ADVISORS. ANNUITIES. ANSWERS.

RETHINKING RETIREMENT PLANNING

CUNA MUTUAL GROUP

CMGA-3327294

FOR REGISTERED REPRESENTATIVE USE ONLY.
NOT TO BE VIEWED BY OR DISTRIBUTED TO THE GENERAL PUBLIC.

1-1120-1222

Whether it's an architect at her drafting table designing a bespoke house or a master carpenter measuring and cutting the trim as he installs custom kitchen cabinets, both need a sharp pencil to get the job done right. Similarly, whether it's a financial advisor who makes comprehensive financial plans a central feature of their practice, one who's transitioning to doing more planning, or one who embraces a more transactional approach, annuities are the one indispensable tool they all need to grow their businesses and help their clients build a secure retirement portfolio.

Even though they meet many self-identified investors needs, especially in the aftermath of the pandemic, fewer than 10% of US households own an annuity, according to MacroMonitor. In the following paper, which draws on proprietary research commissioned from Kehrer Bielan Research & Consulting, CUNA Mutual Group explores the broad appeal of annuities to clients, how they align with new obligations under Regulation Best Interest (Reg BI), some of the reasons consumers—and advisors—have been slow to embrace annuities, and finally, how the products fit in various advisor practice models.

In an era when a pandemic reminded investors that markets can be volatile and fixed-income yields seem stuck near record lows, we believe no advisor, regardless of their approach, can optimize their practice and effectively serve their anxious clients without the risk control and guaranteed income features of today's annuities.

Universal arguments for annuities

There is a compelling business case for annuities in every kind of advisory practice, and they are explored at length below. But foremost is the client case, which applies across the board. The client case is overwhelming and speaks to the unique ability of annuities to meet customer needs and allay anxieties in an increasingly challenging market, and to the emerging regulatory imperatives for all advisors to act in their best interest.

CONSUMER PREFERENCES: SAFETY, GUARANTEES, AND LONGEVITY PROTECTION

Even before they watched a pandemic wreak havoc on their retirement savings accounts, Americans were anxious about their retirement savings and open to the unique income and risk control features only an annuity can offer.

In the latest MacroMonitor survey of 4,100 households conducted by Consumer Financial Decisions Group of Strategic Business Insights—a survey that has been conducted every other year since 1978 and is considered the gold standard for gauging American's attitudes toward personal finances—only 59% of participants responded affirmatively to the seemingly

