NEW YEAR, NEW OPPORTUNITIES

Wayne Chopus
President and CEO
Insured Retirement Institute (IRI)

After 25+ years in the annuity business, representing multiple major insurance companies, I began a new adventure as president and CEO of the Insured Retirement Institute on January 2. Having served on the IRI Board of Directors for the past four years, I’m familiar with our association’s strengths and am enthusiastic about working with IRI members and staff to formulate a comprehensive strategy to advance our industry forward.

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IRI is the only organization representing the entire insured retirement supply chain – insurance companies, broker-dealers and financial advisors, asset managers, and solution providers. A key goal of mine will be to demonstrate and communicate the organization’s value proposition to each of our member firms, and to the financial advisors who are so critical to connecting consumers with our solutions.

In the coming weeks and months, I will work with the IRI Board of Directors and staff to evolve the organization’s direction and goals and solidify plans to improve our current capabilities and programs while evolving new ones that meet member needs.

I begin this role with considerable optimism for the future of this organization, and this industry. While the past few years have presented obstacles – regulatory and otherwise – to growth, and recent spikes in market volatility have unsettled investors, IRI has met and overcome greater challenges. In fact, the organization was born during, and thrived after, the 2008 financial crisis, and we will continue to be the first line of defense against further hurdles while advancing policies that create opportunities and strengthen our industry.

Collectively, our industry works to help Americans both effectively save for their financial futures, and efficiently use those savings for income when the time comes. IRI’s advocacy for legislative and regulatory changes that encourage Americans to invest for the future and create their own secure income sources is central to our mission. Another important aspect of our work is the development of research and education that demonstrates the value of saving, planning, and securing lifetime retirement income. We will continue to provide this valuable information to the advisor community to help demonstrate the value of guaranteed lifetime income products as part of a comprehensive retirement plan and encourage consumers to avail themselves of the value that advisors bring to retirement planning. I look forward to sharing more with you in future issues of Insight as we build on IRI’s strong foundation.

IRI FAST FACTS

THE RETIREE VIEW ON THE VALUE OF FINANCIAL ADVISORS

**AHEAD:** two-thirds of retirees think they are better off financially with a financial advisor

**EVEN:** one-quarter or retirees think they would be in the same place financially without a financial advisor

**BEHIND:** only one in 10 retirees believe they would be better off financially if they had never worked with a financial advisor

* Source: “Retirement, Income and Risk - 2nd Biennial Study on the American Retirement Experience” (IRI, 2018)
ADVISORS NEED TO BRING UP THE SOCIAL SECURITY CONVERSATION WITH CLIENTS

By Ron Ransom
Senior Vice President of Strategic Partnerships for Nationwide

Collecting Social Security is a big worry for a lot of financial advisors’ clients, and having a conversation about it can go a long way to ease that worry.

The problem is only 13 percent of America’s workers have discussed Social Security with a financial advisor. Among those who were counseled by their advisor on Social Security, 40 percent say that they personally initiated the conversation.

A Nationwide Retirement Institute® advisor survey reveals many advisors may actually be avoiding the discussion because they lack confidence in being able to address the nuances and rules that apply to the program. In fact, only 37 percent of advisors are very confident in their ability to help their clients optimize their Social Security income in retirement.

The online survey of 252 financial advisors by The Harris Poll finds that 54 percent of advisors are confident about their clients’ plans to help them live comfortably in retirement, but 62 percent say clients frequently tell them they are concerned about when they should start to collect Social Security.

Only 25 percent of advisors believe a vast majority of their client base (more than 80 percent) understands the factors that will impact their Social Security income.

MOST CLIENTS DON’T UNDERSTAND THE PROGRAM

A recent Nationwide Retirement Institute consumer survey revealed many misconceptions clients have about Social Security and opportunities for advisors to help.

The problem is many older adults think they are eligible for Social Security benefits sooner than they actually are, including 57 percent of future retirees. Future retirees also expect to receive $1,628 on average as a monthly payment from Social Security. However, that’s almost 30 percent more than what current retirees say they collect ($1,257).

According to the consumer survey of 1,013 U.S. adults ages 50 or older who are retired or plan to retire in the next 10 years, one in four (26 percent) future retirees believe they can live comfortably in retirement on Social Security alone.

BUILD TRUST AND RELATIONSHIPS BY STARTING THE SOCIAL SECURITY CONVERSATION

There is a great opportunity for financial advisors to help consumers understand the Social Security program and, by doing so, build trust and relationships.

Most advisors (83 percent) believe their clients expect them to give advice on Social Security.

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and 42 percent even say their clients would likely find another advisor if they did not help with optimizing Social Security benefits.

