Genworth

THE FUTURE OF RETIREMENT INCOME STUDY

Putting your clients in control of their future

It's not getting any easier to predict the future, or how changing conditions will affect your clients' retirement strategies.

Inside, you'll learn about an often overlooked retirement strategy that can guarantee retirement income for your clients no matter what the future holds.

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Introduction

What if you could guarantee your clients would have enough money to support whatever lifestyle they wanted for the rest of their lives? For one thing, you'd have no shortage of clients.

Of course, you can't do the impossible. We live in a world of uncertainty, and the future will always be unpredictable. But as a financial professional, you are in a unique position to help your clients become better prepared for retirement.

Genworth's **The Future of Retirement Income** research delves into people's perceptions about retirement, and reveals several cases of misinformation. Read on to see how you can help your clients boost their control over their future.

*Surveys conducted by Directive Analytics.

About the Research

During 2012 Genworth conducted the **Future of Retirement Income** study. This intensive research study was focused on consumers and financial professionals to uncover new insights on the state of retirement income planning:

- In-depth interviews with financial professionals
- Focus groups with both consumers and financial professionals
- A quantitative online survey of 1,340 retired consumers and pre-retirees
- A quantitative online survey of 300 financial professionals*

Presented results represent statistically significant findings tested at 95% and 90% confidence intervals.

Are your clients ready for the future?

As you can see in Figure 1, almost three quarters (73%) of pre-retirees think they will retire when planned. Yet they may find that life has other plans for them. While 48% of actual retirees surveyed did in fact retire when they expected to, 46% retired sooner than planned, primarily because of job loss (Figure 1). This resulted in fewer income earning years, and adversely impacted their retirement nest egg. In other words, the future can be hard to predict.

76% of pre-retirees said they may delay retirement because of fear that they would not have enough money

While the majority of people who have not yet retired still believe they will be able to do so on time, 28% acknowledge their retirement may not occur as planned. When asked why they don't expect to be able to retire when wanted, 76% said they feared they would not have enough money. For 36%, the reason was their belief that expenses will be too high for them to retire (Figure 2).

