Financial Independence

SALES KIT

In this kit:

Social media posts & images | Sales ideas | Best practices | Conversation starters

PINNEY INSURANCE

PINNEYINSURANCE.COM | 800-823-4852
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Financial Independence

SALES KIT

Financial Independence
Social Media Posts & Sharable Graphics

Text for Posts

Post this text with any of the images linked on the following 2 pages.

Plan for life's adventures! A Single Premium Immediate Annuity lets you convert a lump sum into a steady stream of guaranteed income for as long as you need it. Contact me today to get started.

Want to convert retirement assets into a cash flow that will last you and your spouse for the rest of your lives? A Joint and Survivor Immediate Annuity can do this for you. Contact me today for a free quote!

Did you know you can create a Do-It-Yourself Pension Plan to create cash flow from the sale of a family business? Contact me today to get a free quote.

Need help bridging the gap between retirement income & Social Security payments? Contact me to set up an Immediate Annuity to ensure you have the funds you need!

Using permanent life insurance can help you prepare for a long, healthy retirement. Contact me today for a free quote and let's prepare a future free from financial stress!

Protect yourself and those you love by being prepared for an extended retirement. I can help – contact me today for a free quote to ensure your assets don't run out as life expectancy increases.

Contact me today to help secure the safety net you need to face retirement with confidence.

Don't let taxes undermine your retirement plans and leave you with less than expected. Take control of taxes by including life insurance in your safety net to provide supplemental income that is income tax free. Contact me today for a free quote.

Did you know? You can use cash value in a policy to help supplement retirement income. Contact me today for a free quote to help secure your financial future.

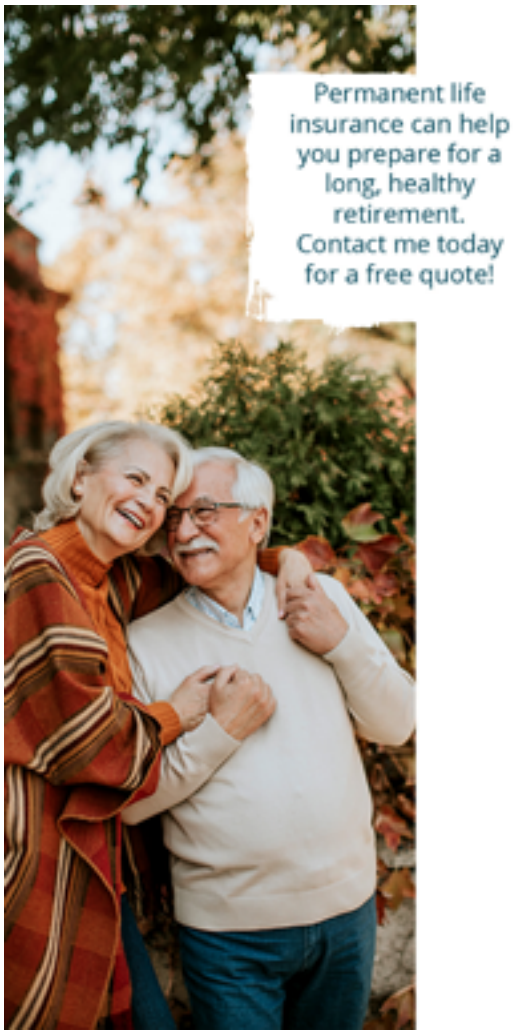
Life insurance in retirement can help supplement the income from your other retirement assets. Plus, the income tax-free death benefit can protect your family, replace income, and fulfill your financial obligations. Contact me today to get started!

Financial Independence

SALES KIT

Horizontal & Vertical Images

Click any image to view in a browser, then right-click and save to your computer.



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EDUCATIONAL COMMENTARY

For financial professionals

CONSUMER RESEARCH FOR THE MARKET VOLATILITY PHONE CONVERSATION

The Alliance for Lifetime Income has invested in research to understand how people think, feel and make decisions about retirement planning. With the current market volatility, financial professionals are getting many concerned calls from clients. We thought it would be helpful to share our research insights with financial professionals to help address people's emotional anxieties at this emotional time.

Now is *NOT* the time to deviate from a strong financial plan, particularly one that includes sources of protected lifetime income to cover essential expenses. These insights can help financial professionals navigate people's concerns and reassure them – so they don't make mistakes that can jeopardize the life they **PLAN TO LIVE**.

CONSUMER RESEARCH INSIGHTS

Most clients want to know how the current volatility changes their hopes and desires, NOT the history of the market or complicated product performance data.

Remind them of the **SMART** and **RESPONSIBLE** decisions they have made with their money for situations just like this. Together, you've built a plan. That plan is meant to help reach their goals in retirement. The current volatility doesn't change that.

If you know their goals, talk about them. If you don't, our research shows that close to 71% of people will be happy if they can live what we call a **FULL LIFE** in retirement. That means that as they grow older, they are secure, independent, and free to live as they choose.

EDUCATIONAL COMMENTARY

For financial professionals

Right now, people want reassurance that they are prepared for adversity, and still remain in control of their finances. Remind them of the **SAFE** and **SECURE** protected income streams that the market cannot affect. If anything, it is now more important than ever to remain smart and responsible.

Demonstrate that you have covered their M.U.G. The acronym represents essential monthly expenses people often need to cover in retirement, like a mortgage or medical expenses, utilities, groceries, gym fees or car payments. If you can calculate their monthly M.U.G. and show that it is covered by social security and other protected income streams like an annuity, you will demonstrate the safety and security they desire.

The final point from our research is to reassure your clients that they can maintain their lifestyle. They should still feel OPTIMISTIC and PROUD about the decisions they have made and the future in front of them.

In review, what you need to communicate to your clients is:

- You've made smart and responsible decisions with your money.
- Together, we've built a plan.
- That plan is meant to help you reach your goals in retirement.
- The current volatility doesn't change that.
- If we stick to the plan, you can still live the full life you want as you grow older.
- We've provided security through protected income streams to cover your essential expenses. This offers protection against market fluctuations.
- I remain optimistic and proud about our plan, the decisions you have made and the future in front of you.
- Is there anything else you wanted to discuss today?

Financial professionals can use these insights to help clients avoid making decisions that deviate from a strong financial plan and risk their financial future. Some financial professionals may still face client concerns about their plans, particularly plans that don't cover essential expenses with protected lifetime income – instead relying heavily on probable income. People need to know they are secure before they can be optimistic about the future.

For additional information on
The Alliance for Lifetime Income Positioning Research,
contact us at info@alincome.org.

Learn more at **Resources.ProtectedIncome.org**.

Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate. Product guarantees are subject to the claims-paying ability of the issuing insurance company. Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½. Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Investments in annuity contracts may not be suitable for all investors.

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ANNUITIES EXPLAINED

Annuities are flexible products and, depending on the type, can meet needs for protected lifetime income, growth and downside protection.

You purchase an annuity from a life insurance company

It can be a lump sum or multiple payments

Your money can grow tax-deferred until you withdraw it[1]

Additional benefits of an annuity can include:

- Protected lifetime income
- Protection from market loss[2]
- Guaranteed death benefit
- A choice of income guarantees[3]
- Access to your money[4]

1 Other investments are equally tax-advantaged in qualified retirement plans
2 May offer a fixed return or principal protection that avoids market downturns.
3 You can add enhanced lifetime income benefits for a fee.
4 May be subject to fees or limitations based on the type of annuity. See your advisor for details.

You can convert your annuity into guaranteed income when you retire

Payments can continue for a specified period of time - or you can choose an option for payments to continue as long as you live.

Certain types of annuities offer you the flexibility to receive guaranteed lifetime income while maintaining access to your money.

"Annuities are long-term financial products designed for retirement purposes. Early withdrawals may be subject to withdrawal charges. Partial withdrawals may reduce benefits available under the contract. Withdrawals of taxable amounts are subject to ordinary income tax and, if taken prior to age 59½, an additional 10% federal tax may apply. Optional income protection features are subject to additional fees, requirements and other limitations. Keep in mind, for retirement plans and accounts (such as IRAs and 401(k)s), an annuity provides no additional tax-deferred benefit beyond that provided by the retirement plan or account itself. Contract and optional benefit guarantees are backed by the financial strength of the issuing insurer."

ANNUITIES 101

INTRODUCTION

You're obviously here for a reason…

Annuities have been called "complex" by some. (NOT!) Actually, when you've got the lowdown on these retirement savings products, it's pretty simple! *wink* **Now— let's assume that you don't know what an annuity is.** No worries. Most everyone knows what life insurance is, so let's just start by making a comparison to life insurance.

Life insurance protects against the risk of death, or *dying too soon*; if the insured person(s) die, the insurance company pays out a sum of money to one or more designated beneficiaries;

An annuity is sometimes referred to as "the opposite of life insurance." Annuities insure against the risk of life, or *living too long*; the insured person receives a stream of income they cannot outlive from the insurance company;

With an annuity, the purchaser pays a premium to the insurance company. In exchange, they receive a regular stream of income payments from the insurer that begin either immediately, or at some time in the future. The payment stream continues until the purchaser dies- even if that occurs at age 127 ½!

Heads up- an annuity is one of the tons of financial products that are available as a retirement income vehicle. You should work with a trustworthy professional when determining which of these vehicles best-suits your needs and retirement goals. Got it?

Hold on- before making this decision, you should also consider a fundamental principle of risk*:*

Risk/Reward Tradeoff- a direct inverse relationship between possible risk and possible reward, which holds for a particular situation. To realize greater reward, one must generally accept a greater risk, and vice versa.

In light of this fabulous tradeoff, there are three questions that must be answered, when researching what type of annuity is right for you.

1. What level of risk am I willing to assume with the annuity?

If most concerned about high minimum guaranteed interest, regardless of the lower level of interest crediting/gains, consider a Fixed Annuity.

"Sheryl and her staff have provided us and our producers with a very thorough tool for comparing indexed UL. With several carriers recently entering this space, and with others expanding their portfolios, it's imperative for us to keep these specs readily accessible at our fingertips – LifeSpecs allows us to do this. We especially like the opportunity to review products of which we currently do not market to determine if there's a need to add them to our already expansive product line. LifeSpecs is a must-have tool for indexed life producers and producer groups."

-S. SIGLER, FINANCIAL INDEPENDENCE GROUP MARKETING

If willing to accept a lower minimum guarantee than a fixed annuity, but looking for potentially greater interest crediting/gains, consider an Indexed Annuity.

If willing to accept no minimum guaranteed interest, and the possibility of unlimited loss in exchange for the possibility of unlimited interest crediting/gains, consider a Variable Annuity.

2. How soon will I need the regular stream of income payments from the annuity?

If income will be taken within the first year, consider an immediate annuity (offered in Fixed, Indexed, and Variable types).

If income will be taken at some time further in the future, consider a deferred annuity (offered in Fixed, Indexed, and Variable types).

3. How many premium payments will I be making into the annuity?

If only a single payment will be made into the annuity, consider a single premium immediate annuity or a single premium deferred annuity.

If making more than one payment into the annuity, consider a flexible premium deferred annuity.

Okay- got that part? There's just a little bit more…

There are also two different classifications of annuities: deferred and immediate.

What is a deferred annuity?

An insurance product whereby at least a year will elapse between when the lump sum or series of premium(s) are paid, and the annuity is transitioned into a stream of income through annuitization. Deferred annuities can be Fixed, Indexed, or Variable in nature.

What is an immediate annuity?

An insurance product whereby a lump sum premium is paid and the annuity is transitioned into a stream of income through annuitization within one year from the date of purchase. Immediate annuities can be Fixed, Indexed, or Variable in nature.

Deferred annuities typically are used as vehicles for accumulation, or building additional interest until the annuitant is ready to transition the annuity to a series of payments through a process called "annuitization." Alternatively, an immediate annuity is often used as a vehicle for individuals who are ready for their income stream to begin, well, immediately.

Both deferred and immediate annuities can have their interest credited in several different ways. The two basic types of deferred and immediate annuities are Fixed and Variable. Of the fixed variety, there are (traditional) Fixed, as well as Indexed.

Annuity Risk Spectrum

	Guaranteed Interest	Upside Potential	Indexed Participation	Client's Risk Tolerance
Fixed*(Traditional)*	Typically 1.00%	Very Limited: typically less than 5.50%	None	Low
Indexed	Typically 87.50% of premium @ 1.00%	Limited: typically capped at less than 9.00%	Gains based on the performance of an external index	Moderate
Variable	Fixed account only	Unlimited	Gains based directly on fund performance	High

(NEWSFLASH: if a salesperson suggests that Indexed Annuities provide unlimited gain potential- RUN! This individual either misunderstands or is misrepresenting the product.)

Indexed Annuities provide ***limited*** gain potential and are not intended to perform comparably to securities products. Indexed Annuities merely credit interest **based on the performance of** stock market, commodities, or bond index. Don't be confused; these annuities do not allow you to invest directly in the stock market. They do, however, provide the opportunity to outpace fixed money instruments such as Certificates of Deposit (CDs) or Fixed Annuities.

What is a Fixed Annuity (FA)?

A contract issued by an insurance company that guarantees a minimum interest rate with a stated rate of excess interest credited, which is determined by the performance of the insurer's general account. Multi-Year Guaranteed Annuities (MYGAs), a type of Fixed Annuity, guarantee a minimum interest rate for more than a one-year period; this rate is also determined by the performance of the insurer's general account. A Fixed Annuity is considered a low risk/low return annuity product.

What is an Indexed Annuity (IA)?

A contract issued by an insurance company that guarantees a minimum interest rate of zero, where crediting of any excess interest is determined by the performance of an external index, such as the Standard and Poor's 500® index. An Indexed Annuity is considered a moderate risk/moderate return annuity product.

What is a Variable Annuity (VA)?

A contract issued by an insurance company that has no minimum guaranteed interest rate, where crediting of any excess interest is determined by the performance of underlying investment choices that the annuity purchaser selects. A Variable Annuity is considered a high risk/high return annuity product.

In your evaluation of annuities, it helps to understand the "300 foot view" of the annuity transaction. The sale of an annuity has to benefit the three parties to the annuity transaction:

1. **The annuity purchaser-** via fair interest rate crediting/gains
2. **The annuity salesperson-** via fair compensation
3. **The annuity issuer (insurance company)-** via a fair profit, i.e. a spread

We refer to this as the "three-legged stool" of the annuity transaction. To fully understand, it also helps to consider how the insurance company makes money by selling annuities. Simplistically, the insurance company invests the annuity purchaser's premium payment(s) in different investment vehicles, in order to make a return that is high enough to pay administrative costs (such as the salesperson's compensation), credit interest to the annuity purchaser, and still retain a profit.

So, let's consider an example, using Fixed Annuities as a point-of-reference.

The Fixed Annuity purchaser submits a payment of $100,000 to the insurance company for her 10-year annuity;

The insurance company invests the annuity purchaser's premium payment in bonds (This ensures that they will receive a guaranteed return on the monies, and be able to pay the annuity purchaser a guaranteed interest rate);

Assume that 10-year bonds are paying a rate of 4.00% to the insurance company;

The insurance company then credits [4.00% – X] to the annuity purchaser's 10-year fixed annuity contract [the value of X is determined by knowing what amount the insurer needs to cover their expenses (i.e. salesperson's compensation) and the amount of profit the insurance company intends to keep].

TA DA! IT'S THAT SIMPLE!

Now, with Indexed Annuities, the example above is only modified slightly.

