ABOUT THE INSURED RETIREMENT INSTITUTE:

The Insured Retirement Institute (IRI) is the leading association for the retirement income industry. IRI proudly leads a national consumer coalition of more than 30 organizations, and is the only association that represents the entire supply chain of insured retirement strategies. IRI members are the major insurers, asset managers, broker-dealers/distributors, and 150,000 financial professionals. As a not-for-profit organization, IRI provides an objective forum for communication and education, and advocates for the sustainable retirement solutions Americans need to help achieve a secure and dignified retirement. Learn more at www.irionline.org.
OVERVIEW

The past year has arguably been one of the most disruptive in the history of the retirement income industry. The year began with the DOL fiduciary rule, and the many unanswered questions regarding its practical implications, looming large on the horizon.

At the midpoint of the year, key provisions of the rule went into effect, and while other provisions of the rule, such as the removal of annuities from PTE 84-24, are delayed 18 months as of this writing it appears the year will end with as many unanswered questions about the rule’s future as existed in January. Stephen Covey famously wrote, “If there’s one thing that’s certain in business, it’s uncertainty.” Few would argue that uncertainty was not the order of the day in the retirement income industry in 2017, yet despite that uncertainty the industry forged ahead, modifying products, processes and practices to ensure that consumers planning for retirement continue to have access to the solutions and products that will help them realize a well-funded, sustainable, and dignified lifestyle in their later years.

This year’s report will look at the demographic, market, legislative and regulatory developments that were significant in the past year, and which will work to shape the future, and offer possible trajectories for the industry in 2018 and beyond.
PROSPECTS
for Annuities and Financial Professionals

• Americans’ wealth grew significantly in the past year. Fidelity Investments reported the average 401(k) balance reached $99,900 in the third quarter of 2017, an increase of more than 10% over the prior year. The average contribution rate also rose, reaching a 10-year high of 8.5 percent.

• Demographic shifts are under way that have far reaching implications for retirement income solutions. The traditional target market for retirement income products is declining, in both numbers and as a percentage of the population, while the ranks of both older and younger Americans swell.

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Population (Billions)</th>
<th>Percent of Population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
<td>2025</td>
</tr>
<tr>
<td>25 to 44 Years</td>
<td>84.7</td>
<td>93.4 (+10%)</td>
</tr>
<tr>
<td>45 to 64 Years</td>
<td>84.0</td>
<td>82.2 (-2%)</td>
</tr>
<tr>
<td>65 and Older</td>
<td>47.8</td>
<td>65.9 (+38%)</td>
</tr>
</tbody>
</table>

• The wealth of younger Americans is growing; UBS reported in 2017 that Millennials’ wealth could reach $24 trillion by the year 2020, fueled by inheritance, entrepreneurial activity, and income gains.

• In the 2nd quarter of 2017, U.S. household financial assets were $78.3 trillion, with Baby Boomers controlling about half of those assets.

• Yet most Americans hold relatively small amounts of this wealth. A recent BlackRock study found that pre-retiree Americans (age 55-64) have average savings of only $127,000, yet Americans saving for retirement believe they will need $437,000 to meet their goals.

• With only one in four Baby Boomers expecting to receive pension income, other than Social Security, during retirement, as many as 57 million consumers may need to use their retirement savings to produce steady, predictable retirement income. And with relatively low savings, they will need to embrace annuity-based solutions to ensure their money lasts throughout retirement.

MARKET, LEGAL, AND REGULATORY CHALLENGES AND OPPORTUNITIES

• Low interest rates continued in 2017, with 10-year Treasury rates continuing to meander around the 2.3% range. This continues to constrain capacity and the ability of insurers to offer higher payouts on immediate annuities, and higher withdrawal rates on lifetime income benefits.

• Fixed indexed annuities, while off some of the highs reached in recent years, are steadily building greater market share, especially in the independent channels.

• “Buffer” annuities are making strides in the marketplace, with consumers and advisors embracing the concept of annuities designed to provide more upside in exchange for investors accepting a degree of potential downside.

• Fee-based annuity issuance is exploding, but sales have not yet caught fire as these products continue to make up a miniscule percentage of sales in virtually every distribution channel.
KEY OBSERVATIONS

As noted above, many demographic trends favor increased adoption of annuities in retirement planning, but the market environment (interest rates) and regulatory challenges (the Department of Labor fiduciary rule) continue to produce headwinds in product development, expanded use of annuities by financial professionals, and growth of the market for annuity products. A main focus of the industry in 2017 was the effort to adapt to the Department of Labor fiduciary rule; other observed trends are continuations of market trends that have been evolving for several years.

SIGNIFICANT TRENDS IN 2017:

• Fixed Indexed Annuities (FIA) and Investment-Oriented Variable Annuities (IOVA) are growing rapidly. FIAs are posting strong sales as both a fixed income substitute - meaning a bond-like return without interest rate risk, and on the attractiveness of optional guaranteed lifetime income benefits.

• Industry Consolidation, Streamlining, and Disruption: Exiting distribution, paring back product offerings or distributor relationships, and shifting product type focus as companies digested the potential impact of the DOL fiduciary rule and adjusted their business models accordingly.

• Growing Awareness of Retirement Issues: The 2017 report from IRI and Jackson, “The Language of Retirement 2017,” found that eight in 10 Americans do not believe that Social Security alone can provide them with sufficient retirement income. The same report found that only one in five expect a pension, implying there will be millions of people tapping their savings for income.

CRITICAL TRENDS IN 2018:

• Buffer annuities will continue to grow in popularity: Blackrock research finds that 39 percent of retirement savers would move further away from their cash holdings if their capital were protected. As cash continues to be a non-performing asset, interest in products that offer upside potential and downside protection will increase.

• Fee-based annuities will begin to gain traction: re-tooling processes to incorporate fee-based annuities into portfolio construction takes time, and training of advisors. As transaction processing improves and training takes hold, sales will grow.

• Retirement risk management features will help drive VA sales: amid growing awareness of the need to protect assets from the devastating costs of a long-term care event, and the availability of underwritten long-term care insurance recedes, hybrid solutions offered through variable annuities will provide further value to retirees.

• DOL Fiduciary Rule: potentially vacated by the 5th Circuit, or modified into a workable best interest standard during the 18-month implementation delay.
2017: The Retirement Income Market

VARIABLE ANNUITY MARKET-shifts focus, fixed continues to gain market share

Over the past 5 years, fixed annuities have flourished, relatively speaking, against a backdrop of persistent low interest rates, market volatility, and increased regulatory burdens. From representing just over a quarter of the annuity market five years ago to fully half the market today, the growth in fixed annuities has been fueled both by the expansion of fixed indexed distribution and growth in traditional fixed annuities as a compelling alternative to low interest CDs. Variable annuities, on the other hand, have seen a significant drop in sales of products offering lifetime withdrawal benefits, once the juggernaut of the industry. Still, purely from a raw numbers perspective, in the first half of 2017 variable annuities with guaranteed lifetime income benefits were still on top, with about one in every three dollars invested in annuities going to this product type. At the same time, still small in absolute dollar terms, structured, or “buffer,” annuities and fee based both grew in sales and market share. The two tables below show the changes in fixed and variable annuity sales and market share since 2012. The first table shows fixed and variable annuities, and the various types within each, as distinct markets, while the second looks at sales and market share for the annuity market in its entirety.

