



Diverging Attitudes About Lifetime Income in the COVID-19 Era

by Greenwald Research and CANNEX





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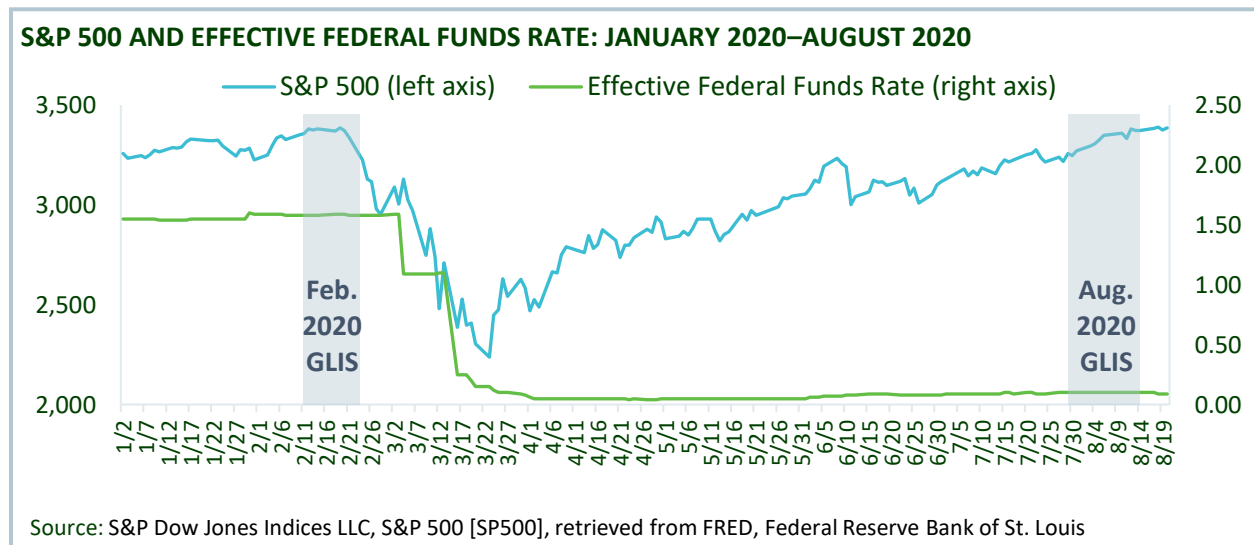
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INTRODUCTION

COVID-19 has created turmoil across the globe and for those of us concerned about American retirement security—already considered by many to be its own crisis—the pandemic triggered alarm bells. High unemployment rates and easier access to retirement funds because of the CARES Act raised concerns that American workers would lose further ground in the quest for retirement security.

We have long shared the concerns of policymakers, academics, and industry leaders that many individuals are not adequately preparing for retirement and need to consider the full array of tools in the financial planning toolkit. In particular, Greenwald Research and CANNEX came together to better understand attitudes towards solutions with lifetime income guarantees.

For years, the Guaranteed Lifetime Income Study (GLIS) has examined the attitudes of consumers and financial professionals around this topic. The early phase of the COVID-19 crisis presented a unique occasion to examine this sentiment and investigate the impact of sudden equity volatility, historically low interest rates, and an environment of ongoing economic and personal uncertainty.