The insurance company still invests the annuity purchaser's premium payment in bonds; but not 100% of it;

The difference of less than 5% of the payment is used to purchase options (options are what give the insurance company the ability to credit interest to the annuity purchaser, based on the performance of a stock market index);

The determinant in the rate that is credited to the annuity is: a) the cost of the option, and b) the stock market index's performance.

So, we have established that there are several different types of annuities, the primary categories being Fixed and Variable. These products are very different, despite the fact that they both may be used for the same purpose. Not everyone has similar tastes after all (hence the exhaustive list of delicacies available at The Cheesecake Factory!).

Okay- so we've seen some of the likenesses in these products. So, what's different?

WHO SELLS THIS PRODUCT?

Licensed insurance agents have the ability to sell Fixed, Indexed, and Multi-Year Guaranteed Annuities, as long as they have an active life and annuity line of authority within the state that they are selling in.

Even though Indexed Annuities earn interest based on the performance of a stock market or similar index, a securities license is not required to sell Indexed Annuities. They are fixed insurance products; the annuity purchaser is never directly invested in the stock index with an Indexed Annuity.

If a securities-licensed salesperson (i.e. someone who sells stocks, bonds, mutual funds, etc.) wants to sell Fixed, Indexed, or Multi-Year Guaranteed Annuities, they can do so by obtaining a life and annuity line of authority with their local state insurance commissioner's office.

HOW IS THIS PRODUCT SOLD?

Fixed, Indexed, and Multi-Year Guaranteed Annuities, like other insurance products, are sold via an insurance contract. This document is 20 pages, give or take. By contrast, securities products (such as Variable Annuities) are sold via a prospectus; a document that is typically more than 100 pages. The fact of the matter is, if most American's don't read their mortgage paperwork, they're not going to read these documents either. Sad and scary, but true.

When an insurance agent sells any variety of fixed annuity, the sales materials and product brochures will be accompanied by the following (at a minimum):

- Annuity application
- Annuity disclosure document
- Annuity suitability form
- Annuity Buyer's Guide

More forms may be required depending on the state that the purchaser lives in, whether they are replacing another annuity or investment with the current annuity purchase, and/or whether the monies that are being used to purchase the annuity are coming from a qualified plan (just to name a few variables).

WHO CARRIES THE RISK WITH THIS PRODUCT?

Fixed Annuity

The insurance company must pay out a minimum guaranteed rate of interest, regardless of what they earn on their investments with a Fixed Annuity. Let's take a look:

- An annuity purchaser buys a Fixed Annuity with a minimum guarantee of 3.00%;
- The annuity is currently credited rate of 4.50%;
- If the market "tanks," and the insurance carrier can only earn 2.00% on the money they have invested (i.e. on the bonds purchased by the insurer at the time the annuity was acquired), the annuity purchaser is still protected by the minimum guarantee of 3.00%;
- So, the insurance company holds the risk with a Fixed Annuity. The insurer still has to make good on the minimum guarantees in the contract,

regardless of the performance of their own investments.

Indexed Annuity

The insurance company must pay out a minimum guaranteed rate of no less than 0%, regardless of what they earn on their investments with an Indexed Annuity. Let's check it out:

- The insurance company must offer a secondary guarantee on Indexed Annuities, in the event the annuity purchaser dies or cash surrenders the annuity, or even in the event the index does not perform;
- This guarantee is called the Minimum Guaranteed Surrender Value, or MGSV;
- An annuity purchaser obtains an Indexed Annuity with a MGSV of 87.5% of premiums, credited at 3.00% interest;
- On this annuity, the maximum credited interest may not exceed a cap of 8.00% if the S&P 500 rises 8.00% or more over a one-year period;
- If the market "tanks," and the insurance carrier can only earn 1.00% on the money they have invested (i.e. on bonds purchased by the insurer at the time the annuity premium was paid), the annuity purchaser is still protected by the MGSV of 87.5% of the premiums paid accumulated at 3.00% interest (which accumulates to the point where a return of premiums paid would occur in the fourth contract year);
- So, the insurance company holds the risk with an Indexed Annuity. The insurer still has to make good on the minimum guarantees in the contract, regardless of the performance of their own investments.

Variable Annuity

The Variable Annuity purchaser chooses to directly invest in an array of available stocks, bonds, mutual funds, and underlying subaccounts on their annuity; any gain or loss is passed directly to the annuity purchaser in whole (less fees and charges). Let's review:

- There is a potential for the annuity purchaser to experience a loss of principal and gains with a Variable Annuity, in the event of poor market performance;
- The variable sub-accounts have no minimum guaranteed interest, but the upside potential of a Variable Annuity is greater than that of Fixed and Indexed Annuities;
- An annuity purchaser acquires a Variable Annuity with a minimum guarantee of 1.00% only on the fixed subaccount, and no minimum guarantee on the variable subaccounts;
- Assuming 100% of the premiums are allocated to variable sub-accounts, if the market "tanks," the insurance company bears no risk, but passes it directly to the annuity purchaser through a loss in their annuity's value;
- So, the annuity purchaser holds the risk with a Variable Annuity. The insurer has no minimum guarantees to honor in the contract (they collect their fees and charges regardless of performance), and any negative performance on the underlying investments is fully-realized by the annuity purchaser.

REGULATION

Heads up before you get deep into this regulation stuff- all financial services products have been used in the course of bad behavior, on the part of the salesperson, at one point or another. It is worth mentioning that the tool of the bad behavior is not the problem in such situations.

I liken this to a serial killer using a hammer to murder his victim and the government subsequently outlawing the use of hammers. That would make it difficult to complete tasks such as building homes and hanging pictures, but it would certainly eliminate people bludgeoning their victims with the tool. That being said, keep reading- you are doing GREAT!

Who regulates annuities? Is someone keeping tabs on these folks?

Fixed, Indexed, and Multi-Year Guaranteed Annuities (MYGAs) are fixed insurance products, and therefore regulated by state insurance laws and the insurance commissioners that enforce them.

- Insurance agents who want to sell Fixed and Indexed Annuities must obtain a life insurance license in the state where they are practicing;
- The insurance commissioner oversees the financial regulatory practices of the insurance industry as well as the solvency of the companies selling the products;
- Insurance companies, salespeople, and annuity purchasers go through their local state insurance department when they have questions or concerns about Fixed, Indexed, or MYG Annuities.

Variable Annuities are securities products, and thereby regulated by the Securities and Exchange Commission (SEC).

- Salespeople wanting to sell Variable Annuities must obtain a life insurance license in the state where they are practicing, as well as pass a securities exam(s);
- The insurance commissioner ensures the solvency of companies selling Variable Annuities;
- However- insurance companies, salespeople, and annuity purchasers go through the SEC when they have questions or concerns about Variable Annuities.

In the securities industry (where products such as Variable Annuities are sold), salespeople that are licensed to sell the products are regulated by the Financial Industry Regulatory Authority (FINRA) as opposed to the state insurance commissioner.

- FINRA is a self-regulatory organization that oversees the financial regulatory practices of the securities industry;
- In a nutshell, if you hold securities license, you must abide by the rules of the FINRA as well as the SEC, while the insurance commissioner oversees the solvency of the insurance companies you do business with.

Note that in the past, there have been a handful of Fixed and Indexed Annuities that have been filed as securities products and registered with the SEC, despite the fact that they are fixed insurance products. An insurance company's logic behind doing this may be for several reasons. One reason an insurance company may register a fixed product as a security is to accommodate a distribution that is used to selling securities products (and the prospectuses that come with them). As a comparison, historical sales of registered Indexed Annuities have been nominal in comparison to total Indexed Annuity sales. Today, there are no registered Indexed Annuity products available for sale.

Both fixed and variable insurance products have tight regulation, and rules that the insurance companies and salespeople must abide by. The

insurance company's products, advertising materials, disclosures and training brochures are diligently reviewed in both the fixed and variable insurance markets. Salespeople are required to be properly licensed to sell both types of products. The market conduct of the marketing organization, broker/dealer, and salesperson are all carefully monitored, whether she/he is selling the Fixed, Indexed, or Variable variety of annuity.

THE BATTLE OVER THE SECURITIES STATUS OF INDEXED ANNUITIES

Click here for a detailed timeline of the SEC's efforts to regulate Indexed Annuities as securities products.

SEC QUESTIONS IF INDEXED ANNUITIES SHOULD BE SECURITIES- PART I

In 1997, just two years after Indexed Annuities were introduced, the SEC first explored whether these products should be treated as securities (and subject to SEC regulation), as opposed to being treated as insurance (and therefore regulated by the NAIC).

Things you should know about this:

- The primary motivation for this inquiry was the SEC's lack of information on the products; they earnestly didn't know if Indexed Annuities were, or were not, securities;
- The SEC issued a concept release, requested promotional materials explaining the products, and ultimately took no action on the matter;
- At the time, the insurance industry assumed the lack of action to mean that the SEC had decided that Indexed Annuities were not securities;
- The insurance industry's understanding of the products' regulatory framework also led them to believe that Indexed Annuities were insurance:
  - The purchaser's principal and gains were protected from any losses due to stock market volatility in an Indexed Annuity, unlike securities products;
  - Indexed Annuities met the three criteria for the SEC's Section 3(a)(8) exemption from securities regulation. This exemption was determined eight years before Indexed Annuities were ever introduced and indicated that a product was not subject to SEC regulation if
    - the annuity contract was subject to supervision by the state insurance commissioner;
    - the insurer assumed the investment risk under the annuity (as opposed to the purchaser); and
    - the annuity was not marketed primarily as an investment.

For these reason, it was believed that Indexed Annuities were fixed insurance products, not securities- particularly when the SEC took no action in 1997.

FINRA'S NOTICE TO MEMBERS 05-50

Several years later, in August of 2005, FINRA (then known as the National Association of Securities Dealers, or NASD) issued the "Notice to Members 05-50." This is separate from, but related to, the previous discussion:

- This notice suggested that broker/dealers (B/Ds) treat Indexed Annuities as if they were securities, despite their fixed insurance status;

- FINRA justified their notice based on their belief that Indexed Annuities might one day be treated as securities, despite the fact that they were treated as insurance at the time the notice was issued;
- For salespeople not selling securities products, NTM 05-50 did not affect their sales practices;
- Alternatively, annuity salespeople with securities licenses were forced to change their sales practices in regard to Indexed Annuities; all sales of Indexed Annuities were to go through their broker/dealer forthwith;
- This meant that a salesperson's B/D needed to approve the fixed insurance product that he wanted to offer his client, despite the fact that FINRA had no regulatory authority over Indexed Annuities; Regardless, salespeople holding securities licenses must abide by the rules of FINRA;
- Therefore, B/Ds began the task of overseeing Indexed Annuity sales for their registered representatives in August of 2005, and still oversee them to this day.

SEC QUESTIONS IF INDEXED ANNUITIES SHOULD BE SECURITIES-PART II

In June of 2008, the SEC began a second inquiry on the matter of whether, or not, Indexed Annuities should be regulated as securities with proposed Rule 151A. The SEC's proposition was the result of years of negative and inaccurate media being published on Indexed Annuities. Here's the short and sweet of this battle:

One of the primary reasons that Indexed Annuities have received negative media attention is because of their perceived complexity.

- In an effort to differentiate the many products that are available for sale today, insurance companies have invented new methods of calculating potential interest crediting;
- At times, these methods are overwhelming to both the salesperson and the annuity purchaser;
- However, 99.8% of the crediting methods available on Indexed Annuity products are based on very simple math (point-to-point, monthly and daily averaging, and fixed strategies). It's the other 0.2% of the strategies out there that get folks confused once in a while…

Adding fuel to the media fire is that fact that some annuity salespeople have used Indexed Annuities in the course of bad behavior. These individuals' suggestions of unsuitable annuity products resulted in some annuity purchasers being taken advantage of. Overall, this resulted in observers making the inaccurate assumption that all Indexed Annuities are "bad," or used to take advantage of seniors.

Mistakenly, the insurance industry did not foresee media outlets' disparaging and erroneous statements to be an immediate threat to Indexed Annuities; it was merely considered the newspapers and magazines' attempts to cater to their advertisers. These advertisers sold securities products (such as mutual funds and stocks), therefore no one expected the media to sing the praises of products their advertisers competed against. This folly, coupled with a lack of publicly-available, credible information on Indexed Annuities, eventually resulted in the SEC declaring that the products should fall under their purview per Rule 151A. (Not anymore! Wink is here to save the day!!)

After a two-year battle waged with regulators, litigators, and legislators, the insurance industry secured the fixed insurance status of Indexed Annuities indefinitely.

In the end, it was an act of Congress that settled the matter;

In July of 2010, President Barack Obama's signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which contained Senator Tom Harkin's (D-IA) Congressional amendment detailing and dictating Indexed Annuities' permanent insurance regulation.

Closing Thoughts

Now you should understand what an annuity is, who can sell them, and who regulates them. You should also understand quite clearly, what an annuity is not. Fixed, Indexed, and MYG Annuities are not alternatives to Variable Annuities, stocks, bonds, or mutual funds; these products are "risk money places." Fixed, Indexed, and MYG Annuities are more accurately classified as "safe money places," and generally viewed as an alternative to CDs, or other fixed-rate savings instruments. Is an annuity right for you? **Only YOU can decide.**

ANNUITY RATES

Fixed Annuities have an interest rate that is declared annually by the insurance company. Multi-Year Guaranteed Annuities are like traditional Fixed Annuities in that their interest rate is also declared by the insurance company. However, Multi-Year Guaranteed Annuities' interest rates are guaranteed for longer than a one-year period. Guarantee periods on these annuities may range anywhere from two to ten years.

Most Indexed Annuities today offer some form of fixed bucket strategy. This would be a premium allocation option that receives credited interest in a manner like that of a traditional Fixed Annuity. A declared rate is set for the fixed strategy, and the annuity purchaser receives that rate if the annuity is held for the strategy term (usually one year). Most Variable Annuities also offer a fixed bucket for clients desiring a more conservative allocation mix. However, the line between Fixed, Indexed, and Variable is drawn when it comes to differentiating how the non-guaranteed rates are credited on these products.

Remember that with a Fixed Annuity, the insurance company declares a stated credited rate for the non-guaranteed, current interest rate. A Variable Annuity is very different in that the insurance company does not limit the potential gains of the product; the client is investing directly in the market. Therefore, a Variable Annuity purchaser may realize a gain of 18.00% if the fund they invested in grows that much over a one-year period. With an Indexed Annuity, the insurance company purchases options based on an external index's performance, and the annuity purchaser receives non-guaranteed, current interest that is limited in growth (based on the option price).

Like the handful of crediting methods that can be confusing on some Indexed Annuity products, the pricing levers that are used to determine the actual rate credited can perplex others. There are three simple pricing levers that are used when calculating potential interest on Indexed products:

Participation Rate—the percentage of positive index movement in the external index that will be used in the crediting calculation on an indexed product. (Note that a product with a Participation Rate may also be subject to a Cap and/or Spread.)

Cap—the maximum interest rate that will be used in the crediting calculation on an indexed product. (Note that a product with a Cap may also be subject to a Participation Rate and/or Spread.)

Asset Fee/Spread—a deduction that comes off of the positive index growth at the end of the index term in the crediting calculation on an indexed product. (Note that a product with a Spread may also be subject to a Participation Rate and/or Cap.)

Now that all of the disclaimers are aside, it can simply be said that most indexed strategies that have 100% Participation utilize a Cap as the pricing lever. In turn, most indexed strategies that have less than 100% Participation utilize the Participation Rate as the pricing lever. There are also trends among indexed crediting methods; averaging strategies tend not to have Caps more often than others, and utilize Spreads more frequently. Annual point-to-point methods generally utilize the Participation Rate or a Cap to limit potential indexed gains.