Variable and Fixed Annuity Sales and Market Share by Product Type
2012 – Q2 2017

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Q2 2017 YTD</th>
<th>5 Year Change in Mkt Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All VA</td>
<td>145.0</td>
<td>142.8</td>
<td>137.9</td>
<td>130.0</td>
<td>102.3</td>
<td>47.0</td>
<td>+4.0</td>
</tr>
<tr>
<td>Group</td>
<td>15.3</td>
<td>10.6</td>
<td>15.1</td>
<td>10.6</td>
<td>13.8</td>
<td>10.7</td>
<td>-1.0</td>
</tr>
<tr>
<td>GLI</td>
<td>102.4</td>
<td>70.6</td>
<td>105.4</td>
<td>73.8</td>
<td>107.2</td>
<td>77.8</td>
<td>-1.6</td>
</tr>
<tr>
<td>IOVA</td>
<td>23.0</td>
<td>15.9</td>
<td>17.8</td>
<td>12.5</td>
<td>13.6</td>
<td>10.4</td>
<td>-0.4</td>
</tr>
<tr>
<td>Front-Load</td>
<td>1.9</td>
<td>1.3</td>
<td>1.5</td>
<td>1.0</td>
<td>1.4</td>
<td>1.0</td>
<td>-0.4</td>
</tr>
<tr>
<td>Fee-based</td>
<td>1.0</td>
<td>0.7</td>
<td>1.4</td>
<td>1.0</td>
<td>1.3</td>
<td>1.0</td>
<td>+0.3</td>
</tr>
<tr>
<td>Structured (“Buffer”)</td>
<td>1.4</td>
<td>1.0</td>
<td>1.6</td>
<td>1.1</td>
<td>1.3</td>
<td>2.1</td>
<td>+0.7</td>
</tr>
</tbody>
</table>

| Fixed    |        |        |        |        |        |             |                           |
| All Fixed | 55.4  | 62.8  | 73.7  | 81.2  | 96.1  | 48.1        | +4.0                      |
| Deferred Fixed | 16.8 | 30.3 | 26.9 | 42.9 | 39.3 | 53.3 | +8.1 |
| SPIA     | 6.3    | 11.3   | 11.2   | 17.8   | 5.5    | 7.5         | +4.8                      |
| FIA – No GLI | 29.1 | 52.4 | 24.5 | 38.9 | 27.1 | 36.8 | -8.5 |
| FIA – GLI | 2.3    | 4.2    | 1.7    | 0.3    | 0.4    | 0.1         | -3.8                      |
| DIA      | 1.0    | 1.8    | 0.6    | 0.1    | 1.5    | 2.0         | -0.5                      |
A TALE OF FIVE CHANNELS

Over the past few years, the regulatory uncertainty created by the DOL fiduciary rule has altered the product mix in the various distribution channels for annuities. These shifts have been a bit different across channels, depending on the actions predominant among the firms in each channel in response to the rule, such as altering product mixes, compensation structure, and sales and compliance practices. This year’s report includes five-year charts of sales activity for all annuities, by product type, as a visual representation of these shifts. Created by IRI using data from Morningstar, Inc. and Beacon Research, these charts are unique in that the Y-axis of each chart shows the change in annuity market share of the channel over time, while the area graphs show how each product type has contributed to the rise, or decline, of that channel’s share of the market. The charts also clearly reveal which product types are the largest drivers of activity in each channel, and which may be growing in importance.

Viewing overall sales by product type, the most noticeable shift is the downward trend in sales of VA products with guaranteed lifetime income benefits (VA GLIB), which remained fairly level as a percentage of total annuity sales from 2012 through 2014, then began a steep decline that continued through the midpoint of this year. At the same time, as total sales have fallen fixed and fixed indexed have picked up that lost market share, and in 2017 income annuity sales jumped to a five year high – this will bear watching in 2018, as either the beginning of an upward trend or an aberration.
The Bank channel shows a marked increase in “traditional” fixed rate annuities and fixed indexed, with VA GLIB falling off rather dramatically, especially in the first half of 2017.

The Wirehouse channel shows the biggest drop in overall market share, from just under 8% 5 years ago to about 5.5% today. The fall in VA GLIB led the way, but Investment Oriented Variable Annuity (IOVA) sales are also off quite a bit. And while Wirehouses only account for 1% of total Fixed Indexed Annuity (FIA) sales, they represent 20% - 25% of Wirehouse annuity sales today. All other products are miniscule in this channel. A possible explanation for the drop in VA sales is the more onerous compliance construct typical of the Wirehouse environment relative to the independent channel, and the intensification of the burdens placed on financial advisors due to changes driven by DOL fiduciary.
The Regional channel has grown slightly in overall market share versus five years ago, with traditional fixed accounting for most of that growth. As in the other channels, VA GLIB has dropped, particularly in the past couple of years. Interestingly, we see Single Premium Immediate Annuities (SPIA) coming into view for the first time when we look at the Regional channel, with some increased activity in Fixed Indexed as well.

The market share of Independent broker-dealers, the largest third-party channel with over 40% of the total annuity market, has remained remarkably constant since 2012, with market share as of the mid-point of 2017 being almost exactly equal to market share in 2012. This channel shows the least fall off in VA GLIB sales, significant growth in fixed indexed, and this is one of two channels (Captive being the other) where FIA with GIB sales are significant enough to register on a chart like this. IOVA has also grown significantly in this channel, and structured VA has its largest presence.
The captive channel is second to independent in market share due to its 403(b) component (TIAA, VALIC, etc.). There is an argument for excluding 403(b) from an analysis like this due to the sales being plan-based, but it is left in as being part of the reported data and for its significance in the VA data set. In this channel VA GLIB has shown the least erosion in sales, and fixed and fixed indexed have grown despite being relatively small in dollar terms.
Assets under management (AUM) in variable annuities were $1.98 trillion as of the end of the second quarter of 2017, up 5% from a year earlier. While the S&P 500 Total Return Index gained about 18% over the same period, VA growth should be expected to be significantly lower due to the diversified nature of VA assets, negative cash flows, and the increasing use of allocation and volatility managed funds. As explored further below, both growth and loss will normally be a fraction of the change in the major equity indexes due to the management of market risk in a large swath of the VA asset base.