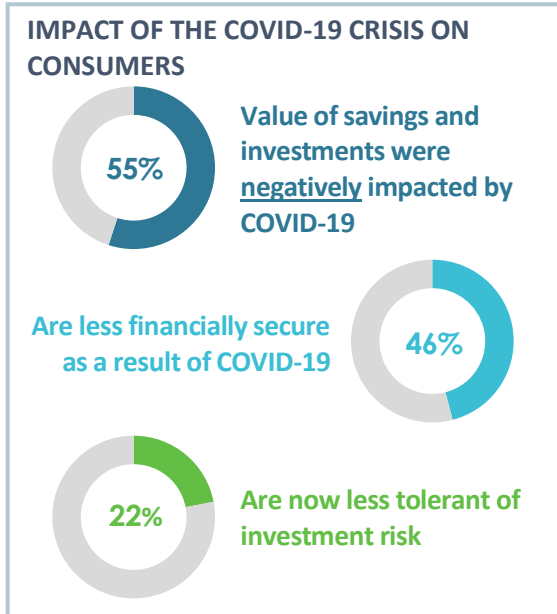
ABOUT THE STUDIES

The GLIS is a trended study, conducted by Greenwald Research and CANNEX, of both consumers and financial professionals. The annual surveys were fielded in February 2020, days before the market fell dramatically in response to the global COVID-19 crisis. To examine the effects of the pandemic, we conducted an additional mid-year update of both surveys between July 30 and August 13. This included a survey of 1,000 Americans between the ages of 55 and 75 with at least \$100,000 in investable assets, and a survey of 200 financial professionals with at least \$15 million in assets under management.

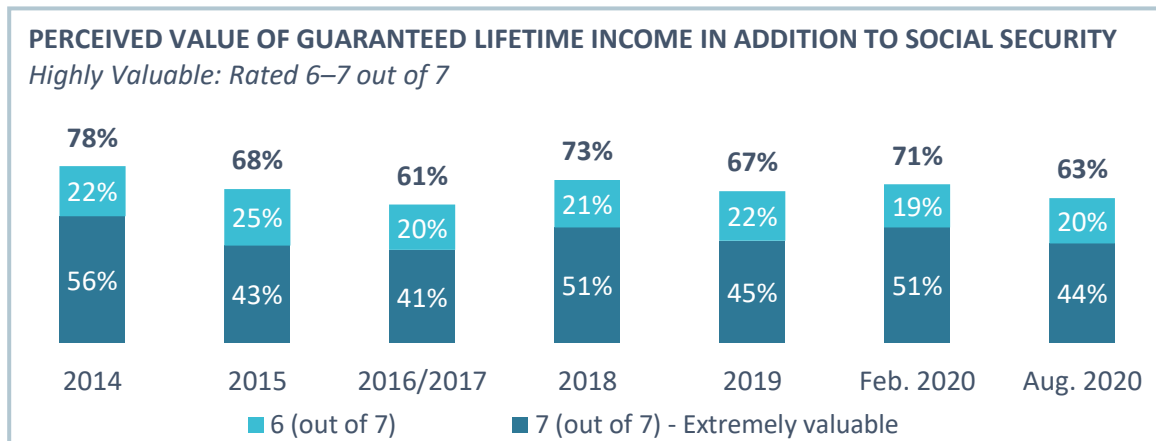
PERCEIVED VALUE OF GUARANTEED LIFETIME INCOME

The survey did find that nearly half (46%) of consumers feel less financially secure and nearly a quarter (22%) are less comfortable with risk as the result of the pandemic.

Despite this, the perceived value of having guaranteed lifetime income (in addition to Social Security) actually decreased between February and August. In February, 71% of consumers considered guaranteed lifetime income to be highly valuable (rated as a 6 or 7 out of 7), while only 63% said the same in August. This also represents the lowest point this statistic has been in the last three years.



Before diving further into this question, it is important to contextualize that the decrease still does not suggest a signal shift in sentiment. Even though markedly lower, it remains high in a relative sense and does not represent a new low within the six-year history of this survey. In fact, perceived value of guaranteed lifetime income was lower in the winter of 2016/2017.



Yet the decrease in perceived value is important to consider, especially given that most observers would expect the opposite reaction in the wake of a significant market downturn. In addition, fewer consumers agreed with the idea that “it is especially important for people over 50 to have a strategy to protect their portfolio against significant investment loss.” In February, 84% agreed with this; in August only 76% agreed. The agreement with this statement is also lower than was in previous years (84% in 2019, 91% in 2018, 81% in 2016/2017).

84%
of consumers agreed in February

“It is especially important for people over 50 to have a strategy to protect their portfolio against significant investment loss.”

