IMPROVING FINANCIAL OUTCOMES AND CLIENT CONFIDENCE

Through the Confluence of Human and Digital Advice

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“Americans are better prepared for retirement when they work with financial advisors, and they are more confident their savings will last for their lifetimes when they own annuities. When advisors have the right education and the right tools, they can more readily incorporate annuities into retirement portfolios, improve client outcomes, and demonstrate the unequivocal value proposition of personalized advice augmented by technology.”

– Wayne Chopus, President and Chief Executive Officer, Insured Retirement Institute (IRI)

I.

SIGNIFICANT TRANSFORMATION

As the financial picture for most savers and investors becomes increasingly complex, a significant transformation is occurring that is enabling them to better achieve their goals.

"Financial wellness is the ultimate outcome our industry works toward. It's more than a buzzword or a philosophical ideal – it's a realistic goal for everyone."

— John Yackel, Head of Strategic Initiatives, Envestnet

Wealth managers, insurance and annuity companies, asset managers, financial technology providers, and retirement plan sponsors and recordkeepers are combining forces and leading in improving client confidence and investment outcomes.

The coordination of human and digital advice, modern product design, aggregated data, and technology-enabled solutions are helping clients visualize their entire wealth landscape and empowering advisors to provide greater clarity on how clients can improve financial results across all holdings in a household.

The quest among industry leaders to engage a large population of clients who are without an advisor – but who have the means and need for professional advice – is rapidly moving ahead. Smart multi-account solutions are being built where planning, a variety of product types, and optimal ways to implement these solutions are now available for the express intent of increasing the likelihood of financial success.

Industry leaders are moving away from recommending individual financial and digital products in a vacuum, and are now offering household-level solutions in a cost-smart, risk-smart, and tax-smart way, showing how to generate a higher and more predictable level of income in retirement, and thereby improving client confidence. This new generation of solutions-oriented advice, guidance, product design, smart packaging, and digital optimization tools enables advisors to help investors make and keep more money up to and through retirement.

This paper discusses the fundamental change now underway that enables financial advisors to provide comprehensive solutions for improved financial outcomes and greater investor confidence.

40%

While most advisors believe they are well suited to serve retirement income clients, a sizable group of advisors — nearly four in 10 — indicate they have **less than optimal processes and capabilities in place**. Additional training and tools are required to help these advisors bridge gaps in their ability to meet the needs of the growing number of retirement income clients.[1]

[1] "Boomer Expectations for Retirtement 2019," IRI, 2019

II.

PRIMER ON HOW TO IMPROVE FINANCIAL OUTCOMES

Let's start with understanding the investor. For most consumers, their savings and investment portfolio are part of a complex web woven over time. They've bought different financial products at different times for different reasons from different people – and therefore, don't have any measure of a coordinated household retirement plan. How could they?

The typical investor has five to six accounts, multiple products and custodians, and two or three advisors managing their assets. Looking at what they've assembled over time with no real overarching strategy, it appears these investors may be unable to achieve their goals.

In truth, there are only a few ways to improve investor results and increase confidence:

1. Consistently beat the markets
2. Reduce investment costs
3. Manage risk
4. Minimize taxes
5. Provide guarantees
6. Address goals and expectations over time

Two key aspects this paper will cover in detail include risk and taxes. We will show how advisors can address risk and reduce taxes (generally the largest expense investors incur) in client portfolios, potentially enabling them to keep more of their money.

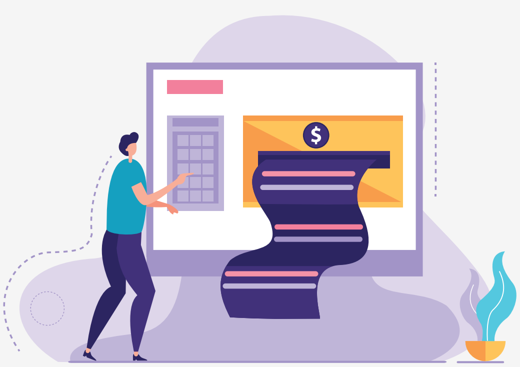
Additionally, we will address: 1) how to incorporate guarantees into a portfolio to provide protected lifetime income, and 2) the importance of working closely with a financial advisor who can provide comprehensive guidance to help ensure that clients stay on track to meet their end goals.