Figure 1: Retirement timing can be unpredictable

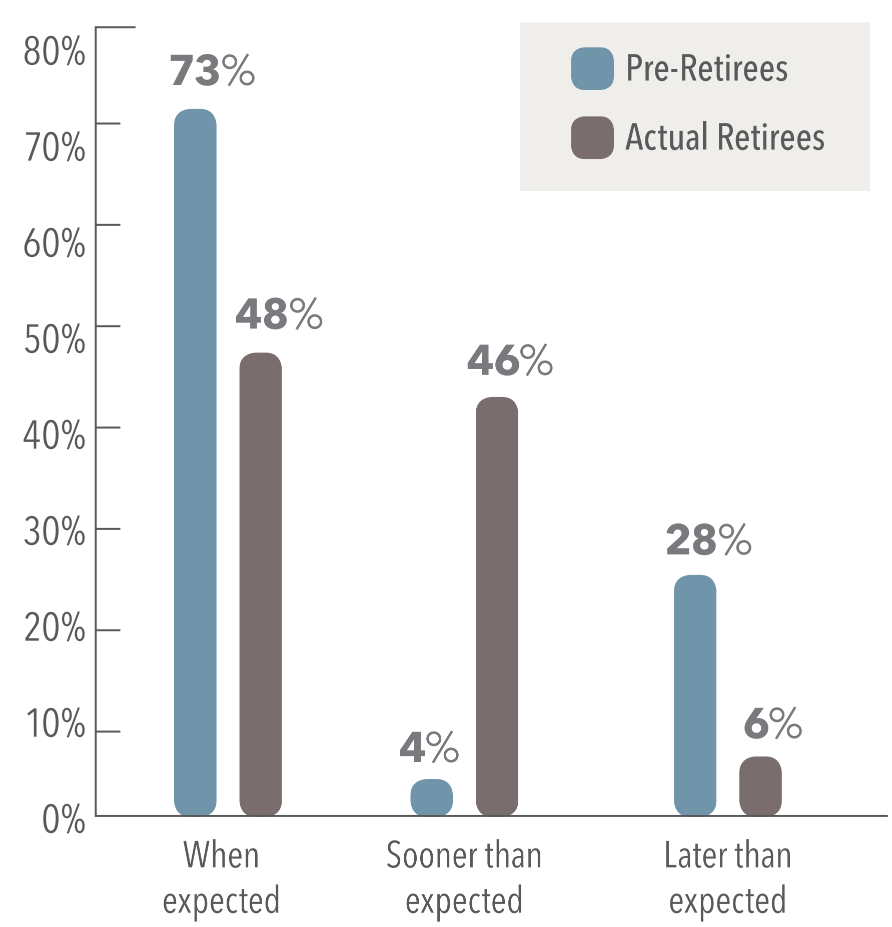
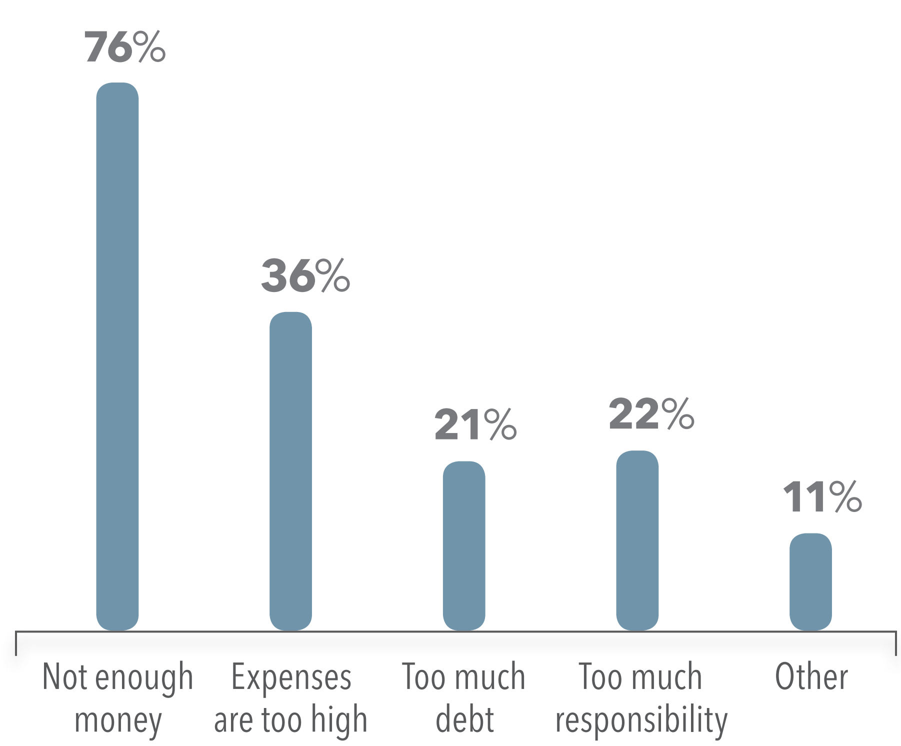


Figure 2: Money concerns drive retirement uncertainty



Why don't people expect to be able to retire when they want to? (Participants were instructed to pick all that apply)

Are your clients ready for the future CONTINUED

Unfortunately, the experience of actual retirees shows these money concerns may be justified. While 54% of pre-retirees in our study expected expenses to decrease in retirement, 64% of actual retirees found their expenses increased or stayed the same.

Part of the reason is "senior inflation." According to The Wall Street Journal, prices for things consumed by seniors—such as medical services, home healthcare, and nursing homes—have experienced significantly more inflation than the official consumer price index.[1]