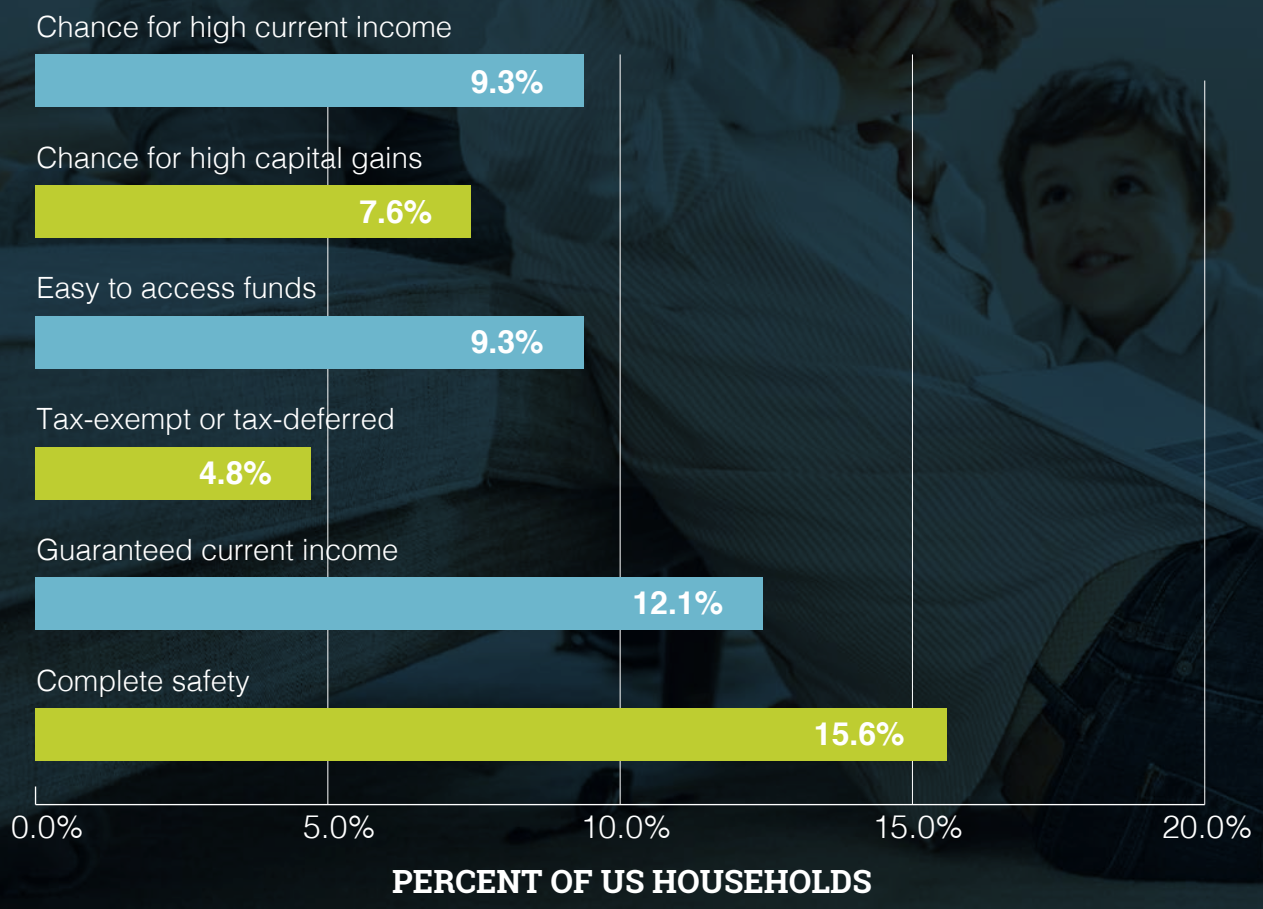
axiomatic statement: "I am willing to accept some risk of losing money if an investment is likely to come out ahead of inflation in the long run."[1]

The survey also asked, "What is the most important factor in determining placement of a household's savings and investments?" and guaranteed income and complete safety were the two most often cited criteria (see chart). In addition, the survey found the following:

» **81%** of US households said: "It is very important to me to have both a guaranteed interest rate and federal insurance on my savings."

» **44%** said: "I would put most of my assets in an investment that provides a guaranteed income for life even if it pays a low return." (Modern annuities, of course, can be structured to deliver market-based returns, while guaranteeing income for life.)[1]

What is the most important factor in determining placement of a household's savings and investments?



Source | Kehrer Bielan analysis data from the MacroMonitor, August 2020.

Clearly, American families are looking for safety, guarantees, and longevity protection—three features annuities are uniquely suited to offer.

MARKET VOLATILITY RELATED TO COVID-19

If investors were already feeling anxious about the safety of their retirement savings before the novel coronavirus swept the globe in the first quarter of 2020, their anxiety level has only ratcheted higher in the volatile market aftermath—and is unlikely to return to pre-COVID levels anytime in the near future.

At 33 days, the bear market of 2020 was the shortest in modern economic history. But what it lacked in longevity, it made up for in ferocity, with a total drawdown of **34%** in the S&P 500.[2] What's more, the index experienced a breathtaking **23** daily moves of 3% or more.[3] Such volatility was an eye opener for retirement savers who had spent years enjoying a bull market that was perhaps most remarkable not for outsize annual gains, but rather for the slow, plodding nature of its upward march. For perspective on the recent history of volatility, consider the following:[2] From 1990-2011, the average daily close of the VIX volatility index was 20.6%. For the following eight years, from 2011 to 2019, the daily VIX average fell to just 16.2%. But in 2020, volatility made a comeback. The average daily close for the VIX through September 15 was 30.3%.[4]

Volatility means change in either direction and equity markets roared back to life over the summer, erasing the bear market losses by mid-August. But far from assuaging individual investors' anxiety, the rebound has actually seemed to increase the worries for many. The "muscle memory" of riding the market down and then up again is unlikely to be erased over the next few years, even if equity markets settle down.

