Wealth Protection Survey, 2015."

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disconnect presents the industry with a unique challenge and call-to-action — a chance to educate savers on the realities of longevity and the products that can help them along the way.

While a longer life expectancy means more time to enjoy life and those in it, it also presents savers with the harsh possibility of experiencing an unexpected life event that could derail savings and retirement goals. These unfortunate scenarios pose a serious risk to assets. Fortunately, products in the marketplace, such as life insurance, can alleviate some of the financial burden — helping preserve the wealth they've worked so hard to accumulate and may also help reduce some of the emotional impact experienced.

**Reframing the Conversation for a Younger Generation**

Policies are not one-size-fits all, nor are today's client needs. What characterizes a successful advisor-client relationship with Baby Boomer clients is going to look much different from relationships with Gen X and Millennial clients. And as advisors meet the needs of different generations of savers, maintaining a deep understanding of short- and long-term goals is critical to success.

For years insurance agents have catered to an older clientele, selling policies through traditional and lengthy underwriting processes and with products that didn't offer much in terms of flexibility for income disparities, risk preferences and stage of life. In today's digitally driven marketplace, this approach just won't cut it. Life insurance is an important component of a secure financial portfolio, and policy holders — particularly those of younger generations — need education on the living benefits it can provide. From clients in their 20s who may be focusing on debt management, budgeting and saving for a down payment, to those in their 30s focused on buying a first home and family protection, death is a far off concern. Spelling out the ways in which younger generations can use life insurance to protect against these various concerns throughout their lives can help to increase purchase consideration.

Death is a far off concern for younger families, who may need more education about living benefits associated with life insurance.

> "A Lincoln Financial Group study shows that 71 percent of advisors recommend consumers plan for more than 25 years of retirement, yet only 27 percent of consumers expect to plan for a retirement longer than that length."

**Varied Options for Protection**

Today, more affordable policies are available, being delivered in new ways to reach broader audiences, with convenience, simplicity and speed. The ability to bypass labs and obtain a policy electronically has become a reality, and one that resonates well among a generation that has come to expect a faster, digitally driven experience through the companies they do business with.

As many Americans hope to retire before the age of 65, life insurance can also offer an interim cash stream until other benefits may be accessed. Some products also hedge against longevity, allowing policy holders to transfer their income tax free to their heirs in the event the income is not needed.

Solutions like cash value life insurance allow policy holders to accumulate savings on a tax-deferred basis and savings to be distributed income-tax free through policy loans and withdrawals. For those married and/or with families, this type of benefit also provides a valuable replacement for lost income, helping cover costly expenses, such as mortgage payments. Additionally, premiums cost less at a younger age, enabling financial well-being to be protected at a lower rate.

Breaking through to a younger audience can be a challenge, as expectations are high and their consideration for purchasing products in this space can be quite low compared with considerations of an older client base. But today's policies are solving for needs in life, not just death. Advisors are in a unique position to promote conversations about the benefits of life insurance and its place in a young saver's well-rounded retirement portfolio.

Life insurance may not often be viewed as a traditional retirement planning tool, but it deserves a second look. To promote its value across all generations, advisors must build their business in a different way to resonate among a younger clientele — eliciting needs-based conversations with clients about the importance of a solution that can help preserve wealth and protect against longevity risk. ∎

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