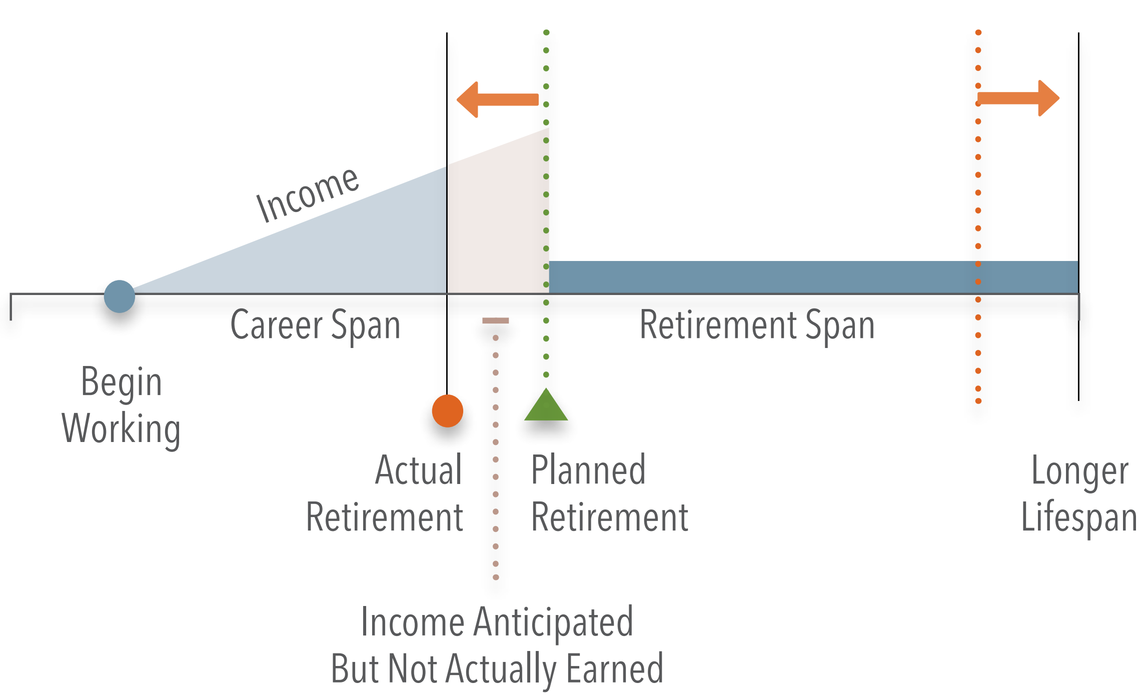
When daily essentials cost more, retirees have less to spend on the things they enjoy. And with earlier retirements and longer lives than planned, they may have less money that needs to go further (Figure 3). Yet many people look at retirement as "the golden years," when they will enjoy all that life has to offer. That could mean travel, dining out, or whatever the retiree has deferred for years. They do not envision themselves clipping coupons and pinching pennies.

In short, it's only getting more difficult to predict how the future will play out, and in particular, what retirement will look like.

So what can you do to help your clients reclaim retirement?

Figure 3: Less money now needs to go further

Scenario: Income gaps can be created if clients retire earlier than expected, and/or live longer than anticipated.



With earlier retirements and longer lives than planned, clients will earn less than they anticipated, and may end up needing less money to go further.

[1] Arends, Brett. "The Danger in 'Senior' Inflation: For Aging Americans, Rising Prices Will Take An Even Bigger Toll." Online.wsj.com. The Wall Street Journal, 27 Feb. 2008. Web.

An overlooked retirement strategy

Helping clients build diverse portfolios that include annuities is one way you can remove some uncertainty from their financial futures, particularly when it comes to income. Annuities can provide guaranteed lifetime income in exchange for a premium. That promise makes annuities particularly relevant in a world of uncertainty and market volatility.

Yet our research shows that many financial professionals aren't presenting annuities to their clients. Indeed, 40% of people who were surveyed who don't own an annuity, indicated that they would consider buying one but have never been presented the opportunity to do so by their financial professional. Part of the reason: professionals expect their clients to object to annuities. But this expectation could be wrong.

It's true that some consumers are hesitant to purchase an annuity. For example, 58 percent of consumers believe they already have enough predictable income to satisfy their retirement needs, and therefore don't need an annuity. Yet, as we have seen, when people predict the timing and cost of retirement, their predictions may not be accurate.

53% who were considering annuities had second thoughts because they would rather invest directly in the market—a potentially risky move for money intended to provide income for a lifetime. 52% object to annuities because they are not comfortable with a product where they can't access their money without penalty for a period of time. However, 78% of people who own annuities are, in fact, satisfied with their access to their money.

40% of people who don't own an annuity but would consider buying one have never been presented the opportunity to do so by their financial professional.