Having gone through one harrowing bull to bear and back to bull market, investors are looking for ways to control their risk. For these investors—nervous about the market, but equally nervous about taking all of their chips off the table—annuity products that allow them to maintain some level of equity market exposure but dial back the market risk are likely to appeal.

THE SECULAR YIELD DROUGHT CONTINUES

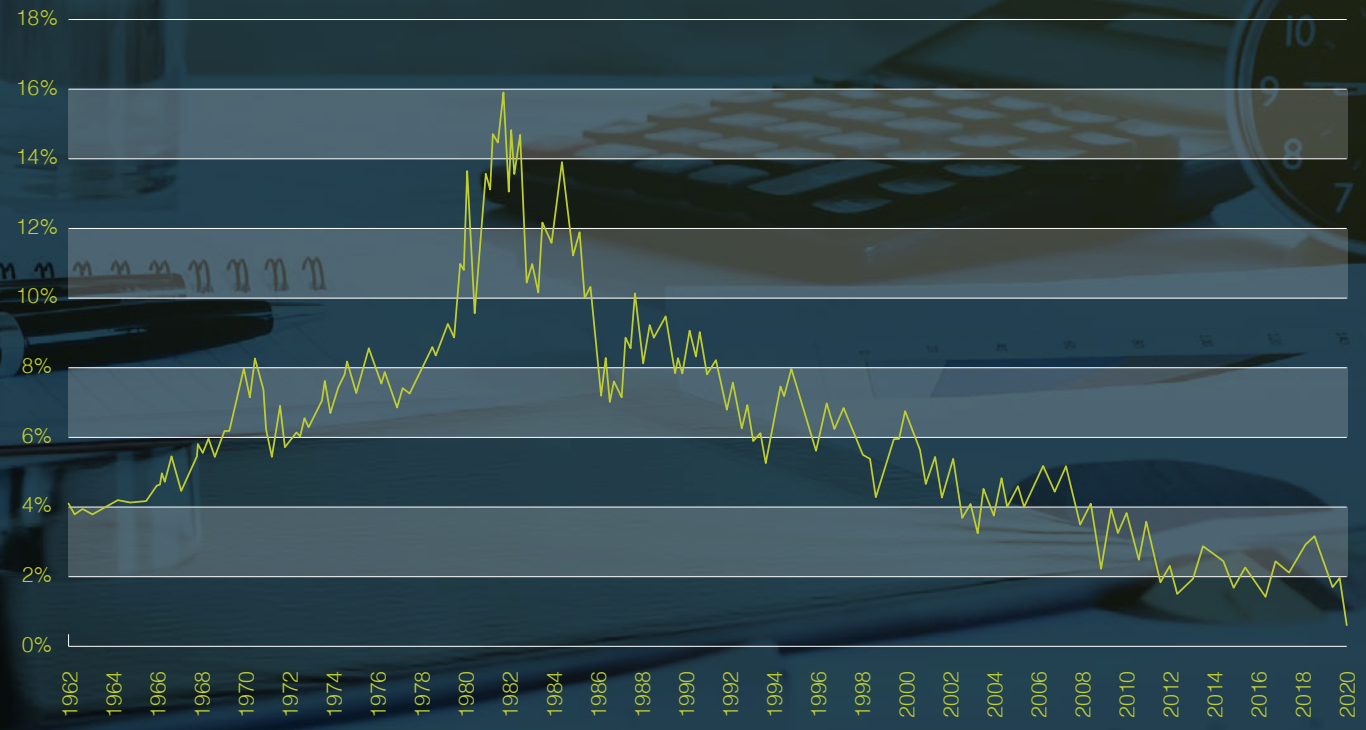
For investors in or approaching retirement, perhaps just as concerning as the suddenly volatile stock market is the decades-long decline in bond yields, which makes it tough to generate adequate income from traditional fixed-income allocations.

Though the Federal Reserve has signaled a modestly higher inflation target, which might be expected to boost long-term fixed-income yields, the market largely shrugged off the news. Instead, the market remains focused on the same big secular trends—Baby Boomer retirements, labor automation and central bank bond purchases—to prop up the financial markets, which have combined to keep long-term Treasury rates below **3%** for most of the last decade (and below 1% for much of 2020), as shown in the graph below.[5]

Bond yields don't appear to be increasing anytime soon, leaving retirees looking for alternative income sources and, in some cases, rotating into dividend-paying equities, notwithstanding the greater risk and volatility.