Managing all these factors is complex; the human brain alone cannot be as thorough and complete as the advanced software now available. But just as significant, software can't engage in a dialogue of personal and family priorities like an advisor can. For this, the human connection between an investor and trusted advisor is critical. That's why the future of advice lies in leveraging people, data, and technology in order to organize, coordinate, and optimize a household's products, accounts, and holdings over multiple financial milestones to improve outcomes.

48%

of American households are **approaching their retirement years "unprotected."**

[2] *"2019 Protected Lifetime Income Study," The Alliance for Lifetime Income*



73%

of consumers age 55 to 75 view **protected income to be a highly valuable addition** to Social Security.[2]

III.

HOW WE GOT HERE

Over the past 50 years, some investors have put short-term accumulation needs over longer-term retirement goals through a haphazard combination of mutual funds, advisory programs, insurance, and alternative investments.

By diversifying in an ad hoc way, sometimes based upon buying what recently worked and selling what didn't, investors may have found themselves unintentionally doing three things:

1. Underperforming the markets
2. Taking on unintended risk
3. Paying unnecessary taxes

Let's start with underperforming the markets. The 2018 DALBAR Quantitative Analysis of Investor Behavior found that the average investor was a net withdrawer of funds in 2018, but poor timing caused a loss of 9.42% on the year compared to an S&P 500® Index that lost only 4.38%. The same DALBAR study found that, annualized over a 30-year period, they also underperformed by 5.88 percentage points compared to the S&P 500 Index over the same time period. The report indicates investors tend to chase performance, and as a result, fall short of their objectives.

In a quest for diversification, investor households may have also opened multiple taxable and tax-advantaged accounts over time, with products often purchased from different advisors with virtually no coordination. This can result in them having a risk profile that could be inconsistent with their objectives and may also lead to them paying unnecessary taxes.

"Wealth managers realize clients expect more than just strong investment performance but struggle to communicate the value of their offerings and services," according to Ernst and Young. "The answer is not simply lowering fees, but rather a combination of increasing transparency and predictability when it comes to pricing models, and equipping advisors with ways to communicate value beyond investment returns." Industry leaders are working on communicating value, aggregating data, and combining capabilities to create better outcomes from a cost, risk, and tax standpoint.

1.83%

Morningstar research says optimal asset location and the organization of multiple account registrations – using a risk-smart, tax-smart strategy, from accumulation through withdrawals – can **add 1.83% per year in incremental after-tax returns and income.**[3] Using a $1 million portfolio as an example, this strategy results in an additional $156,000 for the client over 10 years.

[3] *"Alpha, Beta, and Now…Gamma," Morningstar, August 28, 2013*

IV.

LEVERAGING INSTITUTIONAL SCALE AND CAPABILITIES TO MANAGE RISK

> "Risk mitigation in annuities avail the masses protection strategies that were historically only deployed by qualified purchasers and the top echelon of advisors."
>
> — *Heather Kelly, Senior Vice President of Risk Management and Chartered Financial Consultant®, United Capital*

Investors face six primary risks as they transition from accumulation to efficiently generating sustainable income in retirement:

- Market volatility
- Interest rate fluctuations
- Tax-smart asset location
- Efficient sourcing and sequencing of withdrawals
- Rising costs, including health care and inflation
- Longevity

Clients and advisors are recognizing the critical need to create a comprehensive household-level plan with a holistic approach to addressing these risks. But given the complexity of managing at the household level, advisors are moving to a wealth management approach that leverages the modern design of investment and insurance solutions, at both the product and platform levels.