In the past ten years, asset allocation in variable annuities has changed, slowly but dramatically. In 2007, equity funds held a bit less than one-half the assets in VA products, but that has dropped to less than one-third. Driven primarily by the asset allocation mandates of many variable annuities with guaranteed lifetime income benefits, today the bulk of assets reside primarily in asset allocation funds, with the largest single category being moderate allocation. The moderate allocation category holds over 20 percent of total VA assets as compared to about eight percent 10 years ago. Additionally, there is a growing trend in the use of volatility managed funds, particularly those which seek to manage tail risk by employing specific options strategies designed to cushion the portfolio from the effects of market downturns. About seven percent of assets currently reside in funds employing such strategies, more than double the share such funds claimed in 2007. Theoretically such funds provide enough equity exposure for account values to keep pace with lifetime withdrawals, and enough allocation to bonds and other lower-risk asset classes to enable insurers to avoid the excessive risk that characterized some of the earliest lifetime withdrawal products. Because of the shift to allocation funds, all else equal, expect to see less growth when equity returns are robust, but dampened losses during major corrections.
These asset changes also are evident when examining aggregate net asset flow, or net cash activity, over the same period. The flows clearly show the draining of assets from Equity funds, while Moderate Allocation and Volatility Managed see large inflows due to the frequent requirement to select such funds when lifetime income benefits are added to VA contracts.

**Aggregate Net VA Asset Flow by Investment Category**
**6/30/2007 - 6/30/2017**
INTEREST RATES

Interest rates moved in a range during 2017, but as of this writing appear poised to end the year about where they began, with the 10 Year Treasury Constant Maturity rate at 2.37% on 11/1/2017, 8 basis points lower than 2.45% at the start of the year.

Throughout the year, monthly rates moved in a 57 basis point band, on an overall downward trend from a high point of 2.62% on 3/13/2017 and a low of 2.05% on 9/7/2017, before turning higher in October. Indications of further Federal Funds Rate increases and moves to reduce the Federal Reserve’s massive $4.5 trillion dollar balance sheet bode well for the possibility of further increases in long term rates in 2018, paving the way for potential enhancements to variable and fixed indexed annuity income benefits, as well as participation rates in fixed indexed annuities, to the extent that higher rates drive lower options prices (bearing in mind that an uptick in market volatility could put upward pressure on options pricing).
HEDGING and In-Force Variable Annuities

At nearly $2 trillion in assets under management and nine years into the longest bull market in history since 2009 (defined as a period without an at least 20% drop in the S&P 500), the efficacy of hedging programs should be top of mind in 2018.

Between $800 billion to $1 trillion of these assets are connected to guaranteed lifetime income benefits, creating the potential of a sudden and significant increase in net amount at risk in the event of a major market correction, if the correction is not effectively mitigated by hedge activity, which essentially offsets those market losses with gains in index options. Persistent low interest rates have put upward pressure on hedging costs, but costs have remained relatively stable throughout 2017 due to interest rates moving in a fairly tight range, and muted volatility. The Milliman Hedge Cost IndexTM (MHCI) provides the estimated hedging cost for a hypothetical Lifetime Guaranteed Withdrawal Benefit block of business. As of October 30, 2017, the expected hedge cost was 127 basis points, up slightly since the start of the year but down from 153 basis points one year ago. A complete description of the Milliman methodology can be found at http://www.milliman.com/mhci-methodology/.

Expected Hedge Cost for Hypothetical GLWB
A FINANCIALLY SOLID INDUSTRY

Despite a challenging regulatory environment and significant shifts across channels and product types, annuity issuers are financially strong and have reported solid performance and earnings throughout 2017.

Record assets are driving solid revenue for VA issuers, as well as shrinking net amounts at risk in living benefits, while issuers of fixed and fixed indexed products are seeing strong sales. Insurers continue to diversify their offerings to avoid over concentration in any one strategy, and continue to diligently and effectively employ risk management strategies, such as the use of volatility funds with guaranteed income benefits. Risk management strategies help insurers maintain profitability, while continuing to offer valuable benefits to Americans saving for retirement, or using their assets to produce income in retirement. If interest rates rise in 2018, as many expect, disciplined hedging strategies should enable meaningful benefit enhancements.

The financial trends and dynamics facing the retirement income industry in 2018 continue the themes of 2017, with a few new challenges and opportunities:

• U.S. equity market levels should continue to support legacy variable annuity blocks by holding account values close to liabilities, reducing reserve requirements otherwise forced upward by low interest rates. AUM-driven fee business also will continue to improve due to higher account values in fee-based and investment-oriented variable annuity products. However, the bull is approaching its 10th birthday and equity valuations are quite high – a bad earnings quarter could trigger a substantial correction.

• Continued innovation to variable annuity product designs will reduce risk exposure to insurers. This includes requiring investments in volatility managed funds when lifetime income benefits are elected to manage excessive market exposure during downturns. If 2018 brings with it higher volatility and a market correction, risk management programs will be tested.

• Unemployment rates remain at or near historic lows, and record numbers of Americans are reaching retirement age with substantial assets and no plan to use those assets efficiently for income – the onset of a potential golden age for annuity issuers, if their products can reach these consumers.

• Tax-deferral combined with investment risk management is beginning to move toward center stage as a product concept. While IOVA sales have dipped, structured, or “buffered,” annuities, which offer upside potential and downside protection, are beginning to flourish.

While solid earnings reports, record dividends, and strong credit ratings speak to an industry on firm financial footing, there are challenges aplenty for this industry to tackle in 2018. Marketing annuities amidst the growing presence of robo-solutions; management or divestiture of legacy annuity business; broker-dealer consolidation; the DOL fiduciary rule; the specter of SIFI status; private equity and foreign acquisitiveness. All of these dynamics will be in play against the backdrop of enormous opportunity, as American consumers grow increasingly aware of the risks they face in retirement and the need to efficiently tap their investable assets.

Source: Milliman Hedge Cost IndexTM
ADVISORS IN FOCUS

At least today, automated investment advice (robo) is largely incapable of effectively integrating annuities into an income producing portfolio.

While artificial intelligence may someday crack the code, for the foreseeable future effective and efficient annuity-based income strategies will require the skilled guidance of financial advisors, not only to design such strategies but to encourage consumers to adopt them, determine optimal investment amounts and product allocations, and ensure they are monitored and managed over time. IRI recently conducted focus groups with top producing financial advisors, developing some key learnings with regard to how advisors view their practices and their responsibilities to their clients.

• Advisors who successfully use annuities tend to perform complete financial reviews, identifying both financial goals and financial habits.

• Successful advisors do not shy away from characterizing annuities as insurance. They compare annuities to other solutions, such as managed accounts, and explain to the client that the annuity costs more because it insures against a negative outcome, such as market loss or loss of income.

• Advisors perceive that robo platforms are good for small portfolios, beginning investors, and the very few true do-it-yourselfers, but ultimately consumers want advice from someone they trust.

• Advisors believe do-it-yourself does not work for most people due to paralysis of choice – there are simply too many options.

• Advisors are making significant investments in technology in order to maintain or increase efficiency in the wake of the more onerous requirements springing from the DOL fiduciary rule.

• Advisors are increasingly helping their clients manage all of their retirement income sources, risks and insurance needs – Social Security; Medicare, Health Savings Accounts and health care in general; long-term care, etc. – either within their own practices by hiring specialists, or through strategic partnerships.