Familiarity leads to confidence

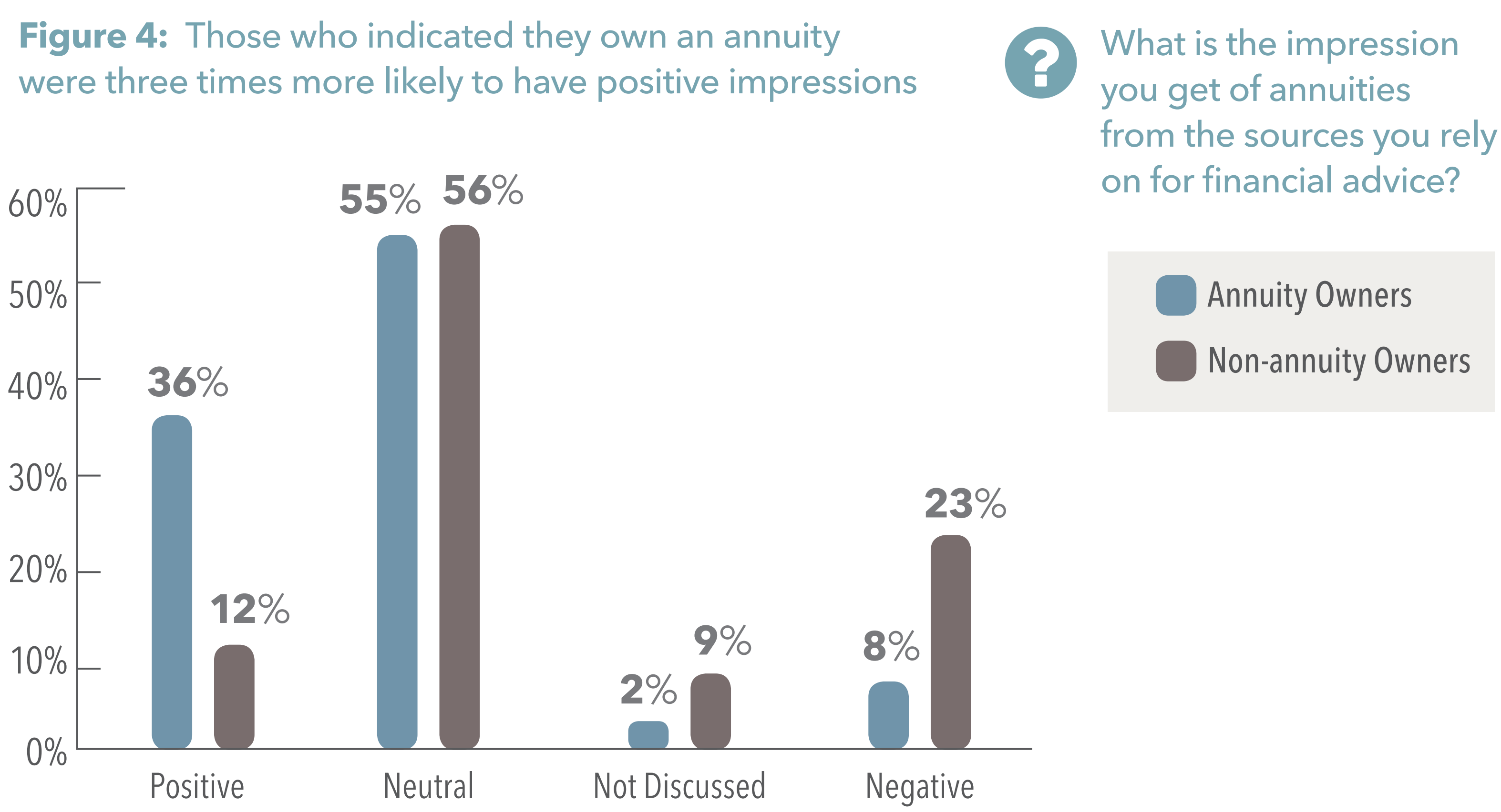
In other words, the more consumers learn about annuities, the more they like them. Furthermore, consumers who own annuities have better opinions of them than those who do not: 91% of annuity owners had positive or neutral impressions of them, compared to 68% of non-owners. For both groups, the majority of consumer perceptions regarding annuities are neutral or positive—not negative (Figure 4).

70% of annuity owners say the annuity's expenses are worth the benefits they are receiving from it.

In other words, the challenge of providing annuities to your clients may not be as daunting as you thought.

91% of annuity owners had positive or neutral impressions of them

Figure 4: Those who indicated they own an annuity were three times more likely to have positive impressions



Ready to pursue this opportunity?