It is really quite simple when you break it down. For example, on an Indexed Annuity over a one-year term where the S&P 500® has experienced an increase of 20%:

A **Participation Rate** of 55% would afford the client potential indexed crediting of 11% (20% x 55% = 11%)

A **Cap** of 8% would pass on potential gains of 8% to the client (20% limited by an 8% cap)

A **Spread** of 3.00% would leave the client with 17% interest credited (20% – 3% = 17%)

Typically, an Indexed Annuity utilizes only one pricing lever on each strategy. This means that when the insurance company changes the annuity's rates, or the contract comes upon the policy renewal, only the one pricing lever will be adjusted upward or downward. However, an insurance company may reserve the right to adjust more than one pricing lever in the event of declining rates. This does not necessarily mean that they alter more than one pricing lever by practice. Generally, the less "moving parts," the easier the product is to convey to both the salesperson and the purchaser. For that purpose, insurance companies try to limit the number of variables needed to describe each crediting method. It is important to note that there are a handful of products that use a moving part that is unique specifically to that product. These are just other pricing levers where potential interest crediting has been limited.

Indexed Annuities are also like Fixed Annuities in that they have minimum guarantees to protect the purchaser from a downturn in current credited rates or Caps, etc. Fixed and Multi-Year Guaranteed Annuities generally offer a minimum guaranteed floor of 1.00% or more. Indexed Annuities offer a guaranteed floor of no less than 0.00%. In addition, Indexed Annuities have a secondary guarantee that is payable in the event of death, surrender, or if the external index does not perform. This secondary guarantee is referred to as a Minimum Guaranteed Surrender Value (MGSV); it credits a rate of interest between 1% and 3% on a percentage of the premiums paid in to the annuity.

MGSVs can be stated in two methods: as Account Value guarantees, which must deduct the surrender charges from the calculation, or as Surrender Value guarantees, which are net of the surrender charges on the contract. An Indexed Annuity with a first-year surrender charge of

10%, and an Account Value guarantee of 100% @ 3% may be equivalent to the Surrender Value guarantee of a second product with an MGSV of 90% @ 3%. (100% – 10% surrender charge = 90%).

When Indexed Annuities first emerged in 1997, their MGSVs were often based on 90% of premium, credited at 3% interest; i.e. 90% @ 3%. However, when market conditions began declining and insurance companies weren't able to offer indexed products with these guarantees, we saw MGSVs drop as low as 65% @ 3% for first-year premiums. It is important to note that annuity MGSVs most adhere to state Standard Non-Forfeiture Laws (SNFL), which are enforced by the state insurance departments. Today, more than three quarters of Indexed Annuity products have MGSVs that are based on 87.5% of premiums, and credited interest is based on the 5-year Constant Maturity Treasury rate (a rate between 1 – 3%). Today, annuity MGSVs cannot be less than 87.5% of premiums paid, credited at 1% interest.

A Comparison of Annuity MGSVs Based on 87.5% of Premiums Paid

Contract Year	Premium Amount	Interest Rate
	87.50%	1.0%
	$87,500.00	
1	$88,375.00	
2	$89,258.75	
3	$90,151.34	
4	$91,052.85	
5	$91,963.38	
6	$92,883.01	
7	$93,811.84	
8	$94,749.96	
9	$95,697.46	
10	$96,654.44	
11	$97,620.98	
12	$98,597.19	
13	$99,583.16	
14	$100,578.99	
15	$101,584.78	
16	$102,600.63	

Contract Year	Premium Amount	Interest Rate
	87.50%	2.0%
	$87,500.00	
1	$89,250.00	
2	$91,035.00	
3	$92,855.70	
4	$94,712.81	
5	$96,607.07	
6	$98,539.21	
7	$100,510.00	
8	$102,520.20	
9	$104,570.60	
10	$106,662.01	
11	$108,795.25	
12	$110,971.16	
13	$113,190.58	
14	$115,454.39	
15	$117,763.48	
16	$120,118.75	

Contract Year	Premium Amount	Interest Rate
	87.50%	3.0%
	$87,500.00	
1	$90,125.00	
2	$92,828.75	
3	$95,613.61	
4	$98,482.02	
5	$101,436.48	
6	$104,479.58	
7	$107,613.96	
8	$110,842.38	
9	$114,167.65	
10	$117,592.68	
11	$121,120.46	
12	$124,754.08	
13	$128,496.70	
14	$132,351.60	
15	$136,322.15	
16	$140,411.81	

Another very important rate to consider when evaluating which product to purchase, whether Fixed or Indexed, is the renewal rates. These are the new interest crediting rates, Caps, Participation Rates, etc. that are declared at the end of the interest crediting term (typically one year). So many products today are copied off of another popular insurance company's product. If you want to evaluate the annuity beyond the contractual features, and the service and integrity of the insurance company; renewal rates should be taken into consideration. That being said, renewal rates are one of the most difficult pieces of information to get your hands on. A scant number of insurance companies feel that their renewal rates are an integral part of their sales story, and actually publish marketing pieces publishing these rates. This gives the potential annuity purchaser an idea of what the insurance company may do to the future rates on the product that they purchase, based on past renewal rate histories.

If you do not have access to renewal rates, it may be helpful to research Fixed and Multi-Year Guaranteed Annuities' minimum guarantees and an Indexed Annuity's minimum Participation Rates and Caps, as well as their maximum Spreads. These can be an indicator of just how low the insurance company could reduce the rates on the product after it is purchased. Note however, that due to policy filing efficiencies, many

insurance companies opt for unusually low rate guarantees, Participation Rates and Caps, and rather high Spreads. (This avoids the cost of potentially re-filing the product in the event that market conditions decline, forcing the insurer to dramatically lower rates.) Often, salespeople are surprised when they see the maximums and minimums on the pricing levers for Indexed Annuities in particular. From a marketing standpoint, it is important to remember that the insurance companies would most likely discontinue selling the product(s) before rates were ever reduced to these minimums/maximums.

CREDITING METHODS

Point-to-Point Methods

Annual Point-to-Point

Two-Year Point-to-Point

Term End Point

Monthly Point-to-Point

Point-to-Point with Low Watermark Features

Point-to-Point with High Watermark Features

Averaging Methods

Quarterly Point-to-Point

Monthly Averaging

Rolling Monthly Averaging

Daily Averaging

Fixed Methods

Fixed

Fixed Rate with an Equity Kicker

Fixed with Multi-Year Guarantee

Performance Triggered

Other Methods

Declared Rate/Equity Blend

Multi-Index and Rainbow crediting methods (a subset)

HISTORY OF ANNUITIES

The Very First Annuity

1100 – 1700 B. C. Archeologists reveal that the legal codes of Egypt provide evidence that an annuity was purchased by a Prince ruling in Sint, in the Middle Empire.

The First Fixed Annuity

1759— A Pennsylvania company offers the first annuity in America to Presbyterian ministers and their families.

Traditional Fixed Annuities NOW

At the close of 2019, Traditional Fixed Annuity sales were $3.6 billion.

Multi-Year Guaranteed Fixed Annuities NOW

At the close of 2019, Fixed Annuity sales were $45.8 billion.

The First Indexed Annuity

February 15, 1995—Keyport (now Delaware Life Insurance Company) sold the KeyIndex Annuity for a premium of $21,000. Over a 5-year period the annuity grew to a value of $51,779. The average CD at the time would have returned $27,554 over the same five-year period, had the client continually renewed it.

Indexed Annuities NOW

At the close of 2019, Indexed Annuities sales were $73.2 billion.

Non-Variable Deferred Annuities NOW

At the close of 2019, all Non-Variable Deferred Annuity sales were $122.8 billion

The First Structured Annuity

October 4, 2010—AXA Equitable Life Insurance Company (Equitable Holdings Inc.) launched Structured Capital Strategies B

Structured Annuities NOW

At the close of 2019, Structured Annuity sales were $17.3 billion.

The First Variable Annuity

1952— TIAA-CREF sold the first Variable Annuity for use in college and university qualified retirement plans.

Variable Annuities NOW

At the close of 2019, Variable Annuity sales were $81.6 billion.

Variable Deferred Annuities NOW

At the close of 2019, Variable Annuity sales were $99.0 billion.

Deferred Annuities NOW

At the close of 2019, All Deferred Annuity sales were $22.1 billion.

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Lincoln Financial Group®

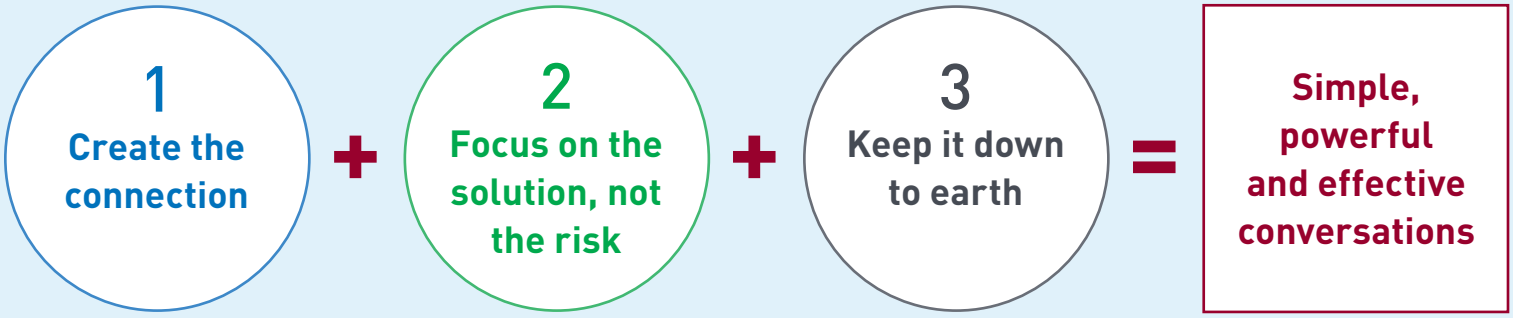
Best practices for talking to your clients about protected lifetime income

The formula for more powerful, effective conversations

How can you inspire strong, positive reactions in clients — and get them **ready to take the next steps in the income planning process**? These three simple steps will help improve your income planning conversations:

1. Create an emotional connection with clients through a two-way dialogue on their retirement vision.
2. Focus on the solutions that can help solve their retirement income needs, not the challenges themselves.
3. Keep the conversation down to earth by not overpromising the impact of any one product, but instead describing the power of a diversified income plan.

A formula that works



Insurance products issued by:
The Lincoln National Life Insurance Company
Lincoln Life & Annuity Company of New York

For use with the general public.

1 Create an emotional connection with clients

Research shows that emotions are contagious: In a recent study, Facebook conducted a test where they flooded the feeds of half a million users with either positive or negative posts. The results: Users who saw more positive posts went on to post more positive messages as well, and vice versa.[1]

What does this have to do with you and your client relationships? To build positive, trusting bonds with your clients, you need to prompt them to talk about what's most important to them, raising the stakes of the conversation — and providing a way for you to help address their most meaningful needs.

Your action step

Ask open-ended questions framed in a positive way, and then truly listen and engage them in a deeper conversation. For example, try asking:

- What would your ideal retirement look like?
- What would it mean to you to realistically know what you can afford in retirement?
- What words would you like to be able to use to describe your income in retirement?

2 Focus on solutions, not risks

Have you ever noticed the urge to check your account balance several times a day when the market is up — but to avoid facing your balance completely when the news isn't rosy? If so, you're demonstrating a very human instinct to seek out positive feelings and avoid negative ones.[2]

Your clients are just the same. They already know what to worry about — running out of money, market ups and downs, and more — but such negative thoughts can make them freeze up, unable to act. Instead, help them focus on the steps they can take in the present to address their concerns, such as creating a diversified income strategy that includes protected income for life. Then reinforce the positive benefits, such as feeling more confident to cover everyday expenses and enjoy lifestyle extras.

Your action step

Using what you heard in Step 1, reframe your clients' concerns into opportunities for plausible action. For instance, try saying, "It sounds like you might feel more excited to take vacations if you knew you had a reliable source of income in addition to Social Security. How would you feel if you had a protected monthly income for life?"

[1] A.D. Kramer, J.E. Guillory, and J.T. Hancock, "Experimental Evidence of Massive-Scale Emotional Contagion Through Social Networks," *Proceedings of the National Academy of Sciences* 111, no. 24 (2014): 8788-90. http://www.pnas.org/content/111/24/8788

[2] S. H. Bracha, "Freeze, Flight, Fight, Fright, Faint: Adaptationist Perspectives on the Acute Stress Response Spectrum," *CNS Spectrums* 9, no. 9 (2004): 679–85; S. M. Korte, M. K. Jaap, J. C. Wingfield, and B. S. McEwen, "The Darwinian Concept of Stress: Benefits of Allostasis and Costs of Allostatic Load and the Trade-Offs in Health and Disease," *Neuroscience and Biobehavioral Reviews* 29, no. 1 (2005): 3–38. https://www.researchgate.net/publication/8374374_FREEZE_FLIGHT_FIGHT_FRIGHT_FAINT_Adaptationist_perspectives_on_the_acute_stress_response_spectrum_aka_Bracha's_Five_Fs_of_Fear

3 Keep solutions down to earth

Today's savvy consumers are sensitive to statements that sound too good to be true. The perception that you're "selling" to clients or appearing to overpromise the benefits of any one strategy can undermine your credibility.

Instead, tell them the main benefit a solution can provide, and be frank about its costs, limitations and tradeoffs. Not only will this down-to-earth strategy facilitate an easier initial conversation, but it will also make it more realistic to manage clients' expectations once they've decided to add an income solution to their portfolio.

Your action step
When it's time to introduce a product to your clients, be specific about the benefits it offers. For instance, explain that an annuity with optional benefits can help provide a protected monthly income for the rest of their lives. Then take the time to patiently respond to your clients' questions as they move up the learning curve.

Words that win with clients

Ready to put the formula into action? Leverage the winning messages on the left, which got the thumbs up from clients in our research.

Messages for better conversations	Messages that miss the mark
How would you feel if we could add a reliable source of income to your retirement income plan?	You can't depend on Social Security anymore, so you need an annuity for income.
An annuity with optional benefits can help provide a protected monthly income for the rest of your life.	Annuities provide financial freedom in retirement.
Income planning may help ensure you will never outlive your money in retirement.	Consider an annuity with a 5.5% payout.
An annuity can provide a guaranteed income for the rest of your life.	A higher compounded roll-up rate can grow retirement income faster.
Is a known source of income in retirement something you'd be interested in?	An annuity will help you live your dream retirement.
By adding protected income to your plan, you're adding a safeguard for when the market stumbles, ensuring a portion of your assets are protected and an income stream you can count on.	With an annuity, you'll have the courage to take on more risks.

What's in a name?

Do you ever hesitate to finish your retirement income conversation by bringing up an annuity? Financial professionals tell us they anticipate their clients having negative concepts of these solutions due to misconceptions in the media, which can be time-consuming to counteract.

In fact, our research shows that approximately 65% of clients have a neutral or positive point of view on annuities. More than one third say they don't know much about annuities at all, leaving them ready to learn about the value of these solutions for the first time from you.[3]

Most important, 41% of clients say that having enough money to last a lifetime is their number one retirement planning goal — and they need your guidance on creating a retirement income plan that will last.[4]

[3] The Alliance for Lifetime Income, 2018.

[4] LIMRA Secure Retirement Institute. Based on 2,000 retirees and pre-retirees.

Let's keep the conversation going.

Looking for more resources on retirement income planning? Contact your Lincoln representative or visit LFG.com/income for more information!