That number is much larger when you ask consumers — 72 percent of future retirees currently working with a financial advisor say they would likely switch to work with an advisor that can help them maximize their Social Security benefits.

TOOLS FOR ADVISORS TO HELP CLIENTS MAXIMIZE BENEFITS

Many clients are disappointed with the amount of their Social Security benefits. In fact, more than a quarter of U.S. adults (27 percent) in retirement say their Social Security check is less than expected.

However, those working with a financial advisor report receiving more than 20 percent more in Social Security benefits than those who don’t ($1,500 vs $1,234). Plus, those working with a financial advisor are much more likely than those not working with an advisor to say they were able to do the things they wanted in retirement (83 percent vs 55 percent).

To help advisors start conversations with clients about important claiming decisions, Nationwide’s free Social Security 360 Analyzer® provides a comprehensive look at Social Security filing strategies and helps position Social Security in the context of an individual or family’s retirement income needs.

Advisors can also learn more by visiting: www.nationwidefinancial.com/ssinsights.

Ron Ransom is senior vice president of integrated relationship strategies for Nationwide.

ABOUT THE ADVISOR SURVEY

The survey of 252 financial advisors with at least 50 percent of their clients having total investable assets of $250,000 or more was conducted online from Oct. 16-26, 2017. Because the sample is based on those who were invited to participate in the Harris Poll Online research panel, we cannot calculate estimates of theoretical margin of sampling error.

ABOUT THE CONSUMER SURVEY

The 2018 Social Security Survey was conducted online by The Harris Poll on behalf of Nationwide from January 22 to February 5, 2018 among 1,013 U.S. adults aged 50 or older who currently collect or plan to collect Social Security benefits, and plan to retire within the next 10 years (“Future Retirees”, n=339), retired within the last 10 years (“Recent Retirees”, n=339), or retired more than 10 years ago (“10+ Retirees”, n=335). Data are weighted where necessary on age by gender, race/ethnicity, region, education, income, size of household, marital status, retirement status, and propensity to be online, to bring them in line with their actual proportions in the population.

ABOUT NATIONWIDE

Nationwide, a Fortune 100 company based in Columbus, Ohio, is one of the largest and strongest diversified insurance and financial services organizations in the U.S. and is rated A+ by both A.M. Best and Standard & Poor’s. The company provides a full range of insurance and financial services, including auto, commercial, homeowners, farm and life insurance; public and private sector retirement plans, annuities and mutual funds; banking and mortgages; excess & surplus; specialty and surety; pet, motorcycle and boat insurance. For more information, visit www.nationwide.com.
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Nationwide® has products and resources to help meet your clients’ complex investment and retirement challenges.

- Solutions for estimating and covering health care and long-term care costs
- Strategies for Social Security filing and retirement income planning
- Market insights to help guide client conversations and investment decisions

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The Nationwide Group Retirement Series includes unregistered group fixed and variable annuities and trust programs. The unregistered group fixed and variable annuities are issued by Nationwide Life Insurance Company. Trust programs and trust services are offered by Nationwide Trust Company, a division of Nationwide Bank. Nationwide Funds distributed by Nationwide Fund Distributors, LLC, member FINRA, Columbus, OH. Nationwide Life Insurance Company, Nationwide Investment Services Corporation, and Nationwide Fund Distributors are separate but affiliated companies.

Life insurance and annuities are issued by Nationwide Life Insurance Company or Nationwide Life and Annuity Insurance Company, Columbus, Ohio. The general distributor for variable products is Nationwide Investment Services Corporation, member FINRA, Columbus, OH.

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A PRIMARY CONCERN FOR RETIREES IS OUTLIVING THEIR SAVINGS; AND UNPLANNED EXPENSES, SUCH AS LONG-TERM CARE (LTC) COSTS, CAN HAVE A LARGE IMPACT ON EVEN THE BEST RETIREMENT PLANS. WITH HALF OF AMERICANS, AGE 65 AND OLDER, NEEDING SOME FORM OF LTC, PLANNING EARLY FOR THESE EXPENSES CREATES MORE ROBUST FUNDING OPTIONS. ONE OF THOSE OPTIONS IS THE RELATIVELY NEW AND POPULAR HYBRID LIFE/LONG-TERM CARE INSURANCE.

With the beginning of the new year upon us, here are three reasons why hybrid LTC solutions are a great asset for your clients to consider as part of a well-rounded financial portfolio.

Greater Financial Flexibility Has Enabled Hybrid Solutions to Grow in Popularity.

**REASON 1: FLEXIBILITY**

Hybrid/life long-term care products, also called “combination products,” are different from traditional LTC insurance in that they do not solely cover LTC expenses. Hybrids offer clients LTC benefits if they need them and life insurance benefits if they don’t. These include death benefits for beneficiaries or cash through the return of premium should clients decide they no longer need the insurance.