Genworth's "The Future of Retirement Income" research can help you focus your efforts and learn from financial professionals who understand the benefits of annuities and the role they can play in their clients' retirement income strategy. Our research reveals that the ideal candidates for an annuity have several traits in common. In general, they:

Like to work with financial professionals
89% of annuity owners, with positive perceptions of annuities work with a financial professional, as do 69% of people considering an annuity and possessing positive perceptions.

Engage in personal research
51% of of annuity owners said, "I do personal research on my financial representative's recommendations before making decisions."

Value downside protection and upside potential
60% of annuity owners and 61% of annuity considerers would pay additional fees to guarantee that an investment would never lose value in a "bad" year, while capturing some growth in a "good" year.

Have a pessimistic view of the market
Annuity owners were significantly less likely to believe the market will show positive growth over the next five years.

Need a source of supplemental retirement income
85% of annuity owners said that a predictable income stream is critical to their ability to have the retirement they envision.

Satisfy your annuity clients in advance

Not surprisingly, satisfaction among annuity owners is directly related to how well the annuity they own meets their expectations. 70% of those whose annuity performed "as expected" were satisfied, versus just 5% of those whose annuity did not perform as they expected it to.

In fact, 4% of this total group described themselves as dissatisfied. In particular, our research shows that satisfaction correlates most closely with met expectations for the annuity's growth and expenses.

The findings are clear for financial professionals: Make sure your annuity customers know exactly what to expect before they buy, and they'll be more satisfied with their purchase.

Ready to pursue this opportunity? CONTINUED

Genworth also recently conducted research on how financial professionals sell fixed index annuities (see sidebar on page 9 for an overview of this type of annuity). This research provides several key strategies you may be able to use in your own business:

Focus on younger clients
Those professionals who sell the most fixed index annuities are more likely to target consumers between the ages of 40 and 49, and less likely to focus on consumers over 70 (Figure 5), however, the most-targeted age group for all groups is between 50 and 59.

In fact, 17% of the high-volume fixed index annuity sellers specifically target those between 40 and 49, versus just 9% of all the fixed index annuity sellers. And just 1% of the high-volume fixed index annuity sellers focus on those over 70, versus 8% of all the others.

Look for a different risk profile
Risk tolerance is another area in which the high-volume fixed index annuity sellers take a different approach than others. Those who sell more are more likely to present annuities to medium-risk-tolerance clients (52%, versus 40% of all professionals), and less likely to focus on low-risk-tolerance clients (46% do this, versus 59% of all professionals) (Figure 6).

Figure 5: The high-volume fixed index annuity sellers are more likely to target younger clients