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

LincolnFinancial.com

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Affiliates are separately responsible for their own financial and contractual obligations.

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Order code: VA-ALL-FLI002

A note about research
Lincoln conducted qualitative and quantitative research with consumers and financial professionals in collaboration with Maslansky + Partners between 2016 and 2018 to produce optimized language for more effective retirement income planning conversations between you and your clients.

All guarantees, including those for optional lifetime income benefits, are subject to the claims-paying ability of the issuer.

For use with the general public.

SINGLE PREMIUM IMMEDIATE ANNUITY (SPIA)

Income Stream Case Studies

AMERICAN NATIONAL®

Plan For Life's Adventures

What is a Single Premium Immediate Annuity (SPIA)?

A contract between you and an insurance company that allows you to convert a lump sum into a steady stream of guaranteed annuity payments, providing a guaranteed income for as long as you need it.

SINGLE PREMIUM

Fully funded with a single premium payment upfront.

IMMEDIATE

Payments to the contract owner begin on or up to a year from the issue date. This is different than a deferred annuity that would begin making payments after waiting for a period of time.

ANNUITY

A contract that provides the account owner a payment of money monthly, quarterly, or annually for the rest of their life (or for a set term of years).

Retirement Planning with Immediate Annuities

Immediate annuities provide one of the best ways to generate an income stream for retirement because it is predictable and, depending on the income option, cannot be outlived.

Inflation Concerns

If inflation concerns you, a Cost of Living Adjustment (COLA) can be added at purchase or another smaller annuity can be purchased later to keep pace with inflation. American National's SPIA allows you to add a Cost of Living Adjustment (COLA) to certain income options to allow your SPIA income payments to increase by 3%, compounded annually, alongside increasing costs of living as you age.

Cover Fixed Expenses

Using an immediate annuity to cover expenses that recur each month, not covered by social security, pension, or other source of income provides a sense of well-being. It eliminates the need to continuously review assets to determine where to draw income for that month. Covering all fixed expenses helps protect against the need to sell securities during down markets and risking your nest egg. Instead, you have the option to wait until the market recovers.

Will you have unmet fixed expenses?

Monthly Expense/Income	Housing	$
	Food	$
	Transportation	$
	Healthcare	$
	Personal Insurance	$
	Family Care	$
	Entertainment	$

Minus	Social Security Income	$
	Pension/Other Income	$

Equals	Unmet Fixed Expenses	$

Payout Options™ from American National

American National's Palladium SPIA provides a guaranteed income based on a number of choices you make: how often you want to receive income payments, whether you want to receive them for a specific period of time or for life, whether you want to share the income payments with a spouse, or perhaps provide income payments to a joint annuitant after you die. There are many income options—the choice is yours.

	Payment duration:	When the FIRST annuitant dies:	When the SECOND annuitant dies:	COLA available
Period Certain	Set number of years, (5–30)	Payments continue to beneficiaries until the end of the period selected	N/A	Yes
Life Only	Life of the annuitant	Payments stop	N/A	Yes
Life with Period Certain	Life of annuitant with a guarantee for a set number of years (5–20)	Payments continue to beneficiaries until the end of the period selected. If that period ended before death, payments stop at death	N/A	Yes
Joint to Survivor	Income payments are made for the life of the two annuitants	Payments continue to survivor at 50%, 60%, 66.67%, 75%, or 100% (Percentage chosen at issue)	Payments stop	Yes
Joint to Survivor with Period Certain	For the life of the two annuitants with a guarantee for a set number of years (5–20)	Payments continue to survivor at 50%, 60%, 66.67%, 75%, or 100% (Percentage chosen at issue)	Payments stop if the set period of years have passed. If the set period of years have not passed, payments will continue to beneficiaries until the period is complete.	Yes
Joint to Spouse	For the life of two spouses	100% of the payment is paid while the primary annuitant is alive. If the primary annuitant dies first, the payment is reduced to 50%, 60%, 66.67%, or 75% or remains as 100% (percentage chosen at issue). If the spouse who is the secondary annuitant dies first, payments remain at 100%.	Payments stop	Yes
Joint to Spouse with Period Certain	For the life of two spouses with a guarantee for a set number of years (5–20)	Similar to the Joint to Spouse option. The difference being that the payments continue at 100% for the certain period chosen. After this period has ended, payments are adjusted as needed if one of the annuitants have died.	Payments stop if the set period of years have passed. If the set period of years have not passed, payments will continue to beneficiaries until the period is complete.	Yes
Installment Refund	Life of the annuitant	Payments continue to beneficiaries until the amount of the income payments equals the initial premium paid.	N/A	No
Cash Refund	Life of the annuitant	Payments continue to beneficiaries until the amount of the income payments equals the initial premium paid.	N/A	No

For any of the payments mentioned above that continue to a beneficiary after death, your beneficiary may elect, in lieu of continuing to receive income payments, a lump sum death benefit. The lump sum death benefit would be equal to the commuted value of the remaining income payments.

Hypothetical Example

What Could a $250,000 SPIA Pay?

The amount you can expect to receive each month will depend on prevailing interest rates and the options you choose.

Single Life

Male, age 67

Life Only: payment guaranteed until death

$1,297.79 monthly

Life with 10 Year Period Certain: payment until death, with 10-year minimum guarantee

$1,274.69 monthly

Cash Refund: payment guaranteed for life with any remaining initial premium paid to beneficiary at death

$1,119.84 monthly

Joint Life

Male, age 67 | Female,age 67

Joint to Spouse: 100% payment guaranteed until both deaths

$1,100.79 monthly

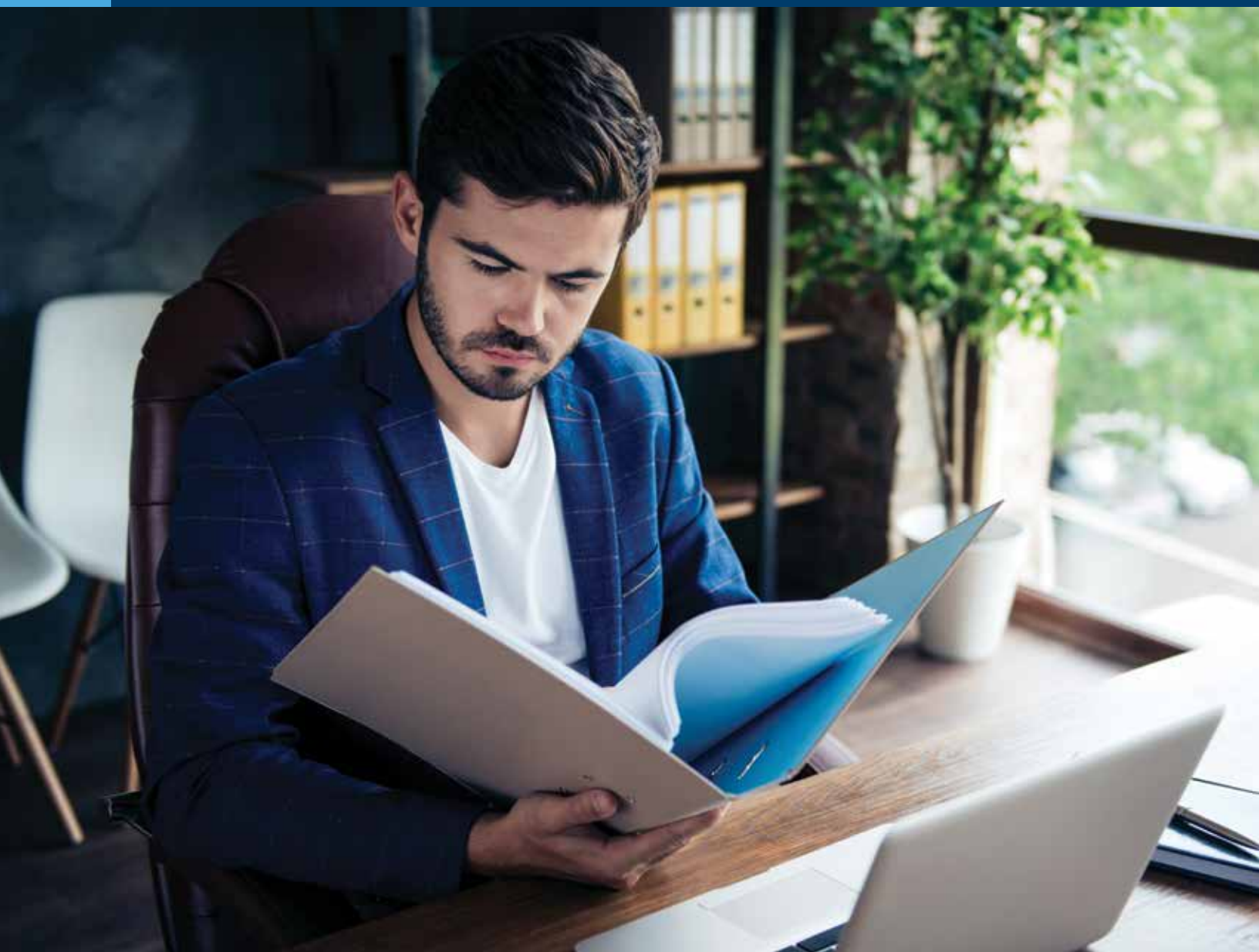
Joint to Spouse with 10 Year Period Certain: 100% payment until both deaths, with 10-year minimum guarantee

$1,099.95 monthly

The Case (Study) for Buying Cash Flow

Single Premium Immediate Annuities provide something every family needs – Cash Flow. The declining availability of pension plans in this country has left more and more individuals nearing retirement wondering where the cash flow will come from to fund their everyday living expenses. Other individuals worry about their ability to manage their money and yet others are worry they will run out of money too soon.

As you will see from the Single Premium Immediate Annuity case studies that follow, there are many ways to convert some of your assets to monthly income that you cannot outlive.



THE CHALLENGE

Convert retirement assets to cash flow that will last for the lives of married couples

THE SOLUTION

Joint and Survivor Immediate Annuity

Creating Monthly Cash Flow

Lisa and Steve spent their careers accumulating assets for retirement. They had CDs, mutual funds, sizable 401(k)s, life insurance cash value, and annuities, mostly in qualified assets. As they approached retirement they became concerned about how to turn those assets into monthly cash flow. Other than their social security payments, they had no idea how to take money from their various assets to fund recurring monthly expenses. They were fearful to retire and lose the security of paychecks that provided income on a regular basis.

Though they had a comfortable amount saved, they also were concerned about using too much of their savings too quickly and running out of money.

They met with their financial advisor and shared their concerns. He took out two sheets of paper and on the first sheet he listed and categorized all of their investment assets (qualified or non-qualified; liquid or non-liquid) and on the second he helped them list all their recurring monthly expenses. From the recurring expenses he subtracted any recurring income sources, such as social security. What was left were the recurring expenses not covered by cash flow.

Their two largest assets were their 401(k) plans. Since a majority of their assets were in the 401(k) plans and their other non-qualified assets were a minority of their savings, he recommended they take a portion of the smaller 401(k) plan and fund a Joint and Survivor Immediate Annuity. This would allow them to cover their unmet cash flow needs while maintaining the liquidity of their non-qualified accessible assets.

Lisa and Steve liked the monthly income an immediate annuity would provide but wanted to make sure they would be prepared in case their expenses increased in the future. Their advisor explained that they could purchase an immediate annuity now and plan to purchase an additional annuity in later years if they needed it. Alternatively, they could choose to purchase an immediate annuity with an inflation factor built in to increase the monthly income each year to cover the increases in costs.

The immediate annuity would provide income that would continue for both of their lives. If markets were good they could access their other assets to take a vacation, purchase a new car, or other financial outlay and be able to pull back and not touch these assets when in a down market when their asset values were declining.

THE CHALLENGE

Unprepared to manage assets after death of a spouse and leaving a legacy

THE SOLUTION

Lifetime Immediate Annuity with a Cash Refund Option

Suddenly on Your Own Without a Guide

Christine was 69 years old when her husband Darrell died. The kids were out on their own with their own families. Darrell had always managed their money himself and Christine had never worried about finances or investments. When their insurance agent, Gavin, delivered the death benefit check from Darrell's life insurance she related that she had never been involved in managing their money and didn't know what to do with the money. There were savings in the bank but once that was gone Christine worried how she would manage and what assets she would need to liquidate to provide money to pay her bills. She knew her social security survivor benefits would not be enough to pay all the bills.

Gavin introduced a product that would provide her monthly income for the rest of her life. This was a Single Premium Immediate Annuity. He told her that once she purchased this product, income would begin the next month and pay her monthly throughout her life. She could not outlive this income even if she outlived her life expectancy or the account value went to zero.

Gavin and Christine went through the family accounts to determine what she had spent on recurring expenses for the last year. They totaled everything up and subtracted off the social security income to find the amount needed in order to meet her recurring expenses.

Gavin's first illustration for a lifetime immediate annuity would be enough to cover Christine's unmet cash flow needs but she was concerned that if something happened to her in the first few years, her children would not receive any benefits from the money. Gavin then ran an illustration for a lifetime immediate annuity with a cash refund option.

Since the immediate annuity would provide enough income to cover Christine's cash flow, Gavin pointed out that Darrell's untouched investments could continue to grow and provide funds to use for vacations, new cars, gifts to children and grandchildren, and, eventually, pass on to her children.

THE CHALLENGE

Reduce risk of liquidating assets during a downturned market

THE SOLUTION

Joint and Survivor Immediate Annuity

Calming Market Fears

Now that Lulu and Kent were retired and no longer receiving paychecks, they frequently reviewed their finances to try and avoid investment mistakes. They had not saved as much as they had liked prior to retirement so, during the last 10 years leading up to retirement, they had invested a majority of their assets in the stock market because it had the best returns.

Although they still did not think they had enough for their retirement, they were becoming increasingly worried that a significant market downturn, like the one that occurred in 2008, could cause them to run out of money. When the investments started causing Lulu to lose sleep at night, they knew it was time to reduce their stock exposure to prepare them to better handle a downturn in the market.

Lulu and Kent knew exactly how much they needed each month to pay their recurring expenses and had used gains in their stocks to make up the difference between what was needed and what they had from social security. They decided to meet with their insurance agent, Alma, to review their current life insurance needs in retirement and to ask her what she thought they could do to reduce their market risk in retirement.

Alma, a registered representative, confirmed that they had too large a percentage of their assets in the stock market for the retirement stage of their lives. She stated that reducing their stock market holdings and increasing their monthly retirement income with the purchase of an immediate annuity would lessen their risk. They would then be able to have the option of liquidating stock investments only in up markets and not in down markets.

By keeping enough liquidity to meet emergencies and increasing monthly income to cover fixed expenses, Lulu and Kent were able to reduce their market risk. They would not have to rely as much on taking gains from stocks to fund their lifestyle. With the immediate annuity, Lulu and Kent instantly had the monthly income they previously were piecing together each month from their stock portfolio.

The Single Premium Joint and Survivor Immediate Annuity they purchased reduced their risk of ever running out of money since the annuity would go on until the second spouse passed.

Lulu was comforted knowing that each month they would receive an income, and Lulu and Kent felt a heavy weight lifted off their shoulders as they repositioned sufficient assets to meet their lifestyle needs.

THE CHALLENGE

Create cash flow from the sale of a family business

THE SOLUTION

Joint and Survivor Immediate Annuity

Create a Do-It-Yourself Pension Plan

Ernie and his wife Isabella had saved their money and purchased a dump truck so Ernie could go into business for himself hauling materials. As the years went by, Ernie and Isabella bought a second and then a third truck. Isabella booked the jobs and kept the books and Ernie hired drivers for the other two trucks. They kept investing in the business until they had five trucks and six employees.