In many cases, an annuity can provide more income than bonds with less risk than high-dividend stocks. And that income stream is guaranteed for life, thereby protecting an investor from outliving their money.

10-YEAR TREASURY YIELD 1962-2020



Source | Treasury.gov, 10 Year Treasury Rate — 54 Year Historical Chart, macrotrends.net, October 29, 2020.

ANNUITIES AND ADVISORS' NEW "CLEAR DUTY TO ACT"

If the client case for annuities wasn't compelling enough, there is also a regulatory argument that recently grew stronger. **With the Securities and Exchange Commission's new Regulation Best Interest (Reg BI) standard, advisors have a clear duty to act in their clients' best interest.** That, in turn, means recommending the best solutions for their particular needs. For investors who need to control market risk and protect against outliving their savings, annuities are a tool that cannot be ignored.

But Reg BI represents somewhat of a dilemma to advisors. On the one hand, it creates a duty to present a wide range of available investment products to meet client needs. On the other hand, it also imposes a new obligation whereby advisers must exercise reasonable diligence, care, and skill when making investment recommendations.

Thus, we believe advisors at once need to consider more products, and they need to understand them—backward and forward.

That will privilege financial products that are powerful, but also simple to understand and explain to clients. Certainly most annuities meet the "powerful" criterion, but many fall well short on the "simple" part—and in some cases, the complexity makes it nearly impossible for anyone who's not part rocket scientist, part securities law professor to assess their value. That's why advisors would do well to look for annuity products that include modern features—guaranteed lifetime withdrawal benefits, survivor benefits, and annual resets on investment options or downside loss protection levels—but are constructed with simplicity and low cost in mind.

The disconnect between consumer preferences and annuity usage

Only about one-third of all US households report being extremely or very confident about their financial future, and one in five are not very or not at all confident. But owners of annuities are much more confident.[1]

Compared to the general population, index annuity owners are **63% more likely** to express confidence about their financial future, while very few lack confidence.[1]

Despite all this, while most American families are looking for investments that provide features that are unique to annuities, according to the MacroMonitor, only **5.2%** of US households own a fixed annuity, 3.1% are variable annuity owners, and 0.9% hold an index annuity.[1]

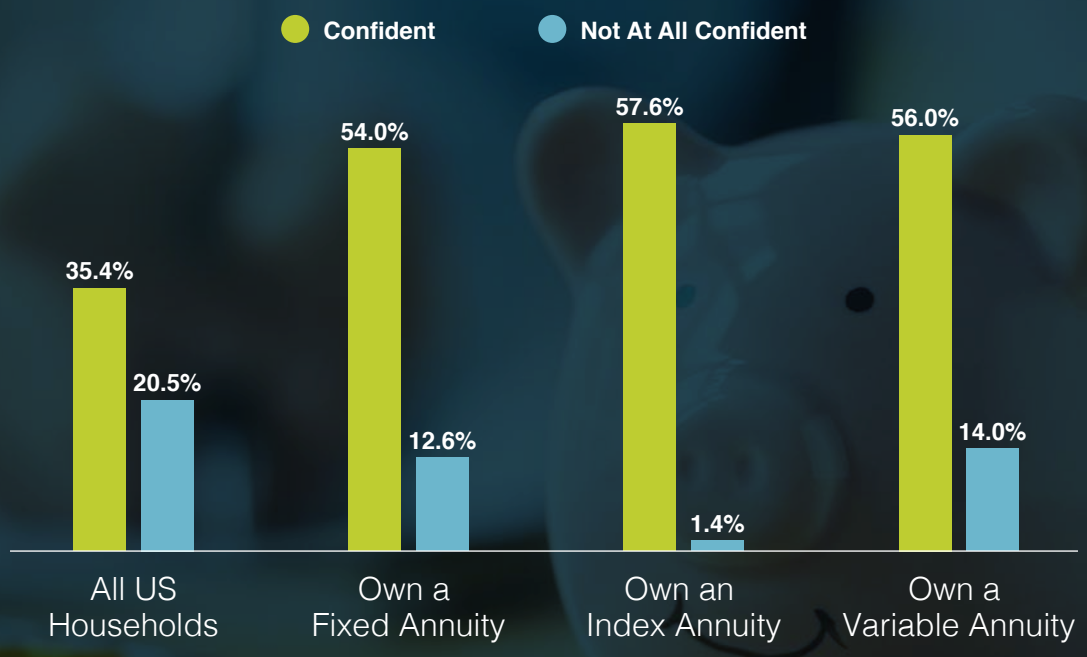
Why are most Americans still not taking advantage of the potential benefits of annuities?

