IRI Fixed Indexed Annuity Survey

Survey Results

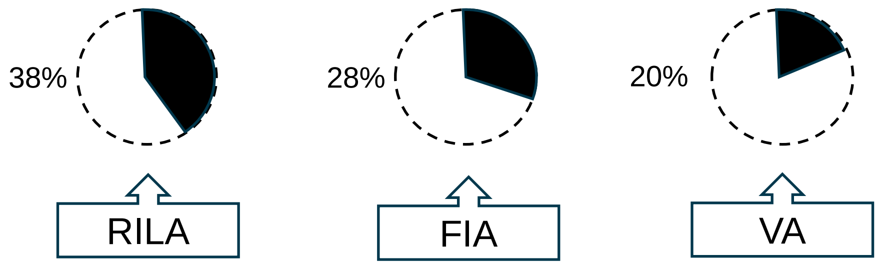
Survey period
11/06/2020 to 12/18/2020

Respondents
n=265

Methodology
Web-based survey of financial advisors with at least one year of experience. The margin of error for the sample of 265 was ±4.5%

Key Findings: Annuity Opportunities

Opportunity #1—Reach Out to Advisors Not Using Annuities At All



Opportunity #2— Educate FAs on Uncapped FIA and Custom Indexes

45% “Strongly Prefer” uncapped FIA structure

20% “Strongly Prefer” custom indexes used in uncapped FIA

Opportunity #3— Improve a Fundamentally Good Product

69% FIAs Represent Good Value

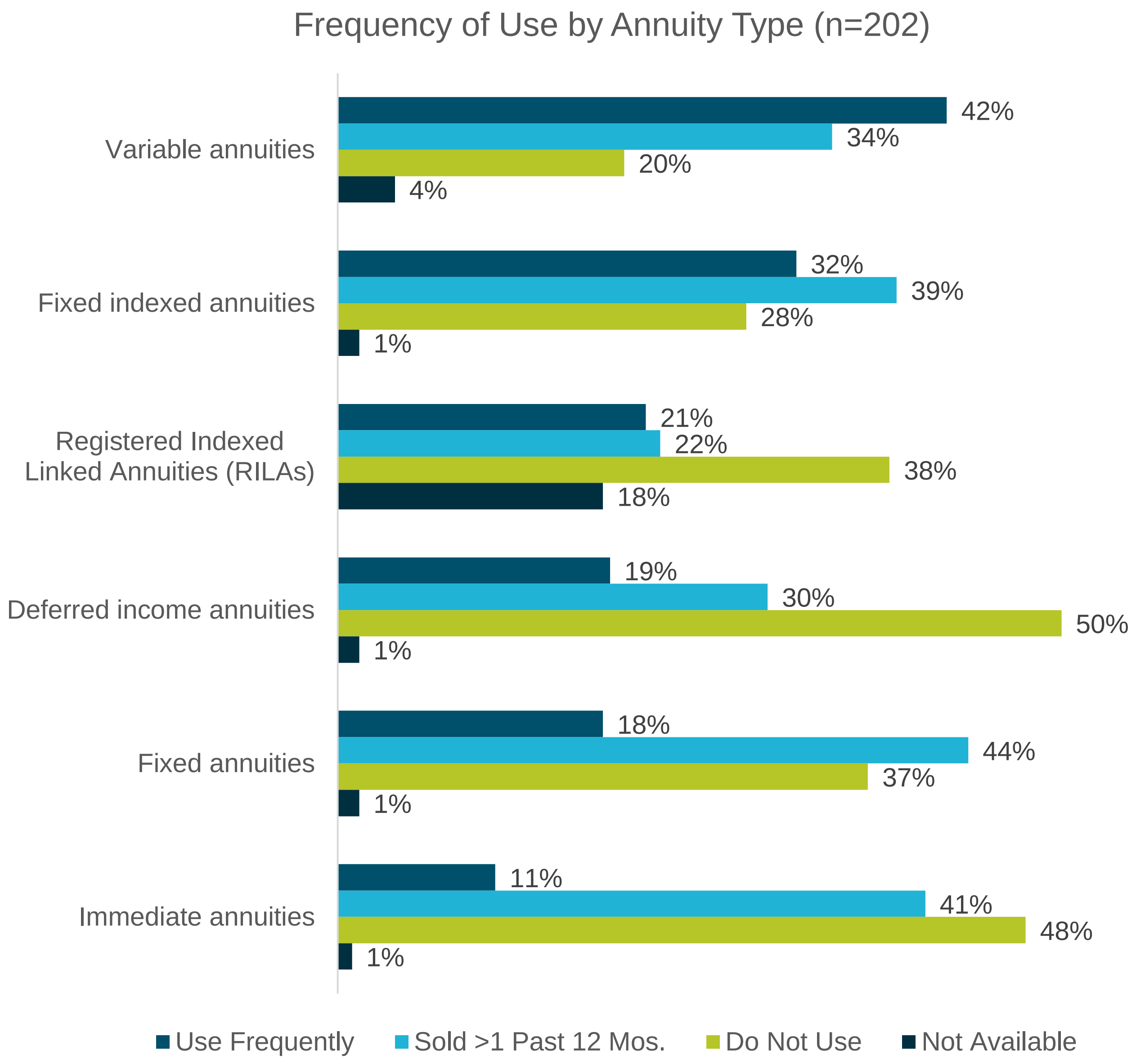
69% FIAs Should be Simpler

79% Hard to Manage Client Expectations

Opportunity #4— Broader Use of Annuities for Retirement Income

Income Strategy	Seldom Use	Never Use
Bond Ladders	44%	32%
SWiP	20%	3%
VA with GLWB	19%	15%
FIA with GLWB	23%	14%