Eventually Ernie had a heart attack and could no longer work. He and Isabella sold their business to a competitor. At that time Ernie was 67 and Isabella was 62. They were concerned about how they would live even though they received several hundred thousand for their business.

They had never taken big salaries so they did not have much from social security. Once they received the check for the business, they visited their insurance advisor to discuss what he thought they should do. The advisor talked to them about what assets they had accumulated. Ernie and Isabella had never been in a pension plan or a 401(k) plan so they had very little assets outside of a nice home they had built and paid for and their business.

Their advisor talked to them about creating a "Do-it-Yourself Pension Plan" to provide them the retirement assets they would need. Since they had poured all of their money into the business rather than establishing a retirement plan, their advisor said they could take some of the money from the sale of their business and create a joint and survivor immediate annuity to fund their retirement.

They discussed their retirement needs and reviewed how much of the sales price should be placed in safe liquid assets in the event of an emergency vs. how much should be placed in the Single premium Immediate Annuity.

They decided to place 50% of the funds in the immediate annuity and 50% they decided to keep fairly liquid. The immediate annuity income along with their social security provided them sufficient funds to meet their lifestyle needs while still retaining half the money from the sale of the business to meet liquidity needs and provide them assets to leave to their children.

THE CHALLENGE

Provide for a financially irresponsible adult child

THE SOLUTION

Inheritance paid into an Immediate Annuity with COLA

Providing for Adult Children

Many times when planning our estates, we worry about how our children or more specifically one of our children will deal with an inheritance. When we have children that continually demonstrate that they cannot meet their obligations or save any money, handing them an inheritance can be a troubling thought. All of the hard work the parents spent saving their money can go for naught if the child goes out and spends all of the money within a few months of receiving an inheritance.

A Spendthrift is defined as someone who spends money in an extravagant, irresponsible way. One way to deal with a spendthrift child is to limit what they can access while providing them monthly income they cannot outlive. One way to do that is to direct under your last will and testament that the spendthrift child's inheritance or a majority of it must be invested in a lifetime Single Premium Immediate Annuity with a Cost of Living Adjustment (COLA). In that way, each year the annuity payout will increase based upon a pre-set inflation factor. American National's Immediate Annuity offers the option of a 3% compounding cost of living adjustment. That means the income payment will automatically increase 3% each year compounded annually. The amount of the initial payment would be less with a cost of living adjustment than it would be with a set fixed payment but it would grow with inflation and help the individual keep pace with increasing costs over the years. Cost of living adjustments or COLA is not available on the Life with cash refund or Life with Installment Refund income options.

Additionally, the SPIA contract could have an endorsement added so that the ability to surrender the contract is eliminated so the child could not convert the annuity to a lump sum distribution. By using an immediate annuity with an endorsement, it allows the child to receive payments for their lifetime which they cannot outlive. Each month they will receive the payment that can cover their rent, food, car etc. so that the child has a "retirement plan" the parents can leave them knowing they will receive monthly income long after the parents are gone.

THE CHALLENGE

Cover child support payments for a set number of years.

THE SOLUTION

Immediate Annuity with a Period Certain Payout

Divorce with a Term of Years Obligation

Joe and Meg had been married fifteen years and had one child Ann, age eight, when they got divorced. Joe was an attorney and Meg stayed home to take care of their daughter. By the time they went to court Meg had landed a job in her field. The couple agreed to an amount to be paid for child support until Ann was out of school. Meg's attorney asked the judge to impose a requirement that Joe carry life insurance on himself to insure that the child support was paid if anything happened to him.

After a discussion with Joe, his attorney proposed that Joe would purchase a ten year term immediate annuity that would pay Meg for Ann's child's support until Ann reached age 18 and graduated from high school. The annuity would not be refundable and would be for a ten year term to satisfy the obligation for Ann. Meg, through her attorney, agreed to the settlement and Joe fully funded his future obligation.

Using a term of years immediate annuity can be done with many different financial obligations whether it is alimony, child support, paying off a loan, paying for life insurance or paying an employee retirement income.

In each case, there is a financial obligation that needs to be met on a regular basis for a term of years or for a lifetime. A Single Premium Immediate Annuity is a way to provide for this recurring obligation thereby avoiding the need to search for dollars each month. The payment can be direct deposited into an account that can be drafted each moth to satisfy the obligation.

See the next story for another example of a term of years need.

THE CHALLENGE

Bridging the income gap between retirement and social security payments.

THE SOLUTION

Immediate Annuity with Period Certain Payout

Early Retirement Gap Funding

With full retirement benefits from social security gradually increasing to age 67, someone age 62 who retires will be tempted to access social security early at age 62. That would be a mistake as they would sacrifice significant future retirement income.

What would be a more sound retirement strategy would be to take out a five year Single Premium Immediate Annuity to fund the retirement gap between 62 and 67. If they retired at age 57–60 they could take a ten year immediate annuity to cover their shortfall. That way they preserve benefits and could delay taking benefits until age 70 when they could maximize the social security benefit they could have for the remainder of their retirement.

If they take benefits at age 62, they will live with 75% of the benefit they can receive at full retirement. The decrease in benefits for a non-working spouse would be dramatically reduced to 35% of the spouse's benefit at full retirement.

By using an immediate annuity to avoid taking social security benefits, the increased benefit will pay off for years to come with the significantly higher social security benefit for both spouses. The penalties for taking social security early are substantial for both spouses and should be avoided at all costs.

THE CHALLENGE

Balancing charitable donations with retirement cash flow.

THE SOLUTION

Charitable Gift Annuity

Gifts to Charity

Many individuals are charitably inclined later in life. They want to benefit their school alma mater or they want to benefit their church, synagogue or temple. They want to give away assets while they are living but would still like some form of income from those assets while they are still alive.

The Charitable Gift Annuity can satisfy the desire to make gifts while still living with the desire to improve retirement cash flow. A charitable gift annuity is a concept whereby a donor makes a gift of money or property to charity and the charity gives back an agreed upon income stream to the donor for the remainder of their life or joint lives. Many charitable and religious organizations will accept gifts for charitable gift annuities and then purchase an immediate annuity to fund the cash flow promised on a charitable gift annuity. The charity benefits, the donor benefits and the donors receive lifetime cash flow and an income tax deduction based upon the value of the gift remaining with the charity. This makes for a win-win situation for everyone.

Partial withdrawals and full surrender options and commuted value is not available in MN, NE, NJ, OR, and WA. The interest rate used to determine the death benefit's commuted value will vary by state. A commutation charge will also be assessed on partial withdrawals and full surrenders of a commuted value. All withdrawal and surrender amounts are determined as the present value of future Annuity Payments using our current SPIA pricing rate plus 0.50%. Any partial surrender must be for at least $2,000, and a commutation charge is assessed based on the following schedule:

Year:	1	2	3	4	5	6	7	8	9	10	11 +
%	No Surrenders			10	9	7	5	4	3	2	0
NY %	No Surrenders			8	7	6	5	4	3	2	0

The purchase of an immediate annuity is permanent other than the conditions mentioned for partial or full surrender options and commuted value. The annuity owner will no longer have access to the premium, which converts into a stream of income payments. The terms of the annuity, such as the choice of income payment option, payment amounts and timing, and the rates of return cannot be changed.

This contract has limitations. You should also read and understand the disclosure before completing your purchase. For specific provisions, refer to Contract Form Series: NSPA; ANY-NSPA. (Forms may vary by state). American National Insurance Company, headquartered in Galveston, Texas is licensed to conduct business in all states except New York. Business is conducted in New York by American National Life Insurance Company of New York, headquartered in Glenmont, New York. Each company has financial responsibility only for the products and services it issues.

RETIREMENT PORTFOLIO CHART

07.2018

RETIREMENT Portfolio

Annuities have the ability to deliver reliable lifetime income

HOW AN ANNUITY CAN ENHANCE YOUR RETIREMENT PORTFOLIO

Today, your retirement portfolio may include stocks, bonds and mutual funds that all play a part in helping you achieve a successful retirement. However, you may want to consider adding an annuity, which can complement your portfolio by providing attributes for retirement those categories do not offer. The chart below outlines these retirement attributes, particularly the ability of annuities to deliver the reliable lifetime income you'll need in retirement. Annuities may not be right for everyone, and many have fees associated with the guarantees they offer. Discuss with your financial professional. This chart is not intended to compare these categories as investments.

	ANNUITIES	CERTIFICATES OF DEPOSIT (CDs)	STOCKS	BONDS	MUTUAL FUNDS AND ETFs
Protected monthly lifetime income Offers a guaranteed and predictable stream of payments for life — may be available for both you and your spouse.	YES	NO	NO	NO[1]	NO
Can protect against market loss May offer a fixed return or principal protection that avoids market downturns.	YES	YES	NO	YES (if held to maturity)	NO
Tax-deferred growth for retirement[2] Beyond what's provided by 401(k) or similar employer-type plans or IRAs.	YES	NO	NO	NO (though some are tax-exempt)	NO
A choice of income guarantees You can add enhanced lifetime income benefits for a fee.	YES	NO	NO	NO	NO
Access to your money[3] Can allow you to keep control of your money and get access if you need it.	YES	YES	YES	YES	YES
Guaranteed death benefit Can offer a guaranteed death benefit for your beneficiary when you pass away.	YES	YES	NO	NO	NO

1 Except to the extent of periodic interest payments. 2 All of these investments are equally tax-advantaged in qualified retirement plans.

3 Other than stocks or bonds, may be subject to fees or limitations based on the type and structure of the investment. See your advisor for details.

ANNUITIES LANGUAGE GLOSSARY

MAKING ANNUITIES EASIER TO UNDERSTAND

Alliance for Lifetime Income

ANNUITIES LANGUAGE GLOSSARY

MAKING ANNUITIES EASIER TO UNDERSTAND

The Alliance for Lifetime Income is a non-profit organization committed to educating consumers about the value and importance of protected income through annuities. Part of our commitment includes making the language of annuities simpler and more transparent.

We realize that annuities, like most other financial products, can be difficult to understand, which is why we've created a glossary of terms and definitions to help simplify and demystify some of the language used when describing annuities. We believe increasing transparency and reducing this complexity will help you make better decisions about annuities, which can lead to better outcomes in your retirement planning.

This is the second edition to our glossary, including additional terms and language from our first edition.

4501-NLD-3/16/2021

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*The extent to which Protected Lifetime Income is guaranteed will depend upon the claims-paying ability of the insurer that issues the annuity.

ANNUITIES LANGUAGE GLOSSARY

MAKING ANNUITIES EASIER TO UNDERSTAND

A

ACCOUNT VALUE
The amount of money in the annuity.
Simpler term: Account balance

ACCUMULATION PHASE
The period that you are allowing your money the potential to grow. (Some annuities allow you to add more money over time.)
Simpler term: Growth stage

ADVISOR
A qualified person who can help you understand your options and make financial decisions to work toward your financial goals.
Simpler term: Financial professional

ANNUAL LOCK (when referencing fixed indexed annuities)
An opportunity to lock in, or protect, interest earned up to the annuity's caps each year, protecting those gains from any future index decreases.

ANNUITY
A financial product that can offer protected lifetime income and even potentially grow your money.

ANNUITY OWNER
A person who owns the annuity and has the authority to make any changes.

APPETITE FOR RISK
The level of market risk you're comfortable with.
Simpler term: Risk comfort level

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B

BENEFICIARY
The person you designate to receive any remaining account balance or income payments should you pass away.

BENEFIT
A feature that can provide benefits or protection to you or your beneficiaries at an additional cost.
Simpler term: Optional benefit

BENEFIT TO YOUR HEIRS
A benefit that pays your beneficiary the remaining account balance or income should you pass away.
Simpler term: Beneficiary benefit

BONUS
The ability to permanently adjust your income based on a pre-set guaranteed growth rate. This guaranteed growth rate is periodically applied to your benefit base (which is your income base plus any additional guaranteed growth increases), which permanently increases the benefit amount you receive.
Simpler term: Guaranteed growth

C

CAP
The maximum amount your annuity may be able to earn at the end of a selected time period. You choose the time period that's best for you from a set of available options.

CHARGE
The amounts associated with owning an annuity, which may include setting up the annuity, adding optional benefits, etc.
Simpler terms: Fee or Cost

COMMISSION
Similar to other financial products, commissions are compensation paid by an insurance company to a financial professional who sells an annuity to a client.
Simpler terms: Fee or Cost

CONTRACT VALUE
The amount of money in the annuity.
Simpler term: Account balance

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COST
The amounts associated with owning an annuity, which may include setting up the annuity, adding optional benefits, etc.
Simpler term: Fee

COST BASIS
Your original investment amount.

COVERED PERSON(S)
The person who lifetime income payments are based on and whose age determines the guaranteed withdrawal rate.
Simpler term: Protected person(s)

COVERING YOUR [ESSENTIALS, BASIC NEEDS, NON-NEGOTIABLES]
Financial priorities that impact the objectives you set for how to save or spend your money during important life stages.
Simpler term: Financial needs and goals

CREDITING STRATEGY
The method used to determine how interest is credited to certain annuities, when applicable.

D

DEATH BENEFIT
A benefit that pays your beneficiary the remaining account balance or income should you pass away.
Simpler term: Beneficiary benefit

DECUMULATION PHASE
The point you start receiving income from your annuity.
Simpler term: Income stage

DEFERRAL BONUS
A bonus amount that could potentially be credited to your income base annually during the growth stage for each year you wait to take income, up to a certain age.

DEFERRED INCOME ANNUITY (LONGEVITY ANNUITY)
A type of income annuity that allows you to contribute a lump sum, choose the frequency and amount you'd like to set for your annuity income payments, and then delay those payments until a pre-determined point in time.

DEGREE OF CERTAINTY
The level of market risk you're comfortable with.
Simpler term: Risk comfort level

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DISCRETIONARY EXPENSES VS. NON-DISCRETIONARY EXPENSES
Two main types of retirement expenses: essential expenses cover everyday needs, such as housing and meals, and non-essential expenses cover your lifestyle, such as travel and entertainment.
Simpler term: Essential expenses vs. non-essential expenses

DISTRIBUTION PHASE
The point you start receiving income from your annuity.
Simpler term: Income stage

DIVERSIFICATION
Strategically spreading your money among different types of investments to help reduce the impact of market downturns. Diversification does not guarantee a profit or protection against a loss.

DOLLAR COST AVERAGE
A strategy to invest specified amounts spread out over a period of time, instead of one larger amount, to reduce the risk of investing all at once when prices are high.

F

FAMILY PROTECTION
A benefit that pays your beneficiary the remaining account balance or income should you pass away.
Simpler term: Beneficiary benefit

FEE
The amounts associated with owning an annuity, which may include setting up the annuity, adding optional benefits, etc.
Simpler term: Cost

FEE-BASED ANNUITY
An annuity that allows financial professionals to receive an annual advisory fee, rather than a commission.

FINANCIAL ADVISOR
A qualified person who can help you understand your options and make financial decisions to work toward your financial goals.
Simpler term: Financial professional

FINANCIAL CONSULTANT
A qualified person who can help you understand your options and make financial decisions to work toward your financial goals.
Simpler term: Financial professional

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FINANCIAL EMPOWERMENT
The ability to cover your financial needs and reach your financial goals.
Simpler term: Financial security

FINANCIAL FUTURE
The ability to cover your financial needs and reach your financial goals.
Simpler term: Financial security

FINANCIAL INDEPENDENCE
The ability to cover your financial needs and reach your financial goals.
Simpler term: Financial security

FINANCIAL PRIORITIES
Financial priorities that impact the objectives you set for how to save or spend your money during important life stages.
Simpler term: Financial needs and goals

FIXED ACCOUNT
An account that earns a guaranteed interest rate and is not invested in or tied to the market.
Simpler term: Fixed rate account

FIXED ANNUITY
An annuity that guarantees the buyer a fixed interest rate on the amount invested for a specific period of time.