THE CONSUMER PERSPECTIVE

Many consumers simply do not understand that annuities provide the important features they are looking for and may be the only investment instrument that provides some of them. Consumers may be leery of annuities after years of negative press and the drumbeat of the "never-annuities" analysts—typically fee-only money managers who have a vested financial interest in steering prospective clients away from them.

With all the confusion, it may be up to advisors to help clients understand whether annuities might help them reach their goals.

HOUSEHOLD'S FINANCIAL CONFIDENCE



Source I Kehrer Bielan analysis data from the MacroMonitor, August 2020.

Where annuities fit in to different kinds of advisor practices

It's useful to consider these three different advisor "personas"—planners, transitioners, and transactors—and how annuities might help each grow their unique business.

Many advisors, too, have been reluctant to embrace annuity solutions. They may recognize the potential benefits in an era of greater stock market volatility and low interest rates. And they may agree that new regulatory imperatives mean it is incumbent upon them to explore products that are in their clients' best interest. Still advisors may find it difficult to see how they fit in to their unique practice and business model.

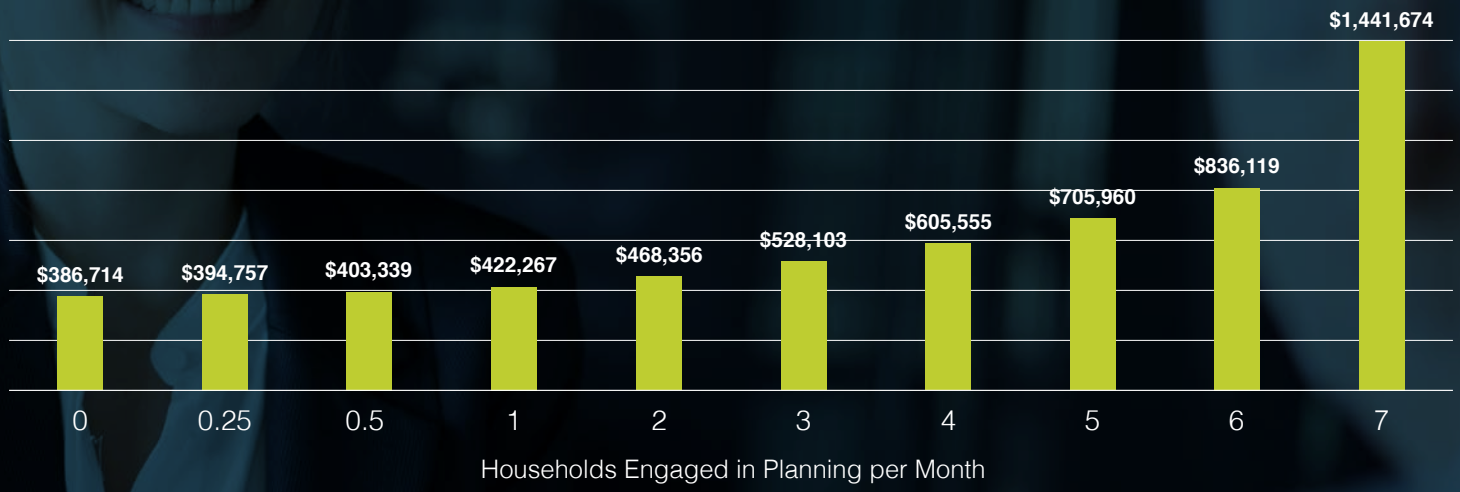
Advisory practices come in all different flavors. Some have completely embraced financial planning and made it the bedrock of their offering. Others have been following a different model, but are gradually transitioning to doing more planning. Still others have built thriving practices based strictly on transacting. Their managers are happy and so are their clients. They don't see the need to upset the applecart with planning and are skeptical about annuities.