• Managing family dynamics is often a large part of the value advisors deliver. Whether it’s helping clients see the impact of overspending or showing them how their retirement will be affected if they continue to support adult children, financial advisors can help consumers avert a slow motion disaster before it occurs – another function a robo-advisor simply cannot perform.

As mentioned earlier, from a demographic perspective it is a great time for the retirement income industry, and there are many advisors dedicated to using annuities to help their clients reach goals and mitigate risk. The more that can be done to smooth the path for them, the more the industry can grow.
Annuity product development in 2017 was heavily weighted toward fee-based, fixed indexed, and structured annuities – quite a change from prior years when traditional, commission-based variable annuities with lifetime income benefits dominated the scene.

The industry has worked hard to ensure that advisors have access to annuity products they can confidently position with their clients, whether they use a levelized compensation structure or best interest contract exemption approach.

When we look at the past 5 years of new VA product issuance we see a dramatic reduction in the number of new products filed with a lifetime income/withdrawal benefit attached, and an increase in fee-based products, especially year-to-date in 2017, with 50 percent of new products being fee-based. Note also that these numbers are based on the group of products where sales have been reported in each year, and including products incepted since June 30 of this year, for which sales have not yet been reported. This has the effect of largely eliminating “versioning” from the data, where records are created for different forms of the same product, and which can skew the numbers – for example, there is typically only one database record for a fee-based product, perhaps two if there is a New York version, but a VA-GIB will have separate records created for B, C, L, and O shares, and a New York version for each, resulting in potentially eight records for a single “product.”

### Variable Annuity Contract Issuance
#### 2012 - 2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Group</th>
<th>GIB</th>
<th>Front-Load</th>
<th>IOVA</th>
<th>Fee-Based</th>
<th>Structured</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1</td>
<td>12</td>
<td>2</td>
<td>57</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>2013</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>58</td>
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<td>2016</td>
<td>2</td>
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<td>22</td>
<td>29</td>
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<td>2017</td>
<td>17</td>
<td>2</td>
<td>22</td>
<td>0</td>
<td>0</td>
<td>8</td>
</tr>
</tbody>
</table>

State of the Insured Retirement Industry
On the fixed annuity side, in 2013 through 2016, fixed indexed annuities dominated product issuance. In 2017, however, traditional fixed product issuance is head to head with indexed at the mid-year point, with already almost four times as many fixed products issued in the first half of 2017 as in all of 2016.

**Fixed Annuity Contract Issuance**

2012 - 2017
In February IRI released its 2017 Retirement Security Blueprint detailing common sense, bipartisan policies to help Americans achieve their retirement goals. The Blueprint called upon Congress and the Trump Administration to expand access to workplace retirement plans; preserve current tax treatment for retirement savings; expand automatic savings features for retirement savings; increase access to retirement lifetime income that cannot be outlived; protect access to professional financial advice to assist Americans in saving more and preparing for retirement; and improve access to education and information allowing American savers to make effective and informed decisions regarding their finances.

FINANCIAL ADVISOR STANDARDS OF CONDUCT

DOL Fiduciary Rule – Regulatory Activity

The Department of Labor (DOL) adopted its final fiduciary rule in April 2016, nearly five years after withdrawing its original proposal. The final rule re-characterizes virtually all individuals who sell investment products and management services (including recommendations to act or not act) to plan participants (including participants in governmental plans) and IRA holders as investment advice fiduciaries. Under ERISA and the tax code, fiduciaries are generally prohibited from receiving third party payments in connection with the services they provide to plans, participants and IRA owners unless an exemption is available that allows the payment to be made.

IRI has long-supported the concept of a best interest standard for financial professionals who provide personalized investment advice to consumers. Throughout the rulemaking process, IRI raised a multitude of significant concerns and provided extensive and constructive input to the DOL in an effort to make the rule workable. However, the final rule did not adequately address IRI’s concerns or incorporate IRI’s recommendations.

The rule was originally scheduled to become applicable as of April 10, 2017. However, President Trump signed a memorandum on February 3, 2017, directing the DOL to undertake a new economic and legal analysis to assess whether the fiduciary rule is likely to harm savers, and to rescind or revise the rule if it is found to be inconsistent with Administration policy. Shortly thereafter, the DOL delayed the applicability date for the expanded definition of fiduciary and the “impartial conduct standards” until June 9, 2017, with the remaining elements of the rule to become applicable on January 1, 2018. The delay was intended to provide time for the DOL to review the rule pursuant to the President’s directive.

The DOL issued a Request for Information (RFI) about the fiduciary rule on July 7, 2017. The RFI contained 18 questions focused on a possible delay of the January 1, 2018 applicability date, possible changes to the rule, and new PTEs the DOL might provide. IRI submitted comment letters on July 17, 2017 (on the possible delay) and August 7, 2017 (on the remaining questions). IRI conducted a member survey to gather data about the rule’s impact, and the survey produced a number of valuable data points demonstrating that the rule is causing consumers to lose access to valuable retirement products and services. IRI shared this information with the DOL.
in its comment letters, and urged the DOL to collaborate with federal securities regulators and state insurance regulators to develop a workable best interest standard.

In November 2017, the DOL delayed the January 1, 2018, applicability date for an additional 18 months. As a result, key aspects of the rule will not become applicable until July 1, 2019, including: (a) the contract requirement (which triggers the private right of action), (b) the removal of variable annuities and fixed-indexed annuities from PTE 84-24, (c) the disclosure requirements, and (d) the rules for proprietary products. IRI submitted a comment letter in support of the delay on September 15, 2017.

DOL Fiduciary Rule – Legal Challenge

In June 2016, IRI and several co-plaintiffs filed a legal challenge to the rule in the U.S. District Court for the Northern District of Texas. The lawsuit emphasizes that the plaintiffs and their members are dedicated to serving the best interests of retirement savers, and that they support the establishment of an appropriate rule by SEC that applies a “best interest” standard to their services. The lawsuit explains, however, that the rule amounts to regulatory overreach that is flawed and will harm the very consumers that DOL purports to help, and seeks to have the rule vacated.

Chief Judge Barbara Lynn in the Northern District of Texas ruled against the plaintiffs on all counts in a decision issued on February 8, 2017, and the plaintiffs appealed to the 5th Circuit Court of Appeals on February 24, 2017. The appeal was heard by a three-judge panel on July 31, 2017, and will be decided on a de novo basis, meaning the panel will independently rule on the case without giving deference to Judge Lynn’s opinion. At press time, the 5th Circuit Court of Appeals had not issued its ruling in the case, but a decision is expected soon.