76%
of consumers agreed in August

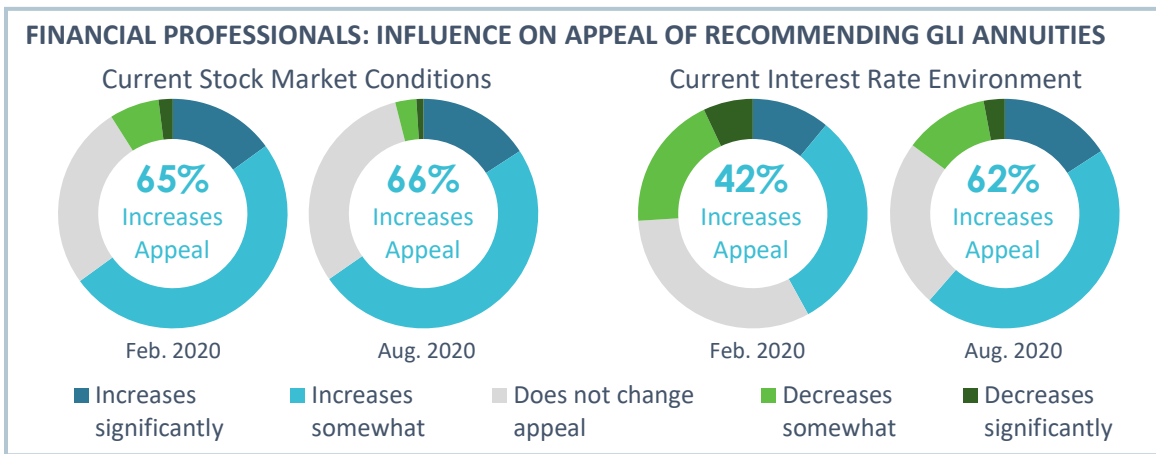
IMPACT OF THE INVESTMENT ENVIRONMENT

The timing of the follow-up study is important, as it took place not just in the wake of a downturn, but once the stock market had essentially recovered from the initial crash. In questions that specifically mention the stock market or market volatility, investor concern about the threat of loss is relatively on par with where it was before the downturn. We saw indications that market volatility can make GLI more appealing to investors when we fielded the 2018 GLIS during a period of significant market volatility. In comparison to the previous year, consumers reported both an increase in perceived value of GLI and in their agreement with needing a strategy to protect against investment loss.

The explanation for the 2020 results may be that the consumers saw how quickly markets can recover and are therefore unmoved about the risk of investment loss or market volatility. Additionally, financial and general uncertainty may strengthen the tendency to “hold steady” and not adopt new financial strategies. It is also possible that consumers may have an increased desire for higher liquidity into their opinions about guaranteed lifetime income.

FINANCIAL PROFESSIONAL PERSPECTIVE

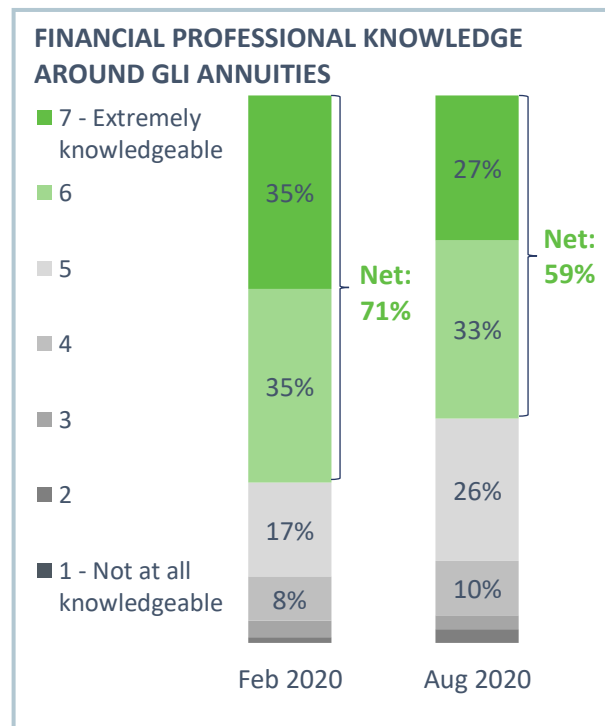
Interestingly, financial professionals overwhelmingly have a different view of the situation and believe that their clients see much higher value in guaranteed lifetime income than before. In particular, the majority of financial professionals believe that the current market and interest rate environment makes it more appealing to recommend guaranteed lifetime income products to their clients. Their response in relation to the stock market did not change between the two periods—in the August survey 66% of financial professionals said that current market conditions make the products more appealing to recommend, in line with their response in February. However, the appeal of GLI in light of the current interest rate environment jumped significantly from 42% in February to 62% in August.