THE PLANNER: A COMPETITIVE DIFFERENTIATOR

The benefits of building a practice around creating financial plans for clients are well documented. As an advisor does more planning, they capture more of the client's assets, experience lower client and asset attrition, and attract more clients through referrals.

The following chart illustrates the impact of greater planning activity on advisor revenue, while holding other variables—such as advisor tenure, geography, and number of clients—constant.

ANNUAL REVENUE PRODUCED PER ADVISOR



Source I Analysis by Kehrer Bielan on a proprietary Kehrer Bielan database of 1607 advisors from 34 banks and credit unions, August, 2020.

Where do annuities fit in? For advisors who have already made planning the central feature of their practice but may be feeling the competitive squeeze from robos and other low-cost providers of commoditized asset allocation advice, annuities are the ultimate differentiator.

While their reputation for complexity is overblown, annuities are not familiar to many investors who view them as complex and have been fed a steady diet of misinformation about them. Asset allocation models might do a decent job creating and explaining a diversified portfolio of funds and ETFs, but it will struggle explaining the market-risk control benefits and income features of annuity products. There is no better opportunity for a planning-oriented advisor to demonstrate expertise and value add than by helping clients understand the long-term benefits of annuities.

THE TRANSITIONER: A BRIDGE TO WHERE THEY WANT TO GO WITH THEIR PRACTICE

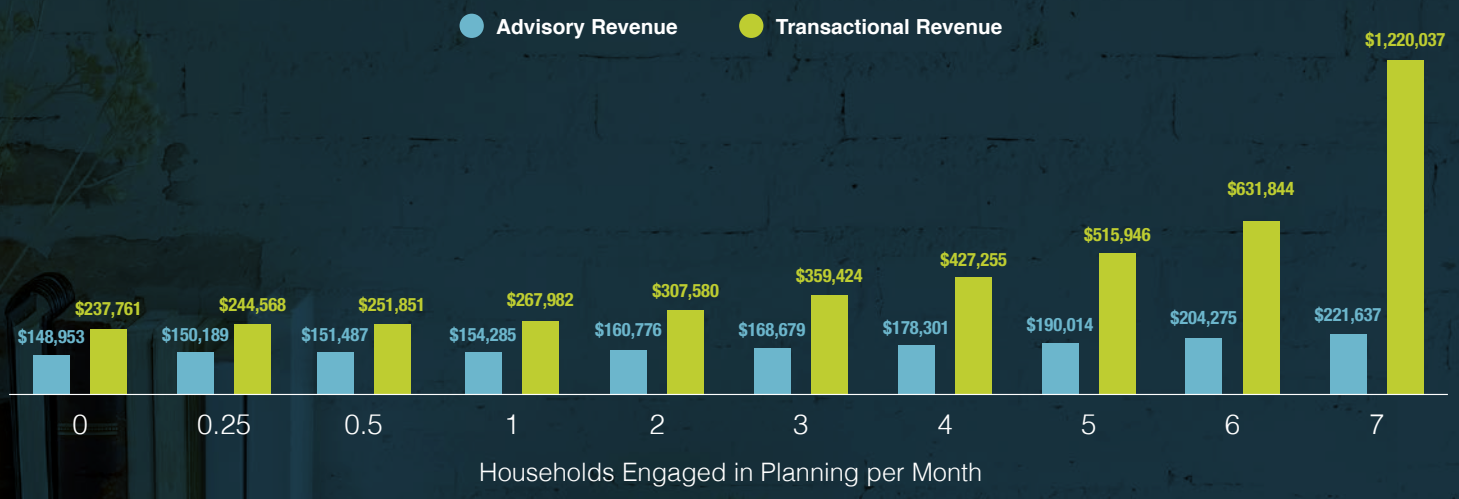
Many advisors see the appeal of making planning a much bigger part of their practice, but may find it challenging to persuade clients of the need for a comprehensive plan. And they may be concerned that focusing on planning will diminish the transaction activity that has kept the lights on. Annuities can act as a bridge to address both concerns.

For these transitioners, there is no better way to get the planning conversation started—with both new and incumbent clients—than with an annuity. For new clients, the conversation goes something like this: “Let’s talk about your long-term retirement goals and how an annuity may be an effective way to control risk and help you reach them.” For incumbent clients, it’s like this: “We’ve done a good job creating wealth together, but as you’ve seen in the last year, wealth can be at risk— so let’s talk about a strategy for locking in your hard-earned gains.”