DOL Fiduciary Rule – Congressional Activity

Several bills were introduced this past year in Congress to protect access to professional financial advice and assist Americans in saving more and preparing for retirement. The legislation is designed to protect affordable access to professional financial guidance by repealing the Department of Labor’s Fiduciary Rule and replacing it with a uniform best interest standard of care that preserves access to retirement advice and offers a wide array of lifetime income products for America’s retirement savers. The bills introduced included the Protecting Advice for Small Savers (PASS) Act of 2017 (H.R. 3857) sponsored by Representative Ann Wagner (R-MO); the Financial CHOICE Act (H.R.10) sponsored by Representative Jeb Hensarling (R-TX); the Affordable Retirement Advice Protection Act (H.R 2823) sponsored by Representatives Phil Roe (R-TN), Peter Roskam (R-IL), Tim Walberg (R-MI), and Joe Wilson (R-SC); and the Affordable Retirement Advice Protection Act (S. 1321) sponsored by Senator Johnny Isakson (R-GA).

DOL Fiduciary Rule – Implementation

Shortly after the DOL issued the final rule, IRI undertook extensive efforts to help member companies prepare for implementation through standardization and best practices, including the formation of 17 subgroups to address common concerns, questions, and tools. More than 900 individuals from across the industry participated in these subgroups, representing more than 120 organizations, including more than 50 insurers and nearly 40 broker-dealer firms. The subgroups met on a weekly or bi-weekly basis throughout 2016, and covered topics highlighted by members, from best practices and common interpretive issues to specific language of the rule and its effects on various aspects of the industry.

The sub-groups produced a number of tools and resources, including: (a) an FAQ for Advisors; (b) reference guides on various aspects of the rule; (c) disclosure guides covering 84-24, the BIC transition period, and the BIC contract-level and transaction-level disclosure requirements; (d) impact matrices that provide a roadmap of changes firms would have to make to their policies and procedures; (e) training modules to educate advisors and home office personnel about the rule ; and (f) a compensation survey to help firms and advisors determine how to comply with the rule’s reasonable compensation standard.
**SEC Activity**

On June 1, 2017, Jay Clayton – the newly appointed Chairman of the Securities and Exchange Commission (SEC) – issued a public statement in which he requested comments on a wide range of questions related to the standards of conduct for investment advice. Clayton discussed the DOL rule as part of his first official speech as Chairman on July 12, 2017, emphasizing the importance of collaboration between the SEC and DOL “in a way that best serves the long-term interests of Mr. and Ms. 401(k)...but does not result in Main Street investors being deprived of affordable investment advice or products.” IRI met with Chairman Clayton and his staff a number of times in 2017 to express its support for a best interest standard and its commitment to working constructively with the SEC to develop a workable rule.

New paragraph: IRI submitted a comment letter to the SEC in mid-December. The letter presents a set of principles to help guide the SEC as it develops a best interest proposal. The first three principles describe some basic tenets upon which a proposal should be built – that all financial professionals should be held to a best interest standard, and that investors should have the freedom to shop the marketplace and select an advisor of their choosing. The next two principles are focused on the process – first, that the SEC should not use the DOL rule as a starting point for its proposal, and second, that the SEC should coordinate with the DOL and state regulators. The remaining principles deal with how the SEC should structure its proposal, including the need for a workable approach to conflicts and disclosure, true grandfathering, flexibility to allow for innovation, and appropriate enforcement mechanisms.

**State Activity**

The National Association of Insurance Commissioners (NAIC) formed a new Annuity Suitability Working Group to consider whether to amend the NAIC Suitability in Annuity Transactions Model Regulation to incorporate a best interest standard of conduct. IRI has urged the working group to coordinate and collaborate with the SEC, FINRA and the DOL to ensure that any changes made by the NAIC are compatible and cohesive with the rules and standards adopted by the federal regulators.

In mid-2017, the Nevada legislature enacted legislation imposing a fiduciary duty on broker-dealers, investment advisers and sales representatives who receive compensation for giving advice to clients regarding money. Insurance producers and consultants are exempt. The Nevada Securities Division is charged with adopting regulations to implement this new legislation, and IRI has provided written comments and oral testimony to help the regulator craft rules that would mitigate the consumer harm likely to result from the new law.

Legislators in several other states – including California, Connecticut, New Jersey, and New York – have introduced or are considering similar bills to establish state fiduciary standards for financial advisers. IRI is monitoring state activity and will engage as appropriate.

**2018 Outlook**

If the 5th Circuit rules in favor of IRI and our co-plaintiffs, the DOL rule would be vacated. In effect, this would create a blank slate for development of a new, workable best interest standard by Congress which most probably would be based on the legislation previously introduced in both the House and Senate, and/or the SEC, DOL and NAIC. Even if the industry coalition does not prevail, the DOL will continue to review the rule pursuant to the President’s order, and the SEC and the NAIC will continue their ongoing rulemaking efforts. In either case, IRI will work closely with its members and its coalition partners to help the regulators develop a workable best interest standard and a cohesive regulatory framework.
TAX REFORM

President Trump and Republican House and Senate leaders made tax reform a top priority for the fall of 2017. Amidst much speculation about whether the existing tax deferred treatment of retirement savings would be cut to help pay for the overall tax cuts sought by President Trump and Congressional Republicans, IRI worked intensely throughout 2017 to educate members of Congress about the importance of tax deferral, the dangers of so-called “Rothification” (i.e., eliminating up-front tax deferral for all or some portion of retirement savings, which would instead be exempt from taxation upon withdrawal during retirement) and the value of protecting and maintaining the current structure and diversity of workplace retirement plans which were created to meet the needs of different types of workers.

The House and the Senate have adopted the Tax Cuts and Jobs Act (H.R. 1) with only Republicans voting in favor of it in both chambers of Congress, highlighting the sharp partisan split about how our nation’s tax code should be reformed. Through the efforts of IRI and its coalition partners, the current versions of both bills would preserve the current tax treatment of retirement savings, non-qualified deferred compensation and the diversity of workplace retirement plans. The Senate bill also adopted an amendment put forth by Senator Tim Scott (R-SC) to address the outstanding life insurance industry corporate taxation issues. Under the Scott amendment, the changes to reserves, dividends received deduction (DRD) and deferred acquisition costs (DAC) are expected to cost the industry $23 billion over ten years, but with the amended language included in the final bill it represented a vast improvement over the place holder provisions included in the original versions of the House and Senate tax bills.

While many significant differences between the Senate and House bills remain, the two chambers’ bills agreed on many key elements of a tax overhaul, including its overall size and emphasis on cutting corporate taxes. However, they diverge on several key issues, including the mortgage-interest deduction, taxation of small businesses, and the alternative minimum tax. To reconcile these differences, a conference committee will be appointed by House and Senate Leadership, and at press time it is expected the conference committee will complete its work in time to allow the full House and Senate to vote on the reconciled final bill, which would then be sent to the President for his signature by year’s end.

2018 Outlook

The outlook for the conference committee to quickly reconcile the differences between the bills is generally thought to be good, but it will be challenging to reach an agreement that can pass in both houses. Republicans have a narrow margin in the Senate, where the 52-48 Republican majority allows no more than two dissenters, assuming Democrats continue their solid opposition. In the House, Republicans can lose as many as 22 votes. Thirteen Republicans voted against the House bill, including twelve from high-tax states where a reduction or repeal the deduction for state and local taxes would be most harmful. Although Republican leadership continues to work toward finalizing tax reform before the end of 2017, it could slip into the beginning of 2018. IRI will continue its advocacy efforts with respect to retirement savings incentives, non-qualified deferred compensation, diversity of workplace plans and life insurance company taxation.

