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Why Financial Protection Deserves a Place in Resilient Portfolio Construction

Clients' specific goals for their portfolios may differ, but their overarching objective is the same: They all want a secure financial future. Meeting that objective means identifying investment strategies that have the potential to lock in gains, serve as a hedge against inflation, and preserve tax-advantaged growth and income amid changing tax policies. And it means providing guaranteed income so clients can enjoy a comfortable retirement, live with purpose, and leave a lasting legacy.

Portfolios that have the potential to deliver on these strategies balance performance and protection using a combination of securities and insurance products. They can help address market volatility and the uncertainties of life. And they can be resilient in the face of a dynamic economy.

If you're accustomed to helping clients address risk only with asset allocation, consider encouraging them to help diversify beyond securities to help address some level of risk in portfolios that are heavily concentrated in domestic equities. Your clients may be concerned about a possible market correction, higher interest rates, and rising inflation. Annuities can be an option for them to consider as a means to increase diversification and, with certain variable annuities, mitigate downside risk to a degree, allowing the portfolio the potential to be managed as an inflation hedge.

75% of advisors find managing expectations around balancing returns and protection somewhat to very difficult. Fewer than 50% say they simultaneously balance the two objectives well or very well.

Is it time to switch things up? Depending on your clients' unique needs, goals, time horizon, and risk tolerance, annuities can offer another option for you to architect strategies built for the dreams of your clients, providing partial downside protection (in the case of certain annuities) and guaranteed income for life.*

* With partial downside protection, prospective clients should understand that there is a risk of a substantial loss of principal and previously credited interest because the contract holder agrees to absorb all losses to the extent that they exceed the downside protection provided within the annuity. All guarantees provided by annuities are subject to the claims paying ability of the issuing life insurance company.

As individuals age or live through challenging times, they're increasingly risk averse. Right now, you're likely seeing more of your book fit one or both criteria. These clients want to protect their existing assets against financial shocks and mitigate risks that jeopardize their ability to work, save, and retire. They also want to make sure their families will be financially secure in the event of their death. As you talk with clients, these subjects may come up more often. Consider whether disability income insurance and life insurance could be key assets for their financial future and therefore, an important addition to their overall financial portfolios.

The promise of guaranteed retirement income

Many clients who turn to you for a retirement income strategy don't fully understand the nature or extent of the financial risks they'll face as retirees. They're unlikely to appreciate the time it takes to recover from a bear market and the threat that sequence-of-return risk poses to their portfolio's longevity. While they may not clearly articulate their desire for safety, research shows their interest in income protection and lifetime guarantees is very strong—and much greater than most advisors realize. In fact, these same studies reveal investors value stability of income even more than wealth preservation.

Don't confuse yesterday's annuities with the products available today. The choices of fee-friendly, liquid, customizable annuities are plentiful.

Investors are very interested in income protection and guarantees

In a 2021 study from CANNEX and The Alliance for Lifetime Income, 55% of investors said protected income is important to them. Only 39% of financial professionals held the same opinion.

Pre-retirees will often ask, "Am I going to be okay?". The question is vague, but what they really might be seeking is reassurance about the stability and duration of their retirement income. It's difficult to provide that reassurance if clients rely solely on investment withdrawals to supplement Social Security. The vast majority (87%) of financial professionals surveyed say they recommend a withdrawal strategy a moderate amount of the time, which suggests a mismatch between what income-seeking clients want and what they get.

Relying on lump sum or partial withdrawals sounds good in theory, but it's been problematic in practice. A 2020 article published by AARP cites research showing most lump sum withdrawals are spent within 5 years. The National Endowment of Financial Education reports that 70% of lottery winners declare bankruptcy within a 5-year timeframe, and similar statistics apply to NFL players.

Partial withdrawals have their own set of challenges. Withdrawal flexibility can create the opposite problem to lump sum payouts: People tend to defer spending and underspend due to a fear of outliving their income.

"Guaranteed lifetime income reduces retirees' anxiety about covering unexpected expenses and they feel more comfortable about spending money on the experiences, people, and possessions that are most meaningful to them. Annuities are the only personal financial product to guarantee a lifetime income."

– Steve Scanlon, Head of Individual Retirement at Equitable

Public awareness and appreciation for annuities is poised for growth

Investors find it hard to predict what monthly income their retirement savings will produce. (You may have experienced this firsthand if clients have asked you to run the numbers for them.) In plan statements produced after September 18, 2021, participants will see a direct connection between what they've saved and what cash flow they'll have in retirement. Participant statements in 401(k) and other employer-sponsored defined contribution plans will show what monthly income they can expect from their current account balance in the form of a life annuity and a qualified joint annuity where the survivor receives 100% of the benefits.

> **"The addition of a lifetime income estimate to plan statements is really an endorsement of annuities as a smart consideration to provide guaranteed and predictable lifetime income. It should increase investor awareness and understanding of the workings and benefits of annuities. Investors are going to get educated, and financial professionals can build on the growing level of education and interest."**
>
> **– Steve Scanlon, Head of Individual Retirement at Equitable**

If you sell annuities, you may feel your best prospects are over the age of 55, particularly pre-retirees with low retirement account balances. Targeting only these segments narrows your sales opportunities unnecessarily. You can catch many more fish by casting a wider net. For example, in a recent survey, 71% of people between the ages of 45 and 54 expressed interest in purchasing an annuity for retirement income and 22% said they're extremely interested. Also, don't underestimate the appeal of annuities to wealthy individuals. This market segment finds these products attractive because annuities offer tax-deferred growth, unlimited annual contributions, and an opportunity to lock in investment gains for guaranteed income. Be prepared for affluent clients to investigate their options when discussions of tax plan changes arise, particularly in the face of potential tax increases.

> **"Financial professionals are missing opportunities to sell annuities due to misconceptions about fees and liquidity. Many of today's products are not as illiquid as earlier contracts and have been designed to give investors access to their money."**
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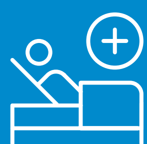
> **– Connie Weaver, Chief Marketing Officer at Equitable**

Using life insurance to preserve and transfer wealth

If the estate tax threshold is lowered and the capital gains tax increases, you may also see a growing need for a different protection product—life insurance. Your affluent clients may suddenly need life insurance to keep more of the wealth they've earned and wish to pass on to the next generation. This will add to the increased interest in buying life insurance that has been spurred by COVID-19.

Your clients are more aware than ever before that they can't predict what life has in store. As a result, they value guarantees, stability, and predictability in their financial lives. You can meet their needs and build a larger book of business by helping them construct fully diversified, resilient portfolios that make smart use of securities and protection products. A portfolio that meets a client's investment objectives and life priorities is a win-win for both of you, today and tomorrow.



In March 2021, 1/3rd of American adults said COVID increased the likelihood that they'd buy life insurance within the next 12 months.