Combining the advisor's knowledge with the institutional scale and the risk management acumen of an insurance company, this modern approach facilitates deeper client relationships, helps differentiate advisors from commoditized investment planning, and can add more consistent revenue.

86%

of concerned investors (representative of investors age 45-65 who are concerned about how much they've saved for retirement) know the **importance of ensuring adequate and guaranteed income for life**. Yet only 14% own an annuity.[4]

[4] *"Allianz Chasing Retirement Study," 2019*

V.

THE SOLUTIONS EVOLUTION

As more consumers demand lower costs, simplicity, and greater flexibility in their financial solutions, modern annuities have become a vital tool in complementing a household portfolio.

GROWING DEMAND IN AN EVOLVING MARKETPLACE

Demand for these insured solutions has grown as more traditional sources of protection and lifetime income (e.g. pension plans) have disappeared, and more and more people are nearing or entering retirement. Product design options have greatly improved – including fee-based product options, lower cost structures, flexible designs, and modern withdrawal benefits – and these advancements have become integral to addressing risks, costs, and taxes within a retirement planning ecosystem.

Annuities need no longer be viewed as an independent transaction; they can now be managed, billed, and reported together with other assets in the portfolio to facilitate a goals-based, relationship-driven practice model.

Yet these recent developments are generally unknown, or little understood, to a large segment of financial advisors who nonetheless recognize the importance of leveraging the institutional scale and risk-management capabilities of an insurance company with a proven track record of fulfilling lifelong promises.

Modern annuities can be incorporated into household-level portfolios and viewed in the context of a broader, more comprehensive plan to help address the challenges clients face as they prepare for and manage their retirement:

- Varying levels of asset protection with direct or indirect market exposure to help reduce portfolio volatility, without introducing new risks often associated with other alternatives

45%

of baby boomers who own annuities **are confident their retirement savings will last for their entire lives**

"As the need to provide household-level approaches to help clients create better outcomes increases, so too is the need for advisors to leverage scaled platforms and technologies to enhance their own practice efficiencies and economics versus the asset allocation and product selection approach of old. Increasing assets and client households at a lower marginal cost is critical for success."

— Jamie Price, President and CEO, Advisor Group

- Tax-deferred accumulation for clients who've maxed out contributions to qualified plans and want to reduce capital gains taxes
- Guaranteed lifetime income that can supplement or defer the need for Social Security, and take pressure off other assets in the portfolio
- Opportunities for increasing retirement income (after payments have begun) to mitigate the corrosive impact of rising costs[5]

Leveraging an insurer's unique ability to pool risk and match assets and liabilities on a large scale can help manage longevity risk more efficiently, meet core income needs, and potentially lower overall portfolio volatility. In turn, cost and complexity can be reduced and a level of certainty is provided that cannot be replicated by other products. And this certainty is reflected in the belief investors have that their money will last – 45 percent of baby boomers who own annuities are confident their retirement savings will last for their entire lives, versus only 18 percent of those who don't own annuities feeling confident that this will be the case for them.[6]

Only 18% of those who don't own annuities feeling confident **that their retirement savings will last for their entire lives**

[5] Income riders are generally available for an additional cost

[6] "Boomer Expectations for Retirement 2019," IRI

VI.

TRENDING APPROACHES TO IMPROVING OUTCOMES

The future of advice lies in creating value by leveraging people and technology to coordinate and optimize the products, accounts, and holdings that make up a household portfolio – to deal with critical life moments and the evolving complexity of a client's financial life – for the end objective of improving outcomes. The financial services industry transformation is addressing this by focusing on the development of two frameworks: Platform Solutions and Technology Enabled Client Solutions.

Wealth managers, annuity companies, asset managers, retirement plan sponsors, and technology providers are working together to drive the evolution of both approaches for comprehensive solutions.