PROMOTING RETIREMENT SECURITY AND INCREASING ACCESS TO LIFETIME INCOME

In 2016, Senate Finance Committee Chairman Orrin Hatch (R-UT) along with the committee’s Ranking Member, Senator Ron Wyden (D-OR) introduced the Retirement Enhancement and Savings Act (“RESA”). The bill included a number of retirement security policy priorities proposed by IRI including (a) clarifying employer fiduciary responsibility in the annuity selection safe-harbor, (b) enabling annuity portability, (c) removing regulatory and legal barriers to facilitate small businesses’ use of multiple employer plans (MEPs), (d) requiring lifetime income estimates on workers’ benefit statements, and (e) increasing auto-enrollment and auto-escalation default rates. RESA was unanimously adopted by the Senate Finance Committee but was not considered by the full Senate. It is unlikely the bill will be re-introduced this year, because the Senate Finance Committee has been focused on legislation to repeal and replace Obamacare and tax reform.
However, several of the measures contained in the 2017 Retirement Security Blueprint were also included in other retirement-related bills introduced during 2017. MEPs were the subject of the Retirement Security Act (S. 1383), co-sponsored by Sens. Susan Collins (R-ME) and Bill Nelson (D-FL). MEPs were also included in the Automatic Retirement Plan Act of 2017 (ARPA) introduced by Rep. Richard Neal (D-MA), which would also expand automatic savings and escalation features, and increase default contribution and automatic escalation rates. Lifetime income estimates were covered in the Lifetime Income Disclosure Act (“LIDA”) (S. 868/H.R. 2055), co-sponsored by Sens. Johnny Isakson (R-Georgia) and Chris Murphy (D-CT) and Reps. Luke Messer (R-IN), Mark Pocan (D-WI), David Reichert (R-WA), Joe Wilson (R-SC), Donald Norcross (D-NJ), and Jared Polis (D-CO).

In October 2017, the Treasury Department publicly endorsed several of IRI’s retirement security policy initiatives in a report to President Trump. “A Financial System that Creates Economic Opportunity: Asset Management and Insurance.” IRI met with the staff at Treasury working on this report in August 2017, and encouraged them to consider addressing the barriers to lifetime income in the report.

Based on IRI’s input, the Treasury report recommended that the DOL make much-needed changes to the rules for employers who want to make lifetime income products available to employees through their retirement plans. Employers currently must determine whether a particular insurer will be able to satisfy all their financial obligations in the future before adding an annuity offered by that insurer to their plan. Employers have understandably been hesitant to take on that responsibility, making it harder for their employees to get access to sources of guaranteed lifetime income. Treasury’s recommendation would help clear that obstacle by allowing employers to rely on independent fiduciaries to evaluate an insurer’s financial condition.

2018 Outlook

IRI will continue to encourage Congress and/or the administration to enact the measures included in RESA, ARPA, and RPSEA to increase workers’ access to lifetime income in retirement plans, help Americans to better prepare for a secure retirement, promote consumer choice and education, and reduce regulatory burdens for lifetime income options.

VARIABLE ANNUITY SUMMARY PROSPECTUS

Since late 2008, IRI has been advocating for the SEC to adopt a rule allowing for the use of a simplified summary prospectus for variable annuities to improve consumers’ understanding of their investment choices through more streamlined disclosures. In support of this effort, IRI developed and provided the SEC with a proof-of-concept sample variable annuity summary prospectus. Consistent with the views expressed by all five SEC commissioners in a series of meetings held in late 2014, the SEC staff continues to strongly support IRI’s proposal. This effort has also had the support of former Chairman Mary Schapiro, as well as Director David Grim of the Division of Investment Management and all of his predecessors.

IRI met with Director Grim and nearly 20 members of the SEC staff in June 2017 to discuss this initiative and to address the staff’s remaining questions and concerns. While no commitment was made in terms of timing, the staff was clearly very interested in moving forward on this project.

The variable annuity summary prospectus was also endorsed by the SEC’s Office of the Investor Advocate its annual report to Congress in June 2017, and by the Treasury Department in a report it submitted to President Trump in October 2017.

2018 Outlook

IRI maintains that all the work necessary to proceed with the rule proposal has been completed, and is optimistic that the SEC will move forward with a proposal in 2018.
SENIOR FINANCIAL PROTECTION PROPOSALS

The Senior$afe Act of 2017 (S. 223 / H.R. 3758), introduced by Sens. Susan Collins (R-ME) and Claire McCaskill (D-MO) and Reps. Kyrsten Sinema (D-AZ) and Bruce Poliquin (R-ME), would provide financial institutions and advisors with immunity from any administrative or civil liability that may result from any reporting of suspected senior financial exploitation or abuse of seniors. The bill includes an IRI-sponsored amendment to extend this immunity to insurance companies. The Senate will likely consider this bill first. If it passes the Senate, the bill will likely be brought to the floor in the House, where it passed unanimously last year. The bill was also included in the Economic Growth, Regulatory Relief and Consumer Protection Act, a bipartisan bank reform bill which was marked-up by the Senate Committee on Banking, Housing and Urban Affairs in December 2017.

FINRA adopted a rule in 2016 to give broker-dealer and investment adviser firms and their employees the ability to help protect their clients from possible financial abuse. This rule, which will take effect in early 2018, facilitates reporting to regulators and adult protective services, and provides immunity for firms that delay disbursements when financial exploitation is suspected.

North American Securities Administrators Association (NASAA) adopted a model law designed to protect vulnerable adults from financial exploitation in February 2016. The NASAA model provides tools to help detect and prevent financial exploitation of vulnerable adults and will help securities regulators, investment advisers and broker-dealers, as well as Adult Protective Services agencies work to protect vulnerable investors. To date, the following states have adopted versions of the model either as laws or regulations: Alabama, Indiana, Vermont and Louisiana while Delaware, Missouri, and Washington have regulations in place with similar protections.

In October 2017, IRI convened its third annual Older Investors Summit, bringing together financial services industry leaders, nationally recognized law enforcement figures, as well as policymakers and regulators, to discuss ways to increase awareness and develop new strategies to address the increasing problem of elder financial abuse, dementia and diminished capacity.

2018 Outlook

IRI will look to build on the dialogue at the Older Investors Summit through the development of industry best practices, educational efforts, and training modules to help firms and financial professionals take appropriate steps to prevent financial exploitation of seniors and other vulnerable investors. IRI will also continue to pursue enactment of the Senior$afe Act.

CYBERSECURITY

In 2016, the NAIC Cybersecurity Task Force began drafting a cybersecurity model law to provide standards for data security, investigation, and consumer notification of a breach. The goal was to replace the current 47 state patchwork of laws with uniform, exclusive standards.