FIXED INDEXED ANNUITY
An annuity that guarantees principal protection from market downturns with the potential for growth tied to a market index.

FREE AMOUNT
The maximum amount the annuity owner can withdraw without being charged any fees.
Simpler term: Free withdrawal amount

G

GROWTH PERIOD
The period that you are allowing your money the potential to grow. (Some annuities allow you to add more money over time.)
Simpler term: Growth stage

GUARANTEED INCOME
Income that can last your whole life — and potentially go to your beneficiaries.
Simpler term: Protected lifetime income

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GUARANTEED LIFETIME WITHDRAWAL BENEFIT
An optional benefit which guarantees that you'll receive a minimum periodic income for the rest of your life, regardless of market losses.

GUARANTEED MINIMUM CREDITING RATE
The lowest amount of annual interest the insurance company is permitted to credit to a fixed annuity contract.

I

IMMEDIATE INCOME ANNUITY
A type of income annuity that allows you to contribute a lump sum, choose the frequency and amount you'd like to set for your annuity income payments, and then start receiving those payments immediately or delay receiving them for up to 12 months.

INCOME BASE
The amount that the annuity owner can withdraw money against.

INCOME STAGE
The point you start receiving income from your annuity.

INDEX
A benchmark used to represent a specific portion of a market in order to evaluate the performance of investments.

INDEX PARTICIPATION RATE
The percentage increase of the underlying index's value that will be credited to the annuity at the end of a selected time period.

INTEREST RATE FLOOR (when referencing fixed indexed annuities)
Your guaranteed minimum interest rate for a specified period of time, even during market downturns.

INVESTMENT DIVISIONS
The different investment options a variable annuity owner can choose to allocate their money to.
Simpler term: Variable annuity investment options

INVESTOR CONFIDENCE
The level of market risk you're comfortable with.
Simpler term: Risk comfort level

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J

JOINT LIFE
An added protected person, usually a spouse, who can lengthen the benefit of guaranteed income for life if they outlive the primary protected person.
Simpler term: Joint protected person

L

LEGACY
A benefit that pays your beneficiary the remaining account balance or income should you pass away.
Simpler term: Beneficiary benefit

LEGACY BENEFIT
A benefit that pays your beneficiary the remaining account balance or income should you pass away.
Simpler term: Beneficiary benefit

LEGACY PROTECTION BENEFIT
A benefit that pays your beneficiary the remaining account balance or income should you pass away.
Simpler term: Beneficiary benefit

LIFE CHANGES
Where you are in terms of your financial priorities and needs; for instance, growing your money or drawing from your money later in life.
Simpler term: Life stage

LIFE PRIORITIES
Financial priorities that impact the objectives you set for how to save or spend your money during important life stages.
Simpler term: Financial needs and goals

LIFE TRANSITION
Where you are in terms of your financial priorities and needs; for instance, growing your money or drawing from your money later in life.
Simpler term: Life stage

LIQUIDITY RISK
The risk that your money will need to be accessed sooner than anticipated, which could result in penalties or impact performance.
Simpler term: The risk you won't be able to access your money when you need it

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LIVING BENEFITS
Optional benefits available for an additional cost that can offer you guarantees, like a minimum level of income for life.
Simpler term: Protected income benefits

LONGEVITY RISK
The chance that you may live longer than your income will last.
Simpler term: The risk you won't have enough money to last

M

MARKET RISK
As with most investments, there is the chance you could lose money because of market downturns.

MARKET VALUE ADJUSTMENT
A positive or negative adjustment during the holding period to the amount you're able to withdraw from a fixed annuity above the free withdrawal amount. The adjustment is dependent on how the interest rate environment has changed since opening your account.

MARKET VOLATILITY
The way stocks, bonds and other market investments change in value, sometimes very quickly. This market movement may affect the value of your annuity or other investments. Some annuities can protect your income even when the markets go down.
Simpler term: Market ups and downs

MINIMUM GUARANTEED SURRENDER VALUE
The minimum amount the annuity owner is guaranteed to receive when withdrawing money from their account, after applying early withdrawal costs.
Simpler term: Minimum guaranteed annuity value

N

NEEDS AND WANTS
Financial priorities that impact the objectives you set for how to save or spend your money during important life stages.
Simpler term: Financial needs and goals

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O

OPTION
A feature that can provide benefits or protection to you or your beneficiaries at an additional cost.
Simpler term: Optional benefit

P

PARTICIPATION RATE
The percentage increase of the underlying index's value that will be credited to the annuity at the end of a selected time period.
Simpler term: Index performance crediting rate

PENALTY-FREE WITHDRAWAL AMOUNT
The maximum amount the annuity owner can withdraw without being charged any fees.
Simpler term: Free withdrawal amount

PERFORMANCE TRIGGER
A pre-set amount credited to your account if the annuity's underlying index change is positive or flat at the end of the term.
Simpler term: Performance credit

PERIOD CERTAIN
A payout option that allows the annuity owner to choose when and how long to receive payments, which beneficiaries may also be able to receive.

PREMIUM
For most annuity types, this is the money you put into the annuity.
Simpler term: Annuity contribution

PRICE
The amounts associated with owning an annuity, which may include setting up the annuity, adding optional benefits, etc.
Simpler terms: Fee or Cost

PRODUCT
What you use to pursue your specific financial goal.
Simpler term: Strategy

PURCHASE PAYMENTS
For most annuity types, this is the money you put into the annuity.
Simpler term: Annuity contribution

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Q

QUALIFIED DOLLARS (when referencing annuities)
Money that hasn't been taxed yet can be used to fund annuities connected to tax-qualified retirement plans, such as 401(k)s.
Simpler term: Pre-tax dollars

QUALIFIED MONEY (when referencing annuities)
Money that hasn't been taxed yet can be used to fund annuities connected to tax-qualified retirement plans, such as 401(k)s.
Simpler term: Pre-tax dollars

R

REQUIRED MINIMUM DISTRIBUTION
The amount you are required to withdraw annually from a qualified retirement account, such as an IRA, starting at age 72.

RETIREMENT
Where you are in terms of your financial priorities and needs; for instance, growing your money or drawing from your money later in life.
Simpler term: Life stage

RETIREMENT GOALS
Financial priorities that impact the objectives you set for how to save or spend your money during important life stages.
Simpler term: Financial needs and goals

RIDER
A feature that can provide benefits or protection to you or your beneficiaries at an additional cost.
Simpler term: Optional benefit

RISK-ADJUSTED RETURNS
A calculation of the returns or potential returns from an investment within the annuity that considers the degree of risk that must be accepted in order to achieve it.
Simpler term: Estimated performance

RISK APPROPRIATENESS
The level of market risk you're comfortable with.
Simpler term: Risk comfort level

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RISK TOLERANCE
The level of market risk you're comfortable with.
Simpler term: Risk comfort level

ROLL-UP
The ability to permanently adjust your income based on a pre-set guaranteed growth rate. This guaranteed growth rate is periodically applied to your benefit base (which is your income base plus any additional guaranteed growth increases), which permanently increases the benefit amount you receive.
Simpler term: Guaranteed growth

S

SAVING FOR RETIREMENT
Financial priorities that impact the objectives you set for how to save or spend your money during important life stages.
Simpler term: Financial needs and goals

SEQUENCE OF RETURNS RISK
The potential for a market downturn early in retirement, which can have a disproportionately negative impact on your long-term account balance if withdrawals are already being taken.

SOLUTION
What you use to pursue your specific financial goal.
Simpler terms: Strategy or Product

SPENDING PHASE
The point you start receiving income from your annuity.
Simpler term: Income stage

SPOUSAL CONTINUATION
An option to transfer ownership or continuation of your guaranteed income to your spouse in the event you pass away.

SPREAD
An index crediting method where a pre-determined rate is subtracted from any percentage increase in the underlying index and the annuity is credited the difference.

STRATEGY
What you use to pursue your specific financial goal.
Simpler term: Product

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SUBACCOUNTS
The different investment options a variable annuity owner can choose to allocate their money to.
Simpler term: Variable annuity investment options

SUSTAINABLE WITHDRAWAL RATE
The estimated maximum percentage that you can withdraw each period without running out of money during your lifetime.

V

VARIABLE ANNUITY
A financial product that offers the potential to grow your money through various market investment options, but with the potential for market loss — with the option of receiving protected lifetime income.

VARIABLE PORTFOLIOS
The different investment options a variable annuity owner can choose to allocate their money to.
Simpler term: Variable annuity investment options

VEHICLE
What you use to pursue your specific financial goal.
Simpler terms: Strategy or Product

W

WAIVER
An option that waives the early withdrawal fee when difficult life events occur, such as hospitalization, confinement in a nursing home or unemployment.
Simpler term: Optional benefit

WITHDRAWAL BASE
The amount that the annuity owner can withdraw money against.
Simpler term: Income base

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Indexed universal life insurance: A buying guide

8 minute read

Universal life insurance combines many of the advantages of permanent, whole life insurance policies with premium payments that can be more affordable, making it an option to consider for many people. Like a whole life policy, universal life provides permanent death benefit protection coupled with a cash value component that grows tax-advantaged[1,2]. At the same time, premiums are flexible: you can raise or lower your payments within certain limits set by the policy.

Indexed universal life (or IUL) is a type of universal life that may appeal to those who want premium flexibility with the potential for greater growth (than fixed rate UL) and downside risk protection (compared to VUL)[3]. But it's not right for everyone, in part because the policies are inherently complex. This article can help answer key questions:

- What is indexed universal life insurance?
- How does cash value grow?
- What are the pros and cons of indexed universal life?
- How do you buy it?

What is indexed universal life insurance?

As we've already noted, the answer is a little complex. To better understand how this type of UL works and the benefits it can provide, it helps to get some context by reviewing the other main types of universal policies – standard and variable UL.

A **standard universal life** policy (sometimes called fixed-rate UL) provides permanent death benefit protection plus a cash value component while allowing you to raise or lower your premium payments within a certain range – and at the low end of that range, premiums may be comparable to term policy premiums[4]. The death benefit is also adjustable. Flexible premiums may have appeal for people with fluctuating incomes, because it makes the advantages of permanent coverage more easily attainable. These UL policies can provide guaranteed cash value growth similar to a whole life policy, while providing the same kinds of tax deferral, loan collateral, and death benefit. But it's also important to note that minimum premium payments means less cash value for growth, and expenses can ultimately erode its value, resulting in a need to pay higher premiums in later years or face amount reductions to keep your insurance coverage.

The key difference between standard UL and the other types lies in how cash value accumulation is calculated. In a standard UL policy, the cash account balance is guaranteed to grow at an interest rate based on either the current market or a minimum interest rate, whichever is higher. So for example, in a standard Guardian UL policy, the annual interest rate will never go lower than the current minimum rate, 3.5%, but it can go higher.

People looking for potentially higher returns may choose a **variable universal life** (VUL)[5] policy instead. These policies give you the option to tie cash value growth to investment funds. These policies are sold by prospectus and the insurance company gives you the performance history and fee information, and you can decide how much of your cash value to invest in each option.

With reward comes risk: growth in a VUL policy is not guaranteed the way it is in a standard UL policy. With VUL, funds in your subaccounts are subject to market risk: In a good year for the market, the value of your subaccounts (and cash value) can rise. In a bad year, the subaccount value can and will decrease.

Indexed UL provides more growth potential than standard UL, with less risk than VUL. These policies let you allocate all or part of your cash value growth to the performance of a broad securities index such as the S&P 500 Index[6]. However, unlike VUL, your money is not actually invested in the market – the index just provides a reference for how much interest the insurance credits to your account, with a floor and a cap for the minimum and maximum rates of return. While you won't realize all the gains of your reference index, you won't suffer any of the losses either. Since the floor is usually set at 0%, in a down year for the markets your cash value amount will remain steady or even grow slightly (because some policies set the floor above 0%).

How cash value grows in an indexed UL policy

First of all, you have to choose how you want your cash account to be allocated for growth. Each insurance company has its own selection of indices available and you may be able to choose more than one. You may also be able to allocate a portion to a fixed-rate interest account.

The cap is usually max credit for a specified segment of index participation. Most policies have annual caps, but some policies may have monthly caps. Caps can change at the end of any segment.

Additionally, performance can be impacted by a participation rate set as a percentage of the index's gain, which is called the "participation rate." For example, if the reference index rises 10%, and the policy's participation rate is 50%, the amount allocated to the index would grow by 5%. Most IUL's have a participation rate set at 100%, but that can also change.

So, what would actually happen to the cash value in your account in a good year? And what about a bad year?

Here's an example based on how the S&P 500 did in 2017 and 2018[7]. In the decade of the 2010s, 2017 was one of the best years: the index rose 21.83%. 2018 was the worst: the index lost 4.38%.[1]

We'll assume you started with $10,000 in your cash account on Jan. 1, 2017, and you allocated 80% to the S&P 500 with an 11% cap, a participation rate of 100% and a floor of 0%; to hedge your bets, you put the other 20% in the fixed-interest account which paid 3%. And to simplify things, we'll assume nothing else was added via premium contributions.

2017 IUL Cash Value Performance (S&P 500 up 21.83%)

Allocation	Starting amount	Index performance	Participation rate	CAP	Adjusted return	Gain ($)	Ending amount

80% S&P 500 Index	$8,000	+21.83%	100%	11%	11%	$880	$8,880
20% Fixed-rate	$2,000	NA	NA		3%	$60	$2,060
					Total		**$10,940**

All in all, you would probably be pretty happy: your cash value grew by about 9.4%. In this hypothetical example, the growth rate was more than you would typically get with a standard UL policy or even with a whole policy that pays dividends; yet you had no risk of loss. Assuming you made no adjustments to your allocation, here's what would have happened the next year:

2018 IUL Cash Value Performance (S&P 500 down 4.38%)

Allocation	Starting amount	Index performance	Participation rate	Adjusted return	Gain ($)	Ending amount
80% S&P 500 Index	$8,880	-4.38%	100%	0% (floor)	$0	$8,880
20% Fixed-rate	$2,060	NA	NA	3%	$62	$2,122
				Total		**$11,002**

Over this admittedly volatile two-year span, your average cash value growth rate would have been close to 5%. That's still typically better than a standard UL policy, with much less investment risk than a VUL policy. However, it's important to remember that this example shouldn't be taken as "typical." There are a large number of variables that would have altered the 2-year performance outcome, including but not limited to the policyholder's decisions regarding premium amounts and cash value allocation; the policy's cap, floor, participation rate, and fixed interest rate; and of course, the performance of the reference index, not to mention the expenses deducted for the cost of insurance.

Index universal life insurance pros and cons

Compared to other forms of UL, an index policy offers the same permanent coverage and premium flexibility features, with the following basic differences based on the cash value growth calculation:

- Upside potential – IUL offers more growth potential than a standard UL policy, but less growth potential than a variable UL without performance caps
- Downside risk – While a standard UL policy guarantees cash account growth, in an IUL policy only the amount allocated to a fixed-value option is guaranteed to grow – if the reference index drops, it won't grow at all (assuming a 0% floor); however, IUL has less downside risk than a variable UL policy with no performance floor to limit subaccount losses.