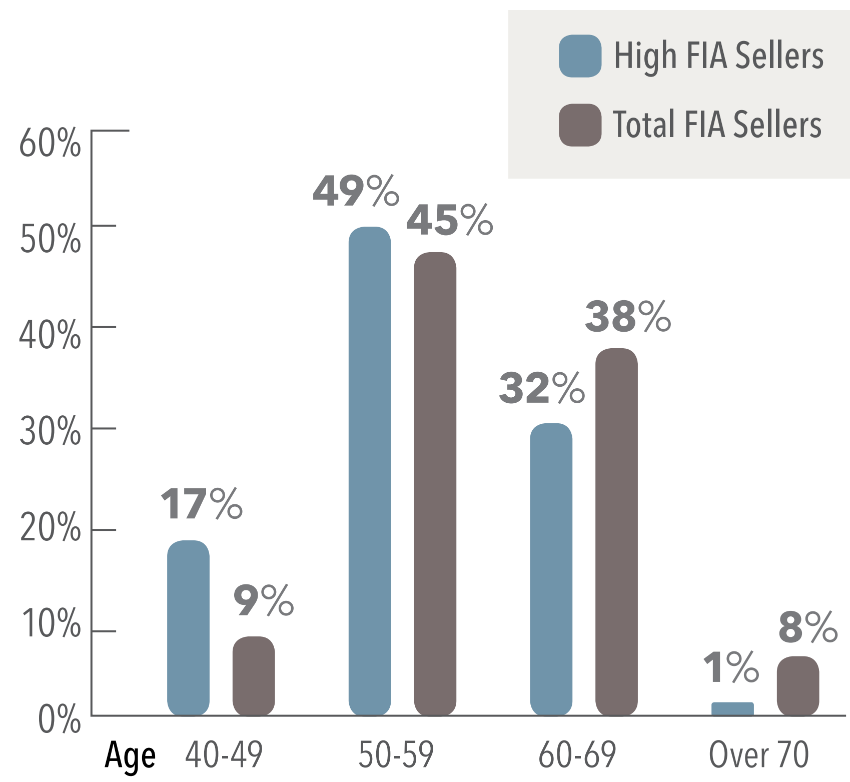
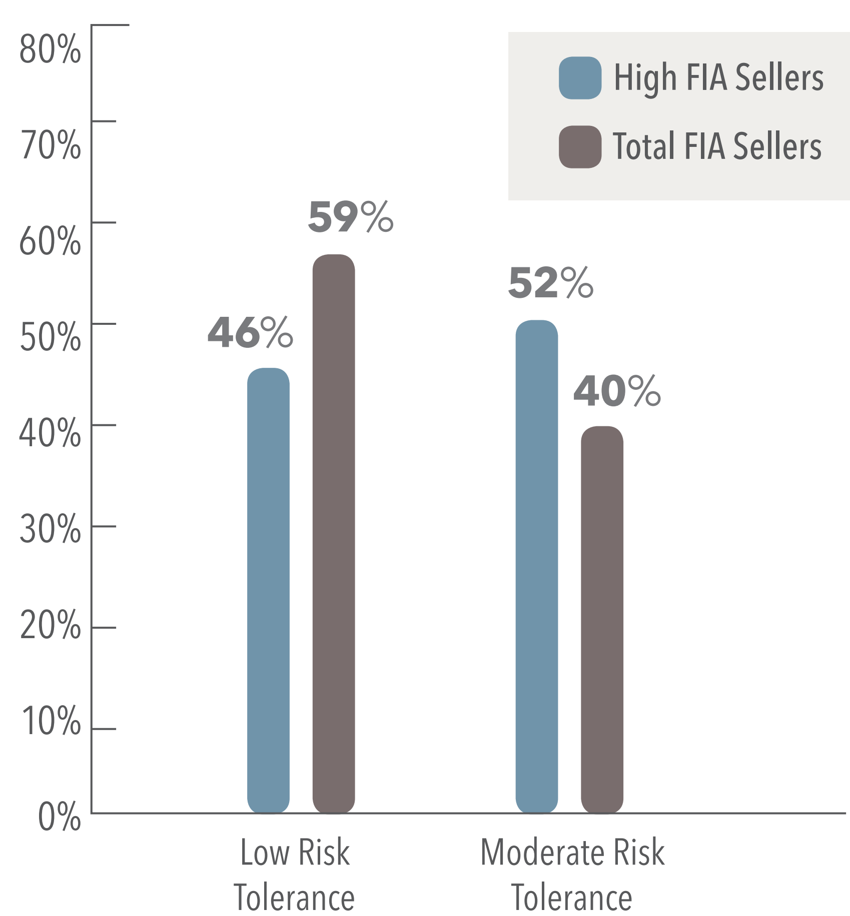


Figure 6: The high-volume fixed index annuity sellers are more likely to target moderate-risk-tolerant clients



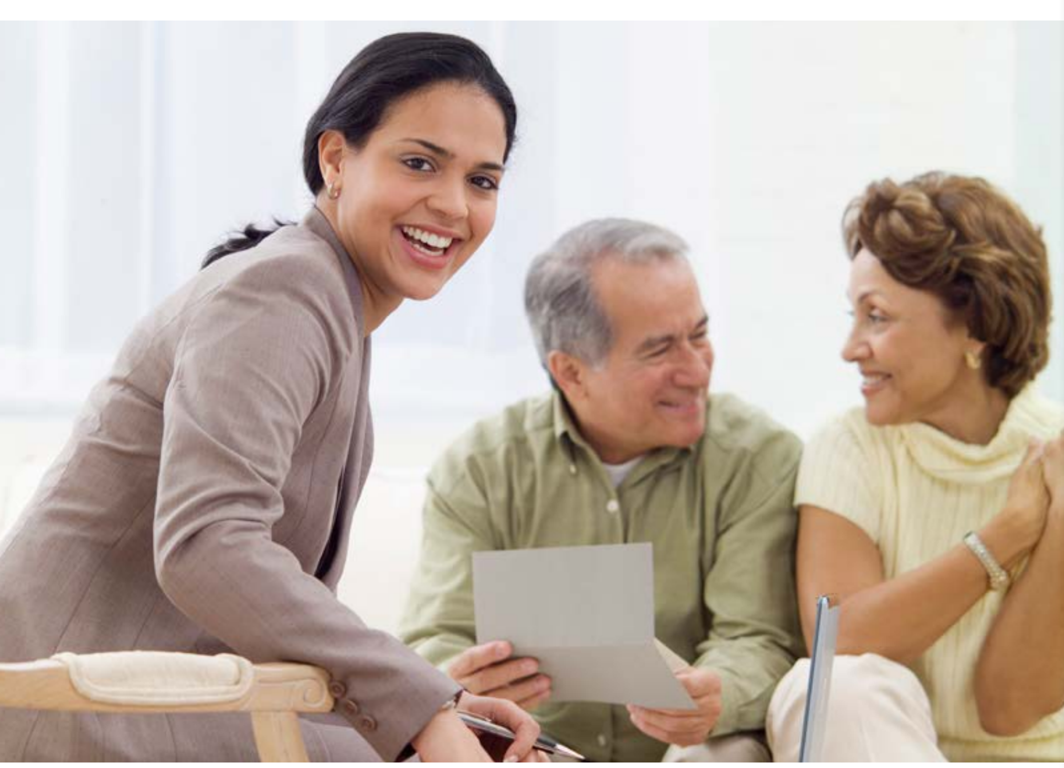
Ready to pursue this opportunity? CONTINUED