The New York Department of Financial Services (DFS) adopted its own Cybersecurity Rules for Financial Services Companies, which became effective on March 1, 2017. The regulation requires insurance companies, insurance agents and brokers, banks, and other financial services providers regulated by the DFS to conduct risk assessments of their information technology systems and maintain a cybersecurity program based on that assessment.

The NAIC approved the new Insurance Data Security Model Law (Model) in October 2017. The final version of the Model closely tracks the New York regulation, and includes a drafting note indicating that compliance with the New York regulation should be deemed to satisfy the Model’s requirements. Under the direction of our Cybersecurity Task Force, IRI provided significant input to the NAIC throughout the development of the new Model over the past two years.
2018 Outlook

IRI shares the NAIC’s goal of protecting consumers’ personal information against data security breaches. While the final version of the Model does not address all the concerns raised by industry, it is now in place and we will be shifting our attention to individual state efforts to adopt the Model. IRI and our coalition partners will not be proactively advocating for or against adoption of the Model in the states, but will be working to encourage each state to make certain changes if and when they do adopt the Model.

NATIONAL INSURANCE PRODUCER LICENSING LEGISLATION

The National Association of Registered Agents and Brokers Reform Act (NARAB II) was enacted in January 2016, creating a national insurance licensing clearinghouse for financial professionals operating in multiple states. This clearinghouse, known as NARAB, will help increase the availability of lifetime income products by removing a regulatory barrier that is impeding broker-dealers’ ability and financial advisors’ willingness to distribute these strategies. By making the licensing process more streamlined and compliance with licensing regulations less onerous, NARAB will encourage broker/dealers and advisors operating in multiple states to offer insurance products such as annuities with lifetime income guarantees.

Before NARAB can commence operations, President Trump must appoint a 13-member Board, comprised of eight current state insurance commissioners, three representatives of the property/casualty industry and two representatives from the life and health sectors. In a report submitted to President Trump in October 2017, the Treasury Department indicated it will “expeditiously” recommend nominees to the President for appointment to the Board of Directors.

2018 Outlook

IRI remains supportive of NARAB, and will continue to encourage the administration to take all necessary action to enable NARAB to become operational.

STATE-RUN RETIREMENT PLAN PROPOSALS

The DOL adopted two rules in 2016 to create new ERISA safe harbors for retirement savings arrangements for private sector workers run by states, counties and municipalities. However, these rules were invalidated by two Congressional Review Act (CRA) resolutions (Public Laws 115-24 and 115-35) passed by Congress and signed by President Trump in March and May 2017. As a result, these rules have no further force and effect. IRI actively advocated for passage of the CRA resolutions, and urged the President sign them into law.

Approximately 25 states have considered proposals to establish or study the feasibility of establishing state-sponsored retirement plans for private-sector employees. Eight states (CA, CT, IL, MD, MA, NJ, OR, WA) have already enacted legislation to create retirement savings programs for private-sector workers. Most of those laws require employers that do not offer workplace savings arrangements to automatically enroll their employees in payroll deduction IRAs administered by the states, while other state laws create a marketplace of retirement savings options geared at employers that do not offer workplace plans.

New paragraph: IRI does not support the establishment of state run retirement savings arrangements, because of the unlevel playing field created in the markets where laws require such workplace savings arrangements. Instead, IRI supports the enactment of legislation by Congress such as Rep. Richard Neal’s (D-MA) Automatic Retirement Plan Act of 2017 (ARPA), which offers a common-sense private sector solution for Americans to save more for their retirement by expanding access for workers who choose to participate in a workplace plan, while preserving employer choice, competition, and protections for small businesses.
2018 Outlook

IRI will continue to monitor state legislation to establish state-run retirement plans for private-sector employees. Many of the states considering such programs will likely reconsider them now that the ERISA safe harbors have been eliminated under the CRA resolutions referenced above. IRI also strongly supports and will continue to work with Members of Congress to enact ARPA into law.

STATE ANNUITY SUITABILITY AND DISCLOSURE REGULATION

The 2010 NAIC Suitability in Annuity Transactions Model Regulation has now been adopted in whole or in part by 44 states, while the 2011 NAIC Annuity Disclosure Model Regulation has been adopted in seven states, and six other states have taken other steps to implement the transition to the 2013 buyer’s guide.

As noted above, the NAIC is considering whether to revise the suitability model to incorporate a best interest standard of conduct.

2018 OUTLOOK

Several additional states will likely consider adoption of the annuity suitability and disclosure model regulations in 2018. IRI will continue to advocate for uniform adoption, implementation and interpretation of these rules throughout the states. IRI will also remain engaged with the NAIC Suitability Working Group as it considers possible revisions to the suitability model.

DISCLOSURE REQUIREMENTS FOR NON-VARIABLE INSURANCE PRODUCTS

Under current SEC rules, certain annuity products (e.g., Index-Linked Annuities; Buffered Annuities; Structured Annuities) are required to be registered using SEC forms that are designed for use in connection with IPOs (Forms S-1 and S-3). These forms require disclosure of financial information prepared in accordance with generally accepted accounting principles (GAAP), as well as extensive information that is not relevant to prospective annuity purchasers. For insurers that are not otherwise required to prepare GAAP financials, this requirement is particularly problematic and may be a barrier to entry into this growing market space.

IRI submitted a comment letter to the SEC in July 2016 requesting relief from these disclosure requirements. In August 2017, IRI and a group of member company representatives met with Robert Evans, Deputy Director of the SEC’s Division of Corporation Finance (“CorpFin”) and approximately 15 staffers from CorpFin and the Division of Investment Management. During the meeting, the group explained our concerns and described the relief we are requesting. The SEC staffers were receptive but non-committal.

2018 Outlook

IRI will continue its efforts to encourage the SEC to provide more appropriate registration requirements for these valuable products.
NCSL INSURANCE TASK FORCE

IRI is one of the founding sponsors of the National Conference of State Legislatures (NCSL) Insurance Task Force. NCSL is the bipartisan organization that serves the legislators and staffs of all 50 states by providing research, technical assistance and opportunities for policymakers to exchange ideas on the most pressing state issues and focuses on what issues states should be advocating for in our nation’s capital.

The mission of the newly formed Insurance Task Force is to engage state legislator members of NCSL who perform a crucial role in the development of insurance public policy in discussions regarding the state regulation of the business of insurance. The Task Force will educate members and extend networking opportunities to legislative leaders on insurance issues through a series of well-defined programs, webinars on key definitions and critical policy issues.

During the inaugural meeting of the Task Force in August 2017, IRI presented on an industry panel that identified issues that state legislators should watch in both Washington and the states that can impact the state regulation of insurance. IRI’s presentation focused on the impact the DOL fiduciary rule is having on consumers ability to access financial advice and the need for states to exercise a measured and cautious approach before enacting any state laws to establish new standards of care for the provision of financial advice.

2018 Outlook

IRI will explore additional opportunities to engage with the NCSL Insurance Task Force to advocate for and advance IRI’s retirement security policy priorities.