Financial professionals' belief that GLI products help diversify their clients' portfolios also rose between February and August. Half believe client receptivity to GLI products has increased since the onset of the pandemic, especially among risk-averse clients. These findings suggest that financial professionals perceive a fresh role for GLI products in client portfolios where fixed investment options are now much less appealing. Prior waves of the GLIS has shown a disconnect between financial professionals and consumers, with financial professionals usually underestimating consumers' interest in GLI. Despite very different responses in this environment, it may be that the financial professional view is now closer in line with actual consumer interest.

CHANGING CONFIDENCE ABOUT GLI ANNUITY KNOWLEDGE

It is important to highlight that consumer understanding of GLI is closely linked to financial professionals discussing and recommending the products. Our analysis of the February data revealed that working with a financial professional and discussing income strategies with a professional were two of the four factors that increased one's likelihood to own a GLI product. Unsurprisingly, age and familiarity with annuities were the other two factors. For this reason, it is especially noteworthy that between February to August financial professionals' self-reported confidence in their knowledge of GLI products decreased dramatically from 71% highly knowledgeable to 59%. The year before (2019), 73% felt highly knowledgeable.

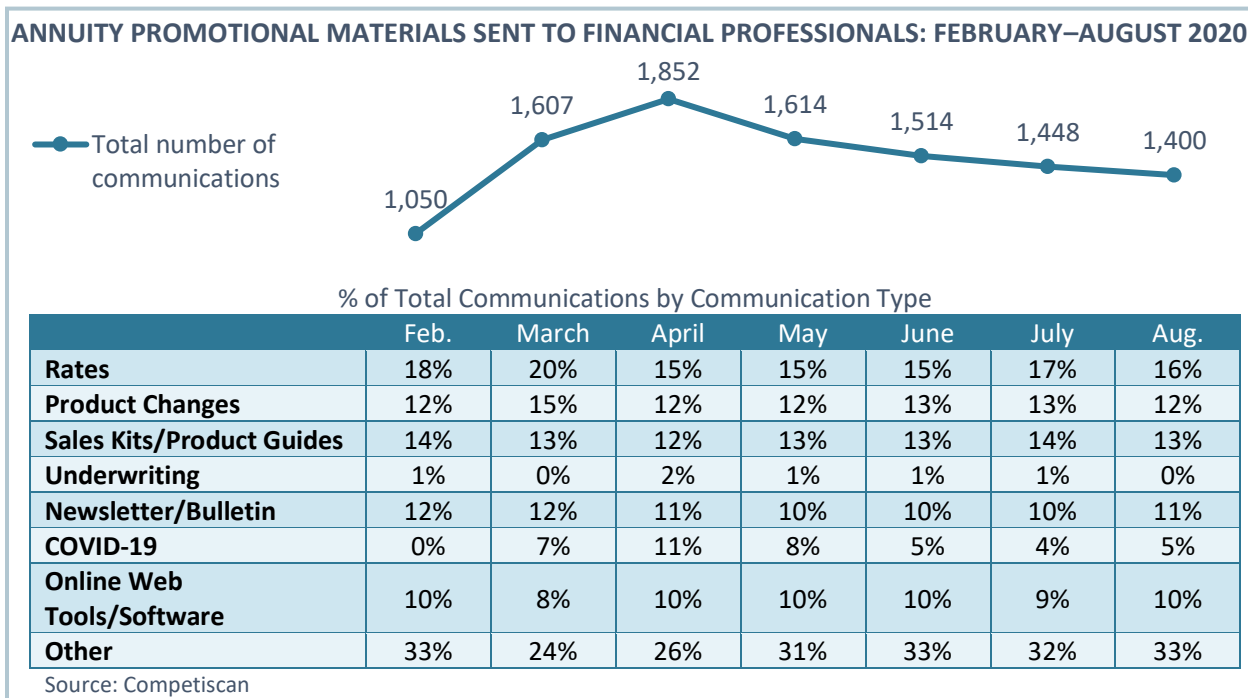


Perhaps more alarming, given the timeliness of COVID-related issues, we found that only 35% of financial professionals felt highly knowledgeable about the CARES Act, which was signed into law at the end of March, long before the August study. Furthermore, the CARES Act contains retirement-related measures that could be important for many clients.