Put simply, there is no “use it or lose it” concern with these asset-based solutions. Clients are covered for high quality, professional care if they require it. If they pass away without needing LTC, their beneficiaries will receive death benefits. This flexibility is a primary reason for the growth in hybrids to where they now represent 80% of the individual market for LTC solutions.

Hybrid life/long-term care combination products now represent nearly 80% of the overall market for individual long-term care solutions.

REASON 2: STABILITY

Hybrids are very attractive for clients looking for more predictable premiums that don’t last forever and won’t increase over time. Hybrids may also offer extended payment options, which help keep annual premiums as low as possible. Depending on the age of your client, premiums can be spread out for up to 25 years. This can help make coverage more affordable, especially during the years clients may have competing financial priorities.

Clients who purchase LTC insurance when they are relatively young may be decades from using their LTC benefits. They are unaware of the level of care needed and its associated cost that far in the future. You can help clients by reviewing the projected costs of care with them by accessing Lincoln’s interactive website, www.WhatCareCosts.com. It provides yearly and monthly costs by type of care in your location and in the state(s) where clients may plan to retire. Use the link to the website and enter “Lincoln” as the sponsor code for free access to the information.

Hybrid life/LTC solutions offer choices and convenience to help individuals remain independent for as long as they can.

REASON 3: ELIGIBILITY

Eligibility requirements for hybrid products can be simpler than for traditional LTC products, and individuals may qualify for lab-free underwriting. This means that, independent of other factors, clients may not need to pass invasive lab tests to be approved for long-term care coverage.

Some policies, Lincoln MoneyGuard among them, also help minimize out-of-pocket costs for clients when they qualify for benefits by having a “zero-day” elimination period. This means care benefits are available on day one, where other policies may have clients waiting as many as 90 days before they begin receiving benefits.

When it comes to planning for care, the best advice you can give your clients is: Everyone needs to plan, and the earlier they plan, the more options they will have to receive the type of care they want. You may hear clients say, “I wouldn’t need care until I’m older, at least in my late 60s or 70s.” And while it’s true they are more likely to need care later in life, financial advisors believe that planning should begin at age 50. Younger clients have a better chance of being eligible for coverage due to good health, can take more time to pay using lower annual premiums, and may lock in better rates.

Hybrid life/long-term care insurance offers options for how the benefits can be used, has a stable payment and premium model, and may have streamlined eligibility, resulting in a better client experience. The start of a new year is a great time to evaluate financial plans and Lincoln Financial Group encourages everyone to have a conversation with their clients about their plans for long-term care.

Market volatility shouldn’t be top of mind for your clients.

Pursuing their passions should.

Market volatility can distract your clients from their ultimate financial goals. With a built-in level of protection, Shield™ annuities can help clients stay invested for the long term – even through some volatile markets. All with no annual fees. So your clients can remain invested in their passions and their financial plan.

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THE ANNUITY ADVANTAGE IN A NEW NORMAL ECONOMY

By Dr. David P. Kelly, CFA
J.P. Morgan Asset Management

Suppose you invite an actuary to your 65th birthday party. I wouldn’t necessarily recommend it, but suppose you do. Then, as you blow out the candles, you could ask him, in his professional opinion, how many more times you will get to perform this ritual. His brow will furrow over. Even if you tell him that he can ignore gender, genes, wealth and current health, he will radiate uncertainty. The reason is simple: he doesn’t have any idea. According to the Centers for Disease Control, as of 2014, there was a 50% chance that an individual turning 65 today would live another 20 years to age 85. But there was a 25% chance of making it to 91 and a 5% chance of living another 33 years to age 98.

If, on the other hand, you ask him how long on average the roughly 10,000 other Americans celebrating a 65th birthday today will live, his face will clear. That’s easy, he’ll say. Almost certainly that average will be between 84 and 86 years, so between 19 and 21 years from today.

While there are a wide variety of annuities on the market today, with many different features, all of them leverage this simplest of advantages – it is very difficult to estimate how long an individual will live and it is very easy, on average, to estimate how long a large group on average will live. This advantage means insurers are inherently able to provide higher income streams – and with higher certainty that payments will last a lifetime – than the average investor could do for him or herself. An individual has to plan for the worst. An insurer only has to plan for the average.

The reason this is so valuable in investing is that the most important feature of any retirement plan is that it pay for your full retirement. While there are some people who are rich enough or generous enough to focus on their heirs, for most people the key is to get as much income as possible for their lifetime and for that income to last. For many people, the definition of success in retirement planning, is spending their last dollar on their last day. If you are an individual turning 65 today, in order to be 95% sure that you are not going to outlive your retirement plan you will need to generate income for 33 years. However, an insurance company constructing an annuity only needs to provide an income stream that lasts on average for 21 years, with those who live the longest lives being subsidized by those who sadly die younger.