IRI AND IRIPAC ON CAPITOL HILL

In advocating on behalf of our members, IRI organized and/or participated with our coalition partners in 105 meetings with Members of Congress and their staffs throughout 2017 to discuss tax reform and retirement security policy priorities. In addition, IRI’s political action committee (IRI PAC) contributed $137,500 to 63 Members of Congress and hosted nine events raising more than $80,000 in 2017. IRI PAC is a critical component of all outreach and is often the most effective way of developing relationships with Members of Congress.

2018 Outlook

IRI and IRI PAC will continue to aggressively advocate for IRI’s legislative policy priorities on Capitol Hill through meetings and small, private events with Members of Congress who serve on committees with jurisdiction over IRI’s top issues. IRI specifically targets Members for their partnership on important legislation and action on our main advocacy agenda items.
LONG-TERM OUTLOOK

The long-term outlook for the annuity industry continues to be promising. Annuity products are evolving to meet consumer demand, and to ensure products are available for advisors regardless of changes and challenges in the regulatory environment.

Research conducted by IRI in 2017 found that only 24 percent of Boomers are confident their savings will last throughout their retirement years, down from 37 percent when the study was first conducted in 2011. Despite multiple years of stock market gains, those closest to or in retirement feel less confident rather than more confident. This implies that large numbers of Boomers may have exited risk assets after the financial crisis and could not tolerate the risk of re-investing in those assets given their proximity to retirement, and/or fears about health care costs and longevity are causing them to re-evaluate the ability of their nest eggs to generate sufficient income. Recent research from BlackRock bears this out. In the fifth edition of their Global Investor Pulse survey, BlackRock found that 58 percent of Americans’ wealth is held in cash, where it earns little or no interest – effectively, $6 in every $10 of American savings is positioned in a depreciating asset, as inflation will ultimately erode the purchasing power of those dollars. However, the same study found that 39 percent would allocate more of their savings away from cash if they have a guarantee that their capital is safeguarded – enter the annuity, especially for those retirement savers without pensions to provide a source of guaranteed income in addition to Social Security.

IRI research on recent retirees (Americans retired between five and 15 years) found that more than four in 10 study participants received at least 50 percent of their income from a pension. Conversely, only one in four Baby Boomers expect significant income from a pension. The opportunity for the retirement income industry is clear, and growing: insurance companies are the only entities able to offer solutions that insure retirement income for a person’s lifetime, i.e. that can help Boomers and future generations replace the pensions that today’s retirees depend on to enjoy a secure retirement. Annuity providers alone can provide consumers with the core products they need to incorporate guaranteed lifetime income strategies into their retirement portfolios.

Consumer demand for guaranteed lifetime income will remain strong for several reasons:

- **Demographics**: Pew Research Center estimates that 10,000 Baby Boomers will turn 65 every day for the next 13 years.

- **Consumer needs**: IRI research shows that “guaranteed income each month” and “will not lose principal” are among the most important traits of a retirement product.

- **Increased longevity**: As people live longer, guaranteed lifetime income becomes a key component to managing longevity risk. According to the Society of Actuaries, healthy 65-year-old males in the United States have a 50 percent chance of living to age 87 and a 25 percent chance of living to age 93. Their female counterparts have a 50 percent chance of living to age 89, and a 25 percent chance of living to age 95. For a couple aged 65, there is a 50 percent chance at least one spouse will live to age 93 and a 25 percent chance at least one spouse will live to age 97.
• **Decline of traditional pension plans:** In 1985, there were 114,000 private-sector defined benefit pension plans, but by 2013 there were only 23,769 of these plans remaining, according to the Pension Benefit Guaranty Corporation (PBGC). The PBGC currently pays benefits to approximately 840,000 retirees, with another 560,000 workers scheduled to receive benefits when they retire. The March 2017 Bureau of Labor Statistics’ National Compensation Survey reports that only about 18 percent of private-sector workers have access to a traditional pension, with 15 percent participating.

• **Large dollar amounts in qualified plans:** The total assets in qualified retirement plans, as of the end of 2016, were $25.3 trillion, up 5.4 percent from the end of 2015. The following table details this amount by the different types of retirement plans.

<table>
<thead>
<tr>
<th>ASSETS IN TAX QUALIFIED RETIREMENT PLANS</th>
<th>Year-End 2016</th>
</tr>
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<tbody>
<tr>
<td>Private Trusted Defined Benefit Plans</td>
<td>$3.0 trillion</td>
</tr>
<tr>
<td>Private Trusted Defined Contribution Plans</td>
<td>$7.1 trillion</td>
</tr>
<tr>
<td>Individual Retirement Accounts (IRAs)</td>
<td>$7.9 trillion</td>
</tr>
<tr>
<td>State and Local Government Plans</td>
<td>$3.8 trillion</td>
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<tr>
<td>Federal Government Retirement Plans for Federal Employees</td>
<td>$1.5 trillion</td>
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<tr>
<td>Annuities</td>
<td>$2.0 trillion</td>
</tr>
<tr>
<td>Total</td>
<td>$25.3 trillion</td>
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</tbody>
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• **Concerns about Social Security and other governmental programs:** The 2017 Social Security Trustees Report projects the combined Old Age and Survivors Insurance and Disability Insurance Trust Fund will be exhausted in 2034. The 2017 Medicare Trustees Report projects that the Hospital Insurance Trust Fund (Part A) will be depleted in 2029, one year later than noted in the 2016 report.

**SUMMARY**

Current retirees rely heavily on pension income to enjoy a secure retirement. As America ages, and particularly as Baby Boomers without pensions enter retirement at the rate of 10,000 per day, the need to efficiently use retirement savings for guaranteed lifetime income continues to grow. Baby Boomers, and Generation X and Millennials that will inevitably follow, have not saved enough to withdraw as needed to fund their lifestyles and be assured of both maintaining the ability to support themselves and defraying the financial pressures associated with longevity, inflation, health care and long-term care. The retirement industry must work diligently to ensure that consumers are aware of the longevity, health care, and other risks they face in retirement, that they adequately protect themselves against those risks, and that they are made aware of the solutions that can provide that protection. “Winning” at retirement saving and investing is not defined as achieving the highest possible return or the lowest possible cost, but by creating sustainable income and protecting against financial ruin. Despite headwinds stemming from regulatory changes, low interest rates, evolving distribution channels, and other factors the insured retirement industry is poised for significant growth.
RESEARCH SOURCES
Supporting data for this report were derived from publicly available research from the United States Census Bureau, the 2017 Social Security Trustees Report; 2017 Medicare Trustees Report; American Council of Life Insurers; Beacon Research; the Bureau of Labor Statistics; the Department of Labor; the Federal Reserve Board; Internal Revenue Service Statistics of Income Division; Investment Company Institute; Merrill Lynch; Morningstar, Inc.; the National Association of Government Defined Contribution Administrators; Pension Benefit Guaranty Corporation; St. Louis Federal Reserve Board, Federal Reserve Economic Data (FRED); Society of Actuaries.

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