OUTREACH TO FINANCIAL PROFESSIONALS

We suspect that financial professional-focused communications were tactical in nature, centering on process changes due to the pandemic, product rate updates, contest changes, and general COVID-19 communications. To better understand this, we looked at data around promotional materials on annuities emailed to financial professionals from Competiscan, a firm that collects and categorizes these communications. The overall volume of communications increased in the first part of 2020, peaking in April but remaining high through August. Pieces dedicated exclusively to COVID-19 did not account for the increase entirely, but many of the other categories include immediate changes. The sheer volume of communications suggests it was difficult for financial professionals to manage the incoming information and it is not surprising that some might have been confused or overwhelmed by August.

While a lack of promotional materials on the positioning of GLI is not likely to directly cause decreased knowledge around annuities, it is plausible that confusion emerged about how different annuity products behave in this novel environment. Similarly, financial professionals tell us that communication with clients is up considerably, yet very few advised consumers report having discussed annuities recently.



FORWARD LOOKING

Moving forward, the core value of GLI is not fundamentally different. The results of the study suggest that financial professionals are likely to be more alert to market risks and future volatility than consumers, and those presenting risk mitigation strategies should be sensitive to this.

There is ample room for continued study of the evolution of perceptions of risk and guaranteed lifetime income among both consumers and financial professionals. In particular, we believe there is great benefit to continued research into:

- What, if any, financial actions consumers will take in response to shifts in risk aversion due to changing market conditions
- How financial professionals view the market in terms of unpredictability
- Consumer confidence in Social Security and the impact of proposed policy changes on consumer behavior
- Long-term impact of the COVID-19 pandemic on retirement security perceptions and subsequent financial decisions.

Before we have the opportunity to examine these issues more fully, there are steps that all stakeholders facing these audiences can take to support sound financial planning decisions. For example, there may be a heightened need to promote materials and education to change consumer misperceptions around the effect of sequence of returns risk due to near-retirement market losses. Alternatively, it is possible to shape the conversation to focus more generally on retirement outcomes without centering on market risk per se. These measures apply both in the employer-sponsored retirement plan and retail environments.

The results around financial professional confidence in their knowledge of annuities expose an opportunity to help these professionals get up to speed on how to use GLI annuities. Beyond clarifications on product changes, financial professionals can benefit from new strategies or reinforcement of existing ones. Focusing on current topics—such as low interest rates—will provide greater context to understand the role of these products and then pass that knowledge to clients.

In previous years, financial professionals underestimated the interest consumers had in guaranteed lifetime income products. Today financial professionals perceive that there is greater opportunity for consumers to embrace GLI products. The role of financial professionals, especially discussing income strategies with clients, cannot be overstated when it comes to consumers adopting GLI products. This factor on its own can benefit the retirement security of many Americans.



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For more information, or to discuss becoming a partner of this or future GLI Studies, please contact:

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RESEARCH METHODOLOGY

The consumer survey involved 1,034 online interviews conducted between July 30 and August 13, 2020. Respondents are between 55 and 75 years old with household assets of at least \$100,000.

The financial professionals survey involved 200 online interviews conducted between July 30 and August 13, 2020. All participants have at least three years' experience; have at least \$15 million in assets under management; have at least 50% of their clients of the age 55 and over; and derive at least 50% of their income from work with individual clients.

In both surveys, annuities with guaranteed lifetime income include all annuities with a guaranteed income stream, either through annuitization (immediate or deferred) or through a separate income guarantee.

ACKNOWLEDGEMENTS

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