So how would this advantage play out in practice? Suppose, on your 65th birthday, you could invest $500,000 in an investment that would generate a guaranteed 8% interest per year for ever. Over time you could gather interest payments and sell some principal to generate a constant income every year. However, if you wanted to be 95% sure that it lasted for your full lifetime, then you would need 33 equal payments, which would work out to about $40,209 per year. However, an insurance company building annuities for a large number of 65 year olds could be 95% sure of providing them all with lifetime income even if the average investment hit zero after 21 years. This would allow them to pay out a check of roughly $46,218 per year or 15% more.

That is the basic annuity advantage and should be reasonably representative of the math in recent decades. Since 1950, the S&P500 has provided a total return of 11.2% per year and the Barclays Aggregate Bond Index has...

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generated a total return of 5.9%, so assuming that a balanced portfolio could produce an average return of 8% seems plausible.

Unfortunately, for those planning for retirement today, the math is more challenging. Some have called the current financial climate a “new normal”, where economic growth will be slower and inflation lower than in decades gone by. We generally agree with this characterization, and consequently expect returns on both stocks and bonds to be substantially lower going forward. However, it turns out that in a “new normal” economy, the benefits of annuitization are even more powerful in relative terms.

Suppose, we keep everything the same as in the previous example except we now assume an annual return of 4% rather than 8%. The “do-it-yourselfer”, having to plan for 33 years, could now only draw an income of $26,492. However, an insurance company, only having to plan for an average of 21 years, could pay out $34,269 or 29% more.

It needs to be stressed that this is a purely hypothetical example. However, it illustrates an important point. The annuity advantage is based on the idea that an insurance company, by averaging across individuals, can safely eat into principal more quickly and still be confident of providing a lifetime of income for their investors than any individual investing for themselves. And when expected returns are lower, this return of principal is a correspondingly more important share of that income stream.

The annuity landscape is complicated and still evolving and investors will always need to examine fees, investment choices and a multitude of different features. However, as they do so, it is important to first remember the key feature that has made annuities one of the most enduring investment solutions in the financial landscape. That feature is our ability to predict the life span of a large group with far greater accuracy than that of any individual and that advantage is more important than ever in a new normal economy.

Still waiting for your actuary friend to tell you how many more times you’ll be blowing out your candles?

Don’t hold your breath.
TAX-DEFERRED INVESTING: IMPROVING FIXED INCOME RETURN POTENTIAL WITHOUT ADDING RISK

AS THE FED’S MONETARY POLICY PUSHES BOND YIELDS TO HISTORIC LOWS, FIXED INCOME INVESTORS ARE SEARCHING FOR WAYS TO ENHANCE RETURN WITHOUT ADDING INCREMENTAL RISK. A SIMPLE SOLUTION: TAKE ADVANTAGE OF THE COMPOUNDING POWER OF TAX-DEFERRED INVESTING..

WHAT IS TAX-DEFERRED INVESTING?
In a taxable investment vehicle, any interest earned from fixed income investments is taxed as ordinary income rather than the lower capital gains rate paid on dividends.

But in a qualified investment vehicle such as a tax-deferred annuity or a 401(k) account, tax obligations are postponed until an investor begins taking distributions, typically during retirement.

THE BENEFITS OF POSTPONING TAXES
Over the years, this ability to defer taxes provides fixed income investors with several compelling advantages:

• Because investment income can be automatically reinvested, investors can benefit from the compounded growth of both income and principal on a pre-tax basis.

• Distributions from tax-deferred accounts are usually taken during retirement, when an investor is earning less and in a lower tax bracket. Therefore, the investor’s tax burden is reduced.

• Even as an investor receives distributions throughout retirement, any remaining funds continue to benefit from the advantages of compounded growth.

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Join the Insured Retirement Institute (IRI) for REACH19 at the PGA National Resort and Spa in Palm Beach Gardens, Florida to earn CE credits and network with marketing and communications professionals from the major insurance companies, asset managers, and broker-dealers in the retirement income industry.

IRI has partnered with Broker Educational Sales & Training, Inc. (BEST), a nationwide provider of Continuing Education (CE) for financial professionals to provide state-approved courses and programs to satisfy professional and state insurance license CE requirements.

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- **Correspondence/Self-Study Exam** - Guide to Retirement Planning Strategies (up to 22 hours state insurance credit and up to 10 hours of professional designation credit upon successful completion of classroom exam).

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