Indexed universal life insurance vs. whole life insurance

Both types of policies provide permanent protection with an investment component that can grow over time, but IUL (like other UL policies) provides more flexibility to deal with changing circumstances by allowing you the policyholder the option of raising or lowering your premium payments[8]. In addition, an indexed UL policy gives you one or more index-based options that can help your cash value grow faster while still limiting your downside risk. But there are downsides as well: IUL policies are more complex, the cash value growth and the expenses are decoupled, so the cash value needs to be managed to some degree, if only to ensure that your cash value doesn't drop below a minimum threshold. Your cash value can stop growing and, in some cases, if the expenses exceed the cash value growth, even go down, especially if you only make minimum premium payments. This could force you to make higher payments later on, lower the death benefit amount, or forego your coverage altogether.

Whole life insurance policies are much simpler in comparison, with level premiums, more cash growth guarantees[9] (albeit with less upside potential), and fewer (if any) investing options. However, whole life policy premiums tend to be more expensive, especially compared to the minimum amounts in an IUL policy.

Indexed universal life vs. term life insurance

Term life is the simplest form of life insurance protection: With a typical term policy you pay a set monthly premium for 10, 20, or 30 years, and if you pass away during that term a death benefit is paid to your family. The downside is, the coverage is temporary with little flexibility to deal with changing circumstances and there's no cash value. Typically, the only substantial change you can make after your term policy is in effect is to convert it to a whole life policy.

By contrast, indexed UL gives you a more flexible – and complex – financial tool with benefits that can last a lifetime. You get permanent life insurance protection with the freedom to lower your premiums (within contract limits) to a level that may be comparable to a typical term premium. You get the advantages of cash value with the potential for greater growth (compared to other kinds of permanent life) along with the assurance of a performance floor that can help reduce risk. IUL (like a whole life policy) can also provide tax-advantaged estate planning benefits not available with temporary term coverage.

How to buy an indexed universal life policy

This can be a useful and quite specialized product. If you think these financial products are right for you, we suggest getting professional guidance to arrive at the right solution for your needs. Discuss your situation with a financial professional experienced in helping people get permanent life protection. If you don't know such a professional, ask a friend or colleague for a recommendation.

Learn more about how to buy life insurance.

Frequently asked questions about indexed universal life insurance coverage

Is indexed universal life insurance an asset you should consider?

If you're looking for a financial product that combines permanent life insurance protection, flexibility, and upside growth potential in a way that can help limit risk, then this could be an option to consider.

How does indexed universal life work?

This type of UL provides many of the same permanent protection and tax-advantaged cash value accumulation benefits as whole life along with added flexibility. In addition to flexible premiums, these financial products let you allocate all or a portion of your cash in an index-based option, giving you the potential for more growth tied to the reference index. On the other hand, your cash account is not guaranteed to grow, particularly when the reference index is negative. This also means you have to keep an eye on your cash value balance over time: If it goes down to zero your premiums could go up, the death benefit can be reduced, or your coverage can be cancelled.

What are the pros and cons of indexed universal life insurance?

This type of coverage offers permanent life insurance protection with tax-advantaged cash value growth and flexibility, but like other types of financial products, it isn't for everyone. One of the disadvantages of indexed universal life insurance is complexity. Term life insurance policies are much simpler, but they only provide temporary coverage with no cash value component. If you want the simplest form of permanent life insurance with the strongest guarantees for cash value growth, then a whole life policy may be an option to consider. On the other hand, if your income can vary from year to year, and you want permanent life protection with the option of being able to raise or lower your premiums, then a standard UL policy offers more predictable growth, albeit with less upside potential. Finally, a variable UL policy offers even greater growth potential but with more risk – you can actually lose cash value if the value of your investment subaccount decreases.

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[1] Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors. Some whole life polices do not have cash values in the first two years of the policy and don't pay a dividend until the policy's third year. Talk to your financial representative and refer to your individual whole life policy illustration for more information.

[2]Guardian, its subsidiaries, agents and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.

[3] An Indexed Universal Life (IUL) policy is not considered a security. Premium and death benefit types are flexible. It's crediting rate is based on the performance of a stock index with a cap rate (i.e. 10%), a floor (i.e. 0%), and a participation rate (i.e., 100%). This type of universal life policy may lapse due to low or negative performance of the stock index, inadequate funding, and increasing cost of insurance rates

[4] A Fixed Universal Life Insurance (UL) policy provides a flexible premium, choice of death benefit options, and a guaranteed crediting rate (i.e. 2%). Policy growth is based on adequate funding, increasing crediting rates, and if costs of insurance is lower than expected. If any of the three factors just mentioned are lower than expected (policy funding and crediting rates), and/or higher than expected (cost of insurance), the policy may lapse. Universal Life Insurance may lapse prematurely due to inadequate funding (low or no premium), increase in cost of insurance rates as the insured grows older, and a low interest crediting rate. This does not apply to universal life policies which have a secondary guarantee, but if the secondary guarantee requirements are not met the policy will most likely lapse.

[5] *A Variable Universal Life (VUL) policy is considered both life insurance and a security and is sold with a prospectus. Premium and death benefit types are flexible. It's crediting rate is based on the performance of the underlying investment options provided in the policy. There is no guaranteed interest rate. This type of policy may lapse due to low or negative performance of the underlying investment options, inadequate funding, and increasing cost of insurance rates. See your policy prospectus for more information.*

[6] *S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market. Past performance is not a guarantee of future results. Indices are unmanaged and one cannot invest directly in an index.*

[7] Hypothetical examples are not intended to suggest a particular course of action or represent the performance of any particular financial product or security.

[8] Permanent life insurance consists of two types: whole life and universal life. Cash value grows in a participating whole life policy through dividends, which are declared annually by the company's board of directors and are not guaranteed. Cash value grows in a universal life policy through credited interest and decreased insurance costs. The cash value of both policy types benefits when the policyholder pays an amount above the required premium.

[9] All whole life insurance policy guarantees are subject to the timely payment of all required premiums and the claims paying ability of the issuing insurance company. Policy loans and withdrawals affect the guarantees by reducing the policy's death benefit and cash values.

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The Pandemic's Impact on Workers' Finances Has Long-Term Repercussions for Retirement Security

Select Findings from the 20th Annual Transamerica Retirement Survey of American Workers

TRANSAMERICA CENTER
FOR RETIREMENT STUDIES®

January 2021

The Pandemic's Impact on Workers' Finances Has Long-Term Repercussions for Retirement Security

New survey highlights workers' vulnerabilities and outlines priorities for policymakers

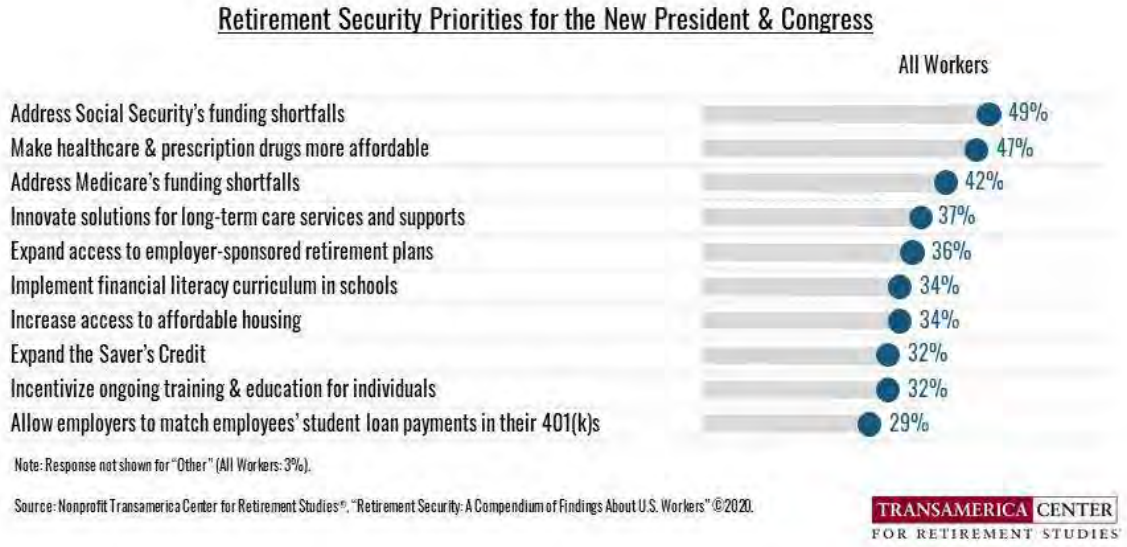
One in five U.S. workers (21 percent) indicate their confidence in their ability to retire comfortably has declined in light of the coronavirus pandemic – and only 27 percent are very confident that they will be able to fully retire with a comfortable lifestyle, according to ***Retirement Security: A Compendium of Findings About U.S. Workers ("Compendium")***, a new survey report released today by nonprofit Transamerica Center for Retirement Studies (TCRS).

"Before the pandemic, the retirement prospects for many workers was iffy at best. The pandemic has exacerbated that situation. Millions of workers have experienced negative impacts to their employment, ranging from pay cuts and furloughs to job loss. Some workers have even dipped into their retirement accounts to make ends meet," said Catherine Collinson, CEO and president of Transamerica Institute and TCRS. "It will take years for many workers to financially recover – and some may never recover. Help from policymakers is needed to strengthen the U.S. retirement system."

Retirement Security Priorities for the New President and Congress

"Policymakers can pave the way for improving retirement security by enacting legislation and implementing reforms that can ensure the sustainability of government benefit programs, encourage employers to offer benefits to their employees, and help prepare workers for long, healthy, and productive lives," said Collinson.

When asked what should be the priorities for the new president and Congress, workers' most often cited responses involve strengthening safety nets and improving health care, including addressing Social Security's funding shortfalls (49 percent), making out-of-pocket healthcare expenses and prescription drugs more affordable (47 percent), addressing Medicare's funding shortfalls (42 percent), and innovating solutions to make long-term care services and supports more affordable (37 percent).



Other priorities cited by workers include expanding access to employer-sponsored retirement plans, IRAs, and other savings programs (36 percent), implementing financial literacy curriculum in schools (34 percent), increasing access to affordable housing (34 percent), expanding the Saver's Credit (32 percent), creating incentives for individuals to obtain ongoing training and education (32 percent), and allowing employers to match employees' student loan payments as a contribution in their retirement accounts (29 percent).

The Pandemic's Impact on Workers' Short-Term Finances and Long-Term Security

"Workers share many retirement-related risks; however, by increasing an understanding of the differences across demographic segments, we can identify solutions to help those in greatest need," said Collinson.

The October 2020 survey gauges the impact of the pandemic on workers' employment and finances. It finds:

- **Approximately half of workers (52 percent) have experienced one or more negative impacts to their employment including job loss, furloughs, reduced hours, reduced pay, and/or retiring early.** LGBTQ workers are among the most impacted. Sixty-five percent of LTBTQ workers have experienced one or more negative impacts to their employment, compared with only 50 percent of non-LGBTQ workers.
- **As a result of the pandemic, 33 percent of all workers have already and/or plan to take a loan and/or withdrawal from their qualified retirement account such as a 401(k), 403(b), or similar plan or IRA.** LGBTQ (59 percent), urban (50 percent), Millennials (43 percent), and men (42 percent) are among the workers more likely to be dipping into their retirement savings.
- **Credit card debt may pose a threat to retirement security for many, especially Generation X.** Thirty-four percent of all workers cite paying off credit card debt as a financial priority, including 45 percent of Generation X workers. Moreover, if their finances have been or were to be negatively impacted by the pandemic, 35 percent of Generation X workers indicate they would rely on credit cards.

The survey offers encouraging news of workers' commitment to saving for retirement amid the pandemic:

- **Three in four workers (75 percent) are saving for retirement through their current employer's 401(k) or similar plan, a former employer's plan, and/or outside of work.** Full-time workers (86 percent) are significantly more likely to be saving than part-time workers (67 percent).
- **Despite competing financial priorities, almost half of workers (47 percent) cite saving for retirement as a priority.** Baby Boomers (63 percent), college graduates (59 percent), full-time workers (55 percent), and suburban workers (55 percent) are among those more likely to cite it as a priority.

Lastly, the survey points to steps workers can take to improve their planning and safeguard their situation:

- **Only 27 percent of workers have a written financial strategy for retirement.** Those more likely to have a written strategy include LGBTQ (41 percent), college graduates (40 percent), and urban (36 percent).
- **Legal documentation is lacking.** Amid the pandemic, it has become even more important to have financial and medical-related legal documents in place. Only 22 percent of workers have a medical power of attorney or proxy. College graduates (30 percent) are more likely than non-college graduates (17 percent) to have one. Similarly, 27 percent of college graduates have a financial power of attorney compared with only 17 percent of non-college graduates.

"From a societal level to individual households, the pandemic has disrupted nearly every aspect of our lives and laid bare weaknesses in our retirement system. As we navigate the pandemic with an eye toward the future, policymakers, industry, employers, and individuals have a tremendous opportunity to work together and create a stronger, sustainable, and inclusive system in which everyone has the ability to live, work, and retire with dignity," said Collinson.

The Compendium is based on a survey conducted in October 2020 of 1,173 workers who are currently employed, recently unemployed, and/or furloughed amid the pandemic. As part of TCRS' 20th Annual Retirement Survey, it also draws from a broader survey of 5,277 workers conducted in late 2019. It offers demographic analyses and insights about workers by self-identified employment status, urbanicity, sexual orientation, level of education, generation, gender, and ethnicity.

Please visit TCRS at www.transamericacenter.org to view *Retirement Security: A Compendium of Findings About U.S. Workers* along with other reports from the 20th Annual Retirement Survey, including: *Pre-Pandemic: U.S. Employer Benefits and Business Practices*, *Women and Retirement: Risks and Realities Amid COVID-19* (June 2020 Supplemental Survey), *Retirees and Retirement Amid COVID-19*, *Retirement Security Amid COVID-19: The Outlook of Three Generations*, and *Retirement Security for Women Amid COVID-19* (April 2020 Supplemental Survey). Follow TCRS on Twitter *@TCRStudies*.

About the Author

Catherine Collinson serves as CEO and president of Transamerica Institute®, a nonprofit private foundation which includes Transamerica Center for Retirement Studies® and is a champion for Americans who are at risk of not achieving a financially secure retirement. Catherine oversees all research, and outreach initiatives, including the Annual Transamerica Retirement Survey. Catherine also serves as executive director of Aegon Center for Longevity and Retirement, based in the Netherlands.

With more than two decades of retirement services experience, Catherine has become a nationally recognized voice on retirement trends. She was named an Influencer in Aging by PBS' Next Avenue. In 2016, she was honored with a Hero Award from the Women's Institute for a Secure Retirement (WISER) for her tireless efforts in helping improve retirement security among women. Catherine serves on Milken Institute's Center for the Future of Aging's Advisory Board Leadership Council. She co-hosts the ClearPath: Your Roadmap to Health & Wealth radio show on WYPR, Baltimore's NPR station.

Catherine is employed by Transamerica Corporation. Since joining the organization in 1995, she has held a number of positions with responsibilities and has identified and implemented short- and long-term strategic initiatives, including the founding of nonprofit Transamerica Institute and its Transamerica Center for Retirement Studies.

About Transamerica Center for Retirement Studies

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About the 20th Annual Transamerica Retirement Survey and October 2020 Supplemental Survey

The analysis contained in the ***Retirement Security: A Compendium of Findings About U.S. Workers*** was prepared internally by the research team at TCRS based on results from the 20th Annual Transamerica Retirement Survey and a supplemental survey conducted in October 2020.