The Platform Solutions available today are designed to help advisors optimize, aggregate, and quantify the financial benefit of managing multiple household accounts and products in a risk-smart and tax-smart way. This approach requires operational infrastructure that connects and integrates multiple capabilities to help advisors help investors improve outcomes.

Technology-Enabled Client Solutions combine a simplified planning approach with shared control of investment decisions and optimized products and accounts. Using easy-to-understand software tools, advisors can customize a potential solution for investors to chart their course toward improved outcomes.

Both approaches highlight a clear path forward and show client benefits that can be quantified in dollars and cents.

"A new, savvy generation, comfortable and confident with the use of technology will look for relationships and platforms that combine and allow for independent access to a firm's planning tools in conjunction with the trusted holistic relationship of a financial advisor."

— Bernie Gacona, Senior Vice President, Wells Fargo

"We are keenly focused on enabling technology that allows the advisor to deliver the highest value client experience, and believe a comprehensive wealth plan is at the center. The more visual, engaging, integrated and accessible we can make that experience the more it will help drive better outcomes for the advisor and their clients,"

— Angie O'Leary, Head of Wealth Planning, RBC Wealth Management – U.S.

"One-third of clients have **switched providers or moved assets in the past three years and another third plan to do so in the next three years**," according to an EY study.[7] "These shifts are happening across client wealth levels and demographic profiles. At critical life moments and as the complexity of their financial life evolves, clients are switching for value. Firms who can create this value will be best positioned to retain their current clients and acquire competitors' clients who are planning to move."

[7] *"How do you build value when clients want more than wealth?" 2019 EY Global Wealth Management Research Report.*

VII. PLATFORM SOLUTIONS

"We have a saying that 'platforms are the new products'. Platforms that can help advisors manage tax, risk and income, in the context of a household, is where we believe the industry is headed."

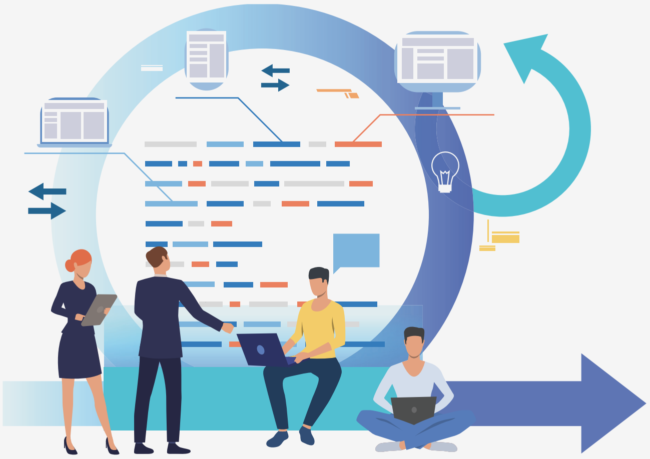
— Gary Carrai, Senior Vice President, Product and Platform Strategy, LPL Financial

The industry is connecting investments, products and capabilities to create comprehensive and coordinated platforms that may include the following:

- Financial planning, budgeting, and cash flow tools
- Account data aggregation
- Risk management/asset allocation guidance
- Investment and product proposal generation
- Tax optimization across multiple products and account types to ensure tax-smart asset location
- Annuity products to provide a combination of guarantees, tax mitigation strategies, and risk management
- Ongoing household-level management and rebalancing of all holdings, products, and accounts, including advisory models, brokerage holdings, and annuities
- Optimal income sourcing and sequencing from multiple accounts, products, and other income sources such as Social Security and pensions, as well as Roth individual retirement account (IRA) conversions
- Trading platforms
- Household-level reporting

The technology exists. What's been missing until recently is the connective tissue. Not just tools and data flow but also the connection that only a human advisor can provide – a personal relationship founded on empathy and understanding, interpretation, experience, and guidance.