What about revenue? Annuities can provide transaction revenue to help transitioning advisors “get over the hump” as they take on more planning projects. Managers expect that as an advisor does more planning, they will produce more advisory revenue, because advisory products are aligned with an ongoing advice model. But what does the data say?

The following chart illuminates the relationship between planning and the growth in the composition of revenue, using the same statistical technique as before to isolate the impact of planning from the other factors that affect production. It shows that while planning obviously does drive advisory production, revenue from transaction products, such as annuities and insurance, grows even faster as an advisor does more planning. So, doing more planning helps provide the resources to support advisors to do more planning.

ANNUAL REVENUE PRODUCED PER ADVISOR



Source | Analysis by Kehrer Bielan on a proprietary Kehrer Bielan database of 1607 advisors from 34 banks and credit unions, August, 2020.

THE TRANSACTOR: ANNUITIES AS AN ANCHOR FOR AN ACTIVE INVESTING RELATIONSHIP

Transactors view themselves as money managers: expert stock pickers who can grow wealth much faster than staid insurance companies. They focus on completing more and more transactions, and continuously repositioning client assets.

They historically have viewed annuities as "dead assets," unavailable to be repositioned for several years.

One challenge for transactors, however, is that their clients—with no long-term plan to fall back on—sometimes flee at the first sign of significant market volatility. And selling at the bottom is rarely a good outcome for client or advisor.

Annuities may be able to help. For the steadfast transactor, they can "become the plan."

Transactors don't need to sit with a client for hours collecting information, running Monte Carlo simulations, and constructing a comprehensive retirement plan, when there is a structured investment product that does much of the work for them.

And they don't need to put all of a client's assets into an annuity to realize benefits to their practice. By definition, a simple annuity can form the foundation of a long-term relationship, and the rest of the account can still be transaction oriented. And when clients feel more secure that their basic income will be covered for life, they may be more open to active and aggressive strategies for the balance of their portfolio—and less likely to panic and cash out during volatile periods.

There is a spot for annuity products in every type of advisor's toolbox.

But don't take our word for it; talk to your clients. Ask if they are feeling a little shell-shocked by the market's gyrations. Ask whether they might be interested in some measure of risk control and the security of guaranteed lifetime income—at least for a portion of their nest egg.

No matter what kind of advisor you are, if the answer is "yes," it's time to have a follow-up conversation with your CUNA Mutual Group wholesaler about incorporating annuities into your practice.

877.345.GROW (4769), option 1 **cmannuities.com**

SOURCES

[1] Kehrer Bielan, *Annuities and Financial Planning,* August 15, 2020.
Proprietary research data commissioned on behalf of CUNA Mutual Group.
[2] CNBC.com, *The S&P 500 Finally Hit a New Record After Multiple Tries this Month. Here's What Could Happen Next,* Aug. 18, 2020.
[3] Marketwatch, *The S&P 500 Just Posted the Most Daily Swings of 3% or Greater in More than a Decade—Even as the Stock Market Hits a 5-Week High,* April 14, 2020.
[4] VIX Volatility Index, *6-Month Market Summary,* November 2020.
[5] macrotrends.net, *10 Year Treasury Rate — 54 Year Historical Chart,* October 29, 2020.

IMPORTANT DISCLOSURES

CUNA Mutual Group is the marketing name for CUNA Mutual Holding Company, a mutual insurance holding company, its subsidiaries and affiliates. Annuities are issued by CMFG Life Insurance Company (CMFG Life) and MEMBERS Life Insurance Company (MEMBERS Life) and distributed by their affiliate, CUNA Brokerage Services, Inc., member FINRA/SIPC, a registered broker/dealer and investment advisor, 2000 Heritage Way, Waverly, IA, 50677. CMFG Life and MEMBERS Life are stock insurance companies. MEMBERS® is a registered trademark of CMFG Life Insurance Company. **Investment and insurance products are not federally insured, may involve investment risk, may lose value and are not obligations of or guaranteed by any depository or lending institution.** All contracts and forms may vary by state, and may not be available in all states or through all broker/dealers. These views are for informational purposes only and should not be relied upon as a recommendation to purchase any product or as a solicitation of investment advice from any financial advisor.

CUNA MUTUAL GROUP