Consider a wider source of funds

Another point of difference between the high-volume fixed index annuity sellers and others is the source of funds their clients use to buy an annuity. These professionals seem more aware that annuities are not only for clients with funds in qualified plans that are available for a direct rollover. In fact, those professionals who sell the most fixed index annuities help their clients use a wider pool of money to fund their purchases.

For example, 40% of all fixed index annuity sellers say clients most often use qualified retirement savings to buy an annuity—versus 26% of high-volume fixed index annuity sellers. These high-volume sellers are more likely to have clients who use alternative sources such as savings, money market accounts, CDs, and bonds.

There is no additional tax deferral benefit for annuities purchased in an IRA, or any other tax-qualified plan, since these plans are already afforded tax deferred status. The other benefits and costs should be carefully considered before purchasing an annuity in a tax-qualified plan.



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Fixed Index Annuities

While sharing many of the same features as a traditional fixed annuity, a fixed index annuity includes options to have interest credited based on the performance of a market index.

That gives your customers the potential for upside potential and downside protection. In years when the index is up, interest is credited up to a "cap" and "participation rate" specified by the insurance company. In years where the percentage change in the index is below zero, no interest is credited and the accumulated value is not affected by the decline in the index. However, over the term of the fixed index annuity, the opportunity for growth may be greater than with many other types of interest-bearing products since interest is linked to the movement of the index. It is important to note that those other products generally provide steady consistent interest year after year

Overall, fixed index annuities can:

- Protect your clients' principal from negative market fluctuations
- Provide the opportunity for higher interest crediting than many other fixed alternatives
- Offer tax-deferred growth
- Create flexible options to receive retirement income for as long as your clients live

The future of retirement income

It's an unpredictable world, and always will be. Market performance, retirement dates, the cost of living—all of these variables can play out in unexpected ways and have a major impact on your clients' retirement.

Incorporating annuities into their retirement strategies is one way you can give clients a measure of certainty. With a fixed index annuity, for instance, your clients could benefit from market growth without the risk of loss due to market declines, and they would be laying the foundation for supplemental lifetime income.

Yet many financial professionals simply don't present annuities to their clients, perhaps believing that these products have "a bad rap" among consumers. Our research reveals that this is not reality. Generally, the more consumers learn about annuities, the more they like them. And when annuity owners fully understood what they bought, they had high satisfaction levels.

In other words, consumers who are educated on how these products work, can see how well they can help them manage today's challenging environment. That's why we firmly believe that annuities will play an important role in the future of retirement income.

HOME

Annuity guarantees are based on the claims paying ability of the issuing insurance company.

Withdrawals/surrenders have the effect of reducing the contract value and death benefit. Withdrawals/ Surrenders of taxable amounts are subject to ordinary income tax and if taken prior to age 59½ an additional 10% federal penalty tax.

Insurance and annuity products:	Are not deposits.
Are not guaranteed by a bank or its affiliates.	May decrease in value.
Are not insured by the FDIC or any other federal government agency.	

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