Financial advisors who focus on managing all of a client's finances likely enjoy greater practice efficiency, increased retention of a client's current assets, and an increased likelihood of attracting their held-away assets. Increased asset consolidation is a key driver behind this megatrend, because the software exists to demonstrate a quantified financial benefit for both the investor and the advisor.



VIII. TECHNOLOGY-ENABLED CLIENT SOLUTIONS

"Annuity companies are working with investment companies and fintech providers to help advisors and clients improve after-tax returns and income as they prepare for retirement and enjoy greater peace of mind in retirement. Incorporating annuities adds real value when integrated with tech-enabled tools to the household portfolio."

— Jack Sharry, EVP, CMO, LifeYield LLC

Client-facing tools have been developed that incorporate an aggregated, multi-account view of a client's holdings and a simplified planning experience for determining an appropriate combination of investment and annuity products in coordination with maximizing Social Security benefits.

This approach is referred to as "optimal income sourcing" and is designed to help chart the client's course toward improved outcomes.

Typically, the first question investors ask when developing a retirement strategy is when to start Social Security benefits. Social Security optimization tools have been designed to engage clients with a simplified planning conversation to suggest filing strategies for enhancing benefits given different spousal situations and retirement objectives. For most investors, that recommendation may be to defer benefits until age 70 because the Social Security Administration provides an 8% increase in benefits per year between age 62 and 70.

The focus for these advanced software tools is to not only quantify the advantages of deferring benefits, but to have an income-sourcing conversation of where and how to draw income from a combination of annuity and investment products to fill the gap while waiting, and to start Social Security benefits to help increase the client's income stream over the course of their retirement years.

As an example, if the client decides to defer taking Social Security benefits until age 70, a layered income strategy can be implemented where a guaranteed annuity income stream would be set in motion between the ages of 62 and 70 to ensure the same level of income as would occur if Social Security benefits were initiated at age 62.

If more income is needed, annuity or investment accounts can be tapped to increase income. The software requires only a few inputs to conduct "what-if" scenarios to determine the level of guaranteed income as well as utilizing other accounts to continue to grow and be tapped later in retirement for future income. In keeping with the client's objectives and comfort level, the software suggests the optimal sequence of withdrawal to maximize income from annuities, investment accounts, and Social Security benefits for the different layers of income.

IX.
CONCLUSION

Evolve your practice with a focus on goals-based, household-level solutions.

Help facilitate greater confidence through holistic wealth management that may deepen client relationships and set you apart from commoditized alternatives.

Leverage institutional scale to integrate risk management capabilities in your practice.

Yes, you can manage some risk on your own, but outsourcing to gain scale and efficiencies will allow you to focus on other components of the portfolio.

Take another look at modern insurance products available on the market today.

Annuities have come a long way with fee-based designs, competitive costs structures, greater flexibility, contemporary withdrawal benefits, and income guarantees that may allow for greater risk tolerance in other parts of the client's portfolio.

Consider technological wealth management advancements as a complement – not competition – to your practice.

Only advisors who act like robots can be replaced by them. Your core value proposition of personal advice can be augmented by the latest digital tools.

Annuity guarantees are backed by the claims-paying ability of the issuing company.

Purchasing an annuity within a retirement plan that provides tax deferral under sections of the Internal Revenue Code results in no additional tax benefit. An annuity should be used to fund a qualified plan based upon the annuity's features other than tax deferral. All annuity features, risks, limitations, and costs should be considered prior to purchasing an annuity within a tax-qualified retirement plan.

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> “The financial services industry is undergoing significant transformational change. Advancements in risk mitigation strategies and deeper integration of products in the advice ecosystem are helping improve financial outcomes and increase client confidence. Financial advisors now have better tools and resources to enhance their level of service to their clients, allowing them to manage their assets in a more holistic manner at a household level.”
>
> *– Corey Walther, President, Allianz Life Financial Services, LLC*

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