The 20th Annual Transamerica Retirement Survey of Workers was conducted online within the U.S. by The Harris Poll on behalf of TCRS from November 6 to December 27, 2019 among a nationally representative sample of 5,277 full- or part-time workers in a for-profit company employing one or more employees. (Note: The survey base reported for level of education is age 25+.) Results were weighted where necessary to bring them into line with the population of U.S. residents age 18+, employed full- or part-time in a for-profit company with one or more employees, and to adjust for attitudinal and behavioral differences between those who are online versus those who are not, those who join online panels versus those who do not, and those who respond to surveys versus those who do not. No estimates of theoretical sampling error can be calculated.

The October 2020 Supplemental Survey was conducted online within the U.S. by The Harris Poll on behalf of TCRS from October 22 to 26, 2020 among a nationally representative sample of 2,069 U.S. adults. The data in this report are shown for 1,173 U.S. adults who work full- or part-time and/or who were laid off or furloughed as a result of the coronavirus pandemic. (Note: The survey base reported for level of education is age 25+.) Results were weighted where necessary to bring them into line with the population of U.S. residents age 18+, and to adjust for attitudinal and behavioral differences between those who are online versus those who are not, those who join online panels versus those who do not, and those who respond to surveys versus those who do not. No estimates of theoretical sampling error can be calculated.

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LIFE INSURANCE SOLUTIONS FOR WOMEN

Are you ready for your financial future?

A woman's finances may have to work harder and last longer because of unique challenges she may face.

$1,055,000

How much less a woman may have earned than a man by retirement age[1]

Longer and more expensive retirement

Women have an average additional life expectancy of **20.6 years after age 65.**[2]

Nearly 2 in 10 women are projected to need long-term care for **more than 5 years.**[3]

Women have **32% lower** retirement account balances on average than men do.[4]

45% of women plan to work after they retire or don't plan to retire at all for financial reasons.[5]

Higher health-care expenses

Women have **39% higher health costs** on average than men in retirement.[6]

More than 70% of nursing home residents are female.[7]

Women over 65 have **2X the risk** of developing Alzheimer's disease than men.[8]

Additional demands on family finances

Women are **73% more likely** to leave the labor market due to caregiving needs than men.[9]

46% of women in two-income households are at risk of being **unable to maintain** their standard of living in retirement.[10]

A woman's household income **falls 41%** after divorce.[11]

On average, women will survive their husbands **by 15 years.**[12]

32% of women over age 65 are widows.[2]

Get more flexibility for your future

We can help ensure you live life your way — now and in retirement. We offer you creative and flexible strategies to meet your specific needs and circumstances.

Life insurance can be an important part of your financial plan

Modern-day life insurance provides options to access cash while you're living. Access to these funds can be an important part of your overall financial plan and can be used for a variety of purposes. Additionally, these funds are tax-advantaged, making them even more critical for your retirement portfolio.

Who needs life insurance?

Whether or not you hold down a paying job, whether you're single, married, divorced, or widowed, every woman needs to protect her and her family's financial future. From paying for your own long-term care, to providing your spouse and children with financial support, to making sure you don't leave behind expenses that might otherwise be the responsibility of family members, life insurance is one more way you can help keep you and your loved ones secure.

For information on how life insurance can contribute to your long-term financial planning, contact your financial professional.

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Title

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Women, Wealth, and Life Insurance

Women in the US are growing their economic power and increasingly serving as primary financial decision makers.

42% of businesses are owned by women.[1]

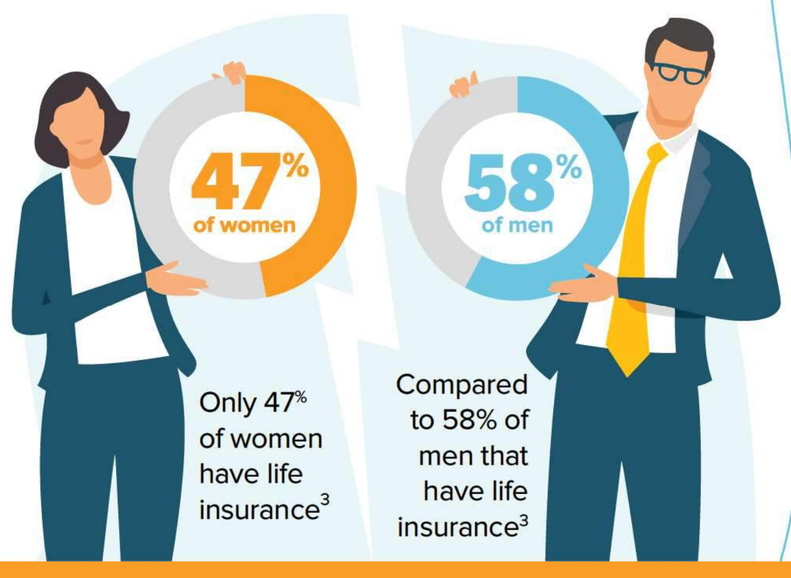
Women control more than half of the country's personal wealth, an estimated $22 trillion.[2]

70% of US households rely on women's salary for financial stability.[3]

About 70% of US moms can expect to be primary financial providers before their children turn 18.[4]

How well protected are American women?

Women typically are not as well protected as men despite their economic importance to their families.

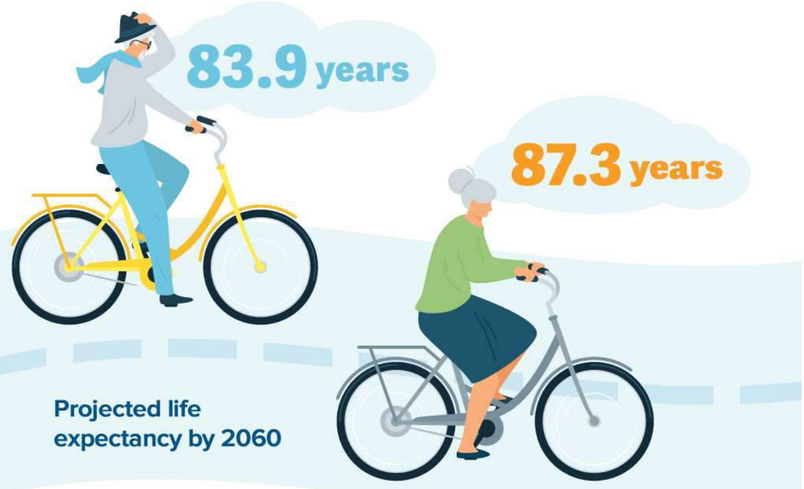


Only 47% of women have life insurance[3]

Compared to 58% of men that have life insurance[3]

Women may need more life insurance than men, not less.

Women Live Longer



According to the US Census Bureau, women live longer than men.[5]

Now, more than ever, women are juggling roles and challenging gender norms. Can you relate?

BUSINESS OWNER

WORKING PROFESSIONAL

STAY-AT-HOME SPOUSE

CARETAKER

FUTURE RETIREE

Life insurance can provide for your beneficiaries when you die and help:

- Plan for the continuity and succession of your business
- Replace your lost income
- Take care of domestic services you provide
- Maintain care for your children and/or aging parents

The same policy can also help you plan for your own retirement.

Talk to your financial professional* about life insurance. You'll be glad you did.

* In order to sell life insurance products, a financial professional must be a properly licensed and appointed life insurance producer.

Sources:

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21 Facts About Women's Retirement Outlook… and 11 Steps to Improve It

Select Findings from the 21st Annual Transamerica Retirement Survey of Workers

TRANSAMERICA CENTER FOR RETIREMENT STUDIES®

March 2022

21 Facts About Women's Retirement Outlook

Today's women are better educated and enjoy career opportunities that were unimaginable 50 years ago. Despite this progress, women are at greater risk than men of not achieving a financially secure retirement. A woman's path to a retirement is filled with obstacles, such as lower pay and time out of the workforce for parenting or caregiving, which can negatively impact her long-term finances. Statistically, women tend to live longer than men, which implies an even greater need to save. Findings from nonprofit Transamerica Center for Retirement Studies' 21st Annual Retirement Survey of Workers illustrate the risks women face and action steps they can take to address them.

1. Only 18 percent of working women are "very confident" that they will be able to fully retire with a comfortable lifestyle.
2. Women's retirement dreams include traveling (66 percent), spending more time with family and friends (60 percent), pursuing hobbies (46 percent), working (32 percent), and volunteering (28 percent).
3. More than half of women expect to retire after age 65 or do not plan to retire (55 percent), and plan to work after they retire (53 percent), either full-time (17 percent) or part-time (36 percent).
4. Among women who plan to work past age 65 and/or in retirement, more cite doing so for financial reasons (83 percent) than healthy-aging related reasons (77 percent).
5. Only 29 percent of women have a backup plan for retirement income in the event they are unable to work before their planned retirement.
6. Some women are not being proactive enough to work past age 65. Only 61 percent say they are staying healthy, and 48 percent are keeping their job skills up to date. Far fewer are taking classes to learn new skills (22 percent).
7. Key steps women are taking to protect their long-term health include eating healthy (57 percent), exercising regularly (53 percent), getting plenty of rest (49 percent), and maintaining a positive outlook (48 percent).
8. Most women (77 percent) are saving for retirement at work and/or outside the workplace.
9. 75% of women who work full-time are offered a 401(k) or similar retirement plan by their employer, compared with 45 percent of women who work part-time.
10. Among women who are offered a 401(k) or similar plan, 83 percent participate in the plan, contributing 10 percent (median) of their salary to it.
11. Women have $57,000 in total household retirement savings (estimated median).
12. Women estimate they will need to save $500,000 (median) to feel financially secure in retirement; many (52 percent) say they "guessed" their savings needs.
13. Few women (24 percent) have a written retirement strategy, but more (43 percent) have an unwritten strategy.
14. 27 percent of women expect Social Security to be their primary source of retirement income.
15. 42 percent of women fear that Social Security will be reduced or cease to exist in the future.
16. Paying off debt is the most often cited financial priority for women (62 percent), while 56 percent cite saving for retirement, and 46 percent cite building emergency savings as priorities.
17. Women have only $4,000 in total household emergency savings (median).
18. Few women (17 percent) frequently discuss saving, investing, and planning for retirement with family and friends.
19. Only a third of women (34 percent) use a professional financial advisor.
20. 27 percent of women have taken a loan, early withdrawal, and/or hardship withdrawal from their 401(k) or similar plan or IRA.
21. 35 percent of women are or have been caregivers during their working careers, and most caregivers (83 percent) made work adjustments because of caregiving, such as missing work (36 percent).

11 Steps for Women to Improve Their Retirement Outlook

Women face greater retirement-related risks than men with the pandemic intensifying that vulnerability. Many have experienced employment-related impact such as leaving the workforce for parenting or caregiving responsibilities, being laid off, or having work hours reduced. Although short-term priorities may need to take precedence, women are encouraged to keep the future retirement in mind. These steps may help women improve their outlook.

1. **Assess your current financial situation and create a budget** that includes income, living expenses, paying off debt, and financial goals such as building emergency savings and long-term retirement savings.

2. **If possible, save for retirement** by starting early and saving consistently, even small amounts can add up over a decades-long working life. If your employer offers a retirement plan, participate, and take advantage of any matching contributions. Learn if you are eligible for the Saver's Credit, an IRS tax credit for saving for retirement.

3. **Develop a retirement strategy and write it down.** Use online tools and calculators to estimate your retirement income and long-term savings needs. Formulate a savings plan to meet these needs and hold yourself accountable to it.

4. **Avoid taking loans and early withdrawals from retirement accounts.** Both can severely inhibit their long-term growth. Before tapping into retirement savings, explore all possible alternatives to determine the best option.

5. **If faced with parenting or caregiving responsibilities, carefully consider possible impacts to changes in your employment.** Explore options such as shifting to part-time work.

6. **Be proactive to help ensure continued employment now and in retirement.** As the economy reopens, engage in the altered landscape of work by honing current skills, learning new ones, following employment trends, and networking with others.

7. **Become personally involved in your family finances and investments, including retirement accounts held by you and your spouse.** Discuss retirement planning with family and close friends.

8. **Learn about retirement investing and strategies for drawing down savings in retirement,** including the best time to start receiving Social Security. Explore resources and classes offered in your community.

9. **Create a backup plan that considers unforeseen events such as separation, divorce, loss of a partner, or loss of work before your planned retirement.** Build up emergency savings and consider appropriate insurance products.

10. **Take care of yourself and safeguard your physical and mental health.** Consider health implications when making lifestyle decisions, and explore online wellness resources and classes. Continue to take precautions to mitigate the risk and spread of COVID-19.

11. **Beware of scams.** Be hypervigilant about suspicious text messages, email, or calls, which are on the rise due to COVID-19.

Learn more about women's retirement outlook as well as saving and investing for retirement at www.transamericainstitute.org.

About the Author

Catherine Collinson serves as CEO and president of Transamerica Institute, a nonprofit private foundation and its operating division, Transamerica Center for Retirement Studies®. She is a champion for Americans who are at risk of not achieving a financially secure retirement. Catherine oversees all research, publications, and outreach initiatives, including the Annual Transamerica Retirement Survey.

With more than two decades of experience, Catherine is a nationally recognized voice on retirement trends for the industry. She has testified before Congress on matters related to employer-sponsored retirement plans among small business, which featured the need to raise awareness of the Saver's Credit among those who would benefit most from the important tax credit.

In 2018, Catherine was named an Influencer in Aging by PBS' Next Avenue. In 2016, she was honored with a Hero Award from the Women's Institute for a Secure Retirement (WISER) for her tireless efforts in helping improve retirement security among women. Catherine serves on the Advisory Board of the Milken Institute's Center for the Future of Aging. She co-hosts the ClearPath: Your Roadmap to Health & Wealth℠ podcast on Baltimore's WYPR, an NPR news station.

Catherine is employed by Transamerica Corporation. Since joining the organization in 1995, she has held a number of positions with responsibilities including the founding of Transamerica Center for Retirement Studies as a nonprofit private foundation in 2007 and its expansion into Transamerica Institute in 2013.

About Transamerica Center for Retirement Studies®

Transamerica Center for Retirement Studies® (TCRS) is an operating division of Transamerica Institute®, a nonprofit, private foundation. TCRS is dedicated to conducting research and educating the American public on trends, issues, and opportunities related to saving, planning for, and achieving financial security in retirement. Transamerica Institute is funded by contributions from Transamerica Life Insurance Company and its affiliates. TCRS and its representatives cannot give ERISA, tax, investment, or legal advice. This material is provided for informational purposes only and should not be construed as ERISA, tax, investment, or legal advice.

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About This Fact Sheet and the 21st Annual Transamerica Retirement Survey of Workers

This Fact Sheet was derived from the report, *Life in the COVID-19 Pandemic: Women's Health, Finances, and Retirement Outlook*, which can be found at www.transamericacenter.org.

The analysis contained in *Life in the COVID-19 Pandemic: Women's Health, Finances, and Retirement Outlook* was prepared internally by the research team at TCRS based on results from the 21st Annual Transamerica Retirement Survey of Workers. This survey was conducted online within the U.S. by The Harris Poll on behalf of Transamerica Institute and TCRS between November 17 and December 29, 2020 among a nationally representative sample of 10,192 respondents. The data in this Fact Sheet are shown for a subsample of 3,109 workers in for-profit companies, including 1,352 women.

Results were weighted where necessary to bring them into line with the population of U.S. residents age 18+, and to adjust for attitudinal and behavioral differences between those who are online versus those who are not, those who join online panels versus those who do not, and those who respond to surveys versus those who do not.

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