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# Revisiting The Income-Generation Timeline

*How much did 2020 spur renewed interest in guarantees?*

**by Tamiko Toland**

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It is an understatement to say that 2020 has been an extraordinary year. We cannot look forward to the future, whether 2021 or beyond, without considering the events of the past 12 months. The pandemic has thrown the entire world into turmoil and raised fundamental questions about how it may alter the landscape of financial planning. You don't have to look hard to find articles about "economic scarring," an academic term for the long-term effects that severe events can have on investors.

Financial professionals face a new environment for planning and interacting with clients. Has the COVID-19 crisis changed your clients' perception of risk? Market volatility? Do you think they are more interested in guaranteed lifetime income solutions than ever before?

To answer these questions and better understand how this situation has affected investors at or in retirement and the financial professionals who advise them, we conducted a mid-year update of the 2020 Guaranteed Lifetime Income Study by Greenwald Research and CANNEX.

Like many, we expected that the upheaval of the pandemic would boost consumer interest in annuities with income guarantees. We had fielded the annual survey in February, immediately before COVID-19 made its mark in America. This gave us a chance to go back and ask investors and financial professionals some of the same questions and add in new ones specifically related to the pandemic.

**Clients Value Guaranteed Lifetime Income More BUT…**

What did we find? Yes, 38% of investors see greater value in guaranteed lifetime income than they did before the COVID crisis. But the picture is not so simple. While this response confirmed our suspicions, other questions exposed more nuance. For example, only 26% agreed that the market volatility brought about by the pandemic has increased their interest in owning guaranteed lifetime income products in addition to Social Security. This may not seem like a big deal, but stay with me as I walk through why it might make all the difference in conversations with clients. It's interesting that fewer investors find guaranteed lifetime income more appealing as a result of market volatility from the crisis than from the crisis itself. Even more surprising, 31% disagree that COVID-related market volatility has increased their interest. To unpack this, it helps to understand the timing of the survey.

When we fielded the 2020 survey, the S&P 500 was at historic highs. Interest rates, while not high by any means, had generally been on an upward trajectory before starting to sag in 2019 and then holding steady into early 2020. Both the S&P 500 and interest rates plummeted in March. By the time we

Re-fielded the study in August, the S&P 500 had effectively returned to its former levels, but the 10-Year Treasury rate remained below 1%. Both facts are important to consider in the responses from both investors and financial professionals.

**'Set It And Forget It'**

Fears that investors respond to market turmoil by panic-selling gave birth to the mantra "set it and forget it." In other words, don't tamper with your investments and risk selling low and buying high; give your portfolio a chance to recover. The market movement between February and August—an unusually short period for recovery—reinforced this message. Not only did investors see the wisdom of waiting out market turbulence but they saw it play out within only six months.

For some, these events may have a lasting effect by minimizing worries about market volatility. They may develop false beliefs about the nature of market movements and the effect on their savings. For some, this can develop into immunity to concerns about volatility in (or near) early retirement, when huge drops in value can threaten the sustainability of a retirement plan. This is especially true when the market does not bounce back as quickly. For example, it took more than six years for the S&P 500 to rebound after the 2000 Tech Wreck.

**How to Talk About Market Volatility?**

Let's get back to the investor responses to the question of whether COVID-related market volatility increased the value of guaranteed lifetime income. More (31%) disagreed with this than agreed (26%) with it, which means that we saw changes in attitude in more than half the respondents. It will be worth seeing how durable these attitudes are as time wears on and the pandemic recedes into the rear-view mirror.

But today, to a financial professional, these figures suggest one thing: you can't be certain how your clients feel about future volatility, but there's a good chance their feelings have changed since the beginning of 2020.

In practice, that means being attentive to clients' sensitivities on this topic. I've noticed recently that a lot of client-facing promotions focus on addressing the fear that market volatility can throw a wrench into retirement planning. Our study suggests that this message will fall flat with the 31% of clients who don't share this fear in the first place. Extending this thought further, they may dismiss any ideas or solutions based on the premise that volatility is a palpable risk that they should respect and manage.

It's fair to say that all clients—even the ones who are more drawn to guaranteed lifetime income after this recent market volatility—could use some education on the subject. But there may be a subset of them who need extra TLC or would be more receptive to a different approach. For them, the term "market volatility" may not be the right entry point to a deeper discussion on planning strategies.

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**Clients Want Income Guarantees**

Because here's the thing: 46% of investors told us that they are less financially secure as a result of the crisis. And clients ultimately want security in retirement regardless how they respond when asked about market volatility. Since the pandemic, 46% of financial professionals reported that their clients are more receptive to guaranteed lifetime income. And 25% said their clients are asking them about these products.

These numbers speak volumes about the power of income guarantees when people are faced with uncertainty. Many clients are asking for these solutions or ready to hear about their role in planning and financial professionals should be ready to heed the call.

**Financial Professionals Need Support, Too**

I want to touch on one other relevant result from the study. In February, 71% of financial professionals felt they were very knowledgeable about annuities—with or without guaranteed lifetime income. In August, that number fell to 59%.

We all know that this period was filled with a series of changes across all product lines. On top of this, interest rates fell to an unprecedented low. With all of this turmoil, it's no wonder that some financial professionals would have new questions about their knowledge of product or strategy.

I see this as a call to action for the industry to support financial professionals because your clients need your knowledge so they can be confident with their plans. Low interest rates and changing capital market assumptions alter the planning process. This means lower everything: both high-return and safe money investments. Now more than ever, clients will need help carving a path to and through retirement.

The financial services industry has been changing with or without a pandemic, but this crisis has added a twist to our expectations for the future. The coming months and years will bring product innovation that will undoubtedly mean new tools for the retirement planning toolbox. This is encouraging news for financial professionals and the clients they serve. It also means there will be more education coming down the pike on different ways to solve the retirement puzzle and give retirees the security they're looking for. ❖