Growth Opportunity: FAs Who Seldom or Never Use Annuities



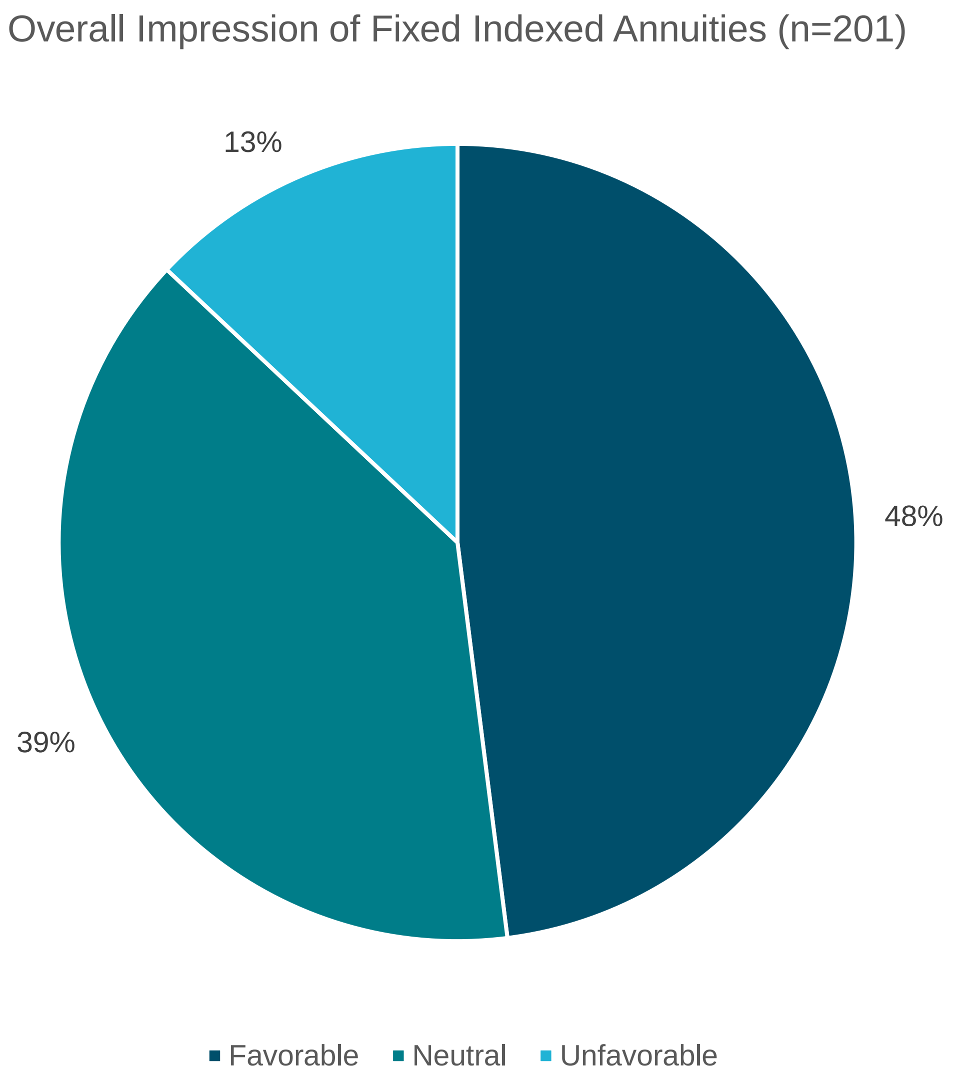
Despite variable annuity (VA) sales remaining at or below historic lows, financial advisors (FAs) use VAs more frequently than other annuity types. One reason for the disconnect between sales volume and frequency of use may be the impact of falling VA-to-VA exchanges, which inflate industry sales numbers but do not increase assets under management in VA products. As current VA benefits are less generous than those purchased several years ago, an exchange into a new VA is more difficult to support from a suitability perspective than in past years.

Responses also reveal a significant opportunity for continued growth in RILAs, with nearly four in 10 advisors saying they don't use them at all. All annuity types have potential growth in the significant numbers of FAs who seldom or never use them.

Fixed annuities are notable for a low score in the "frequent" category as interest rates remain persistently low.

Q. Please select the response that best describes your use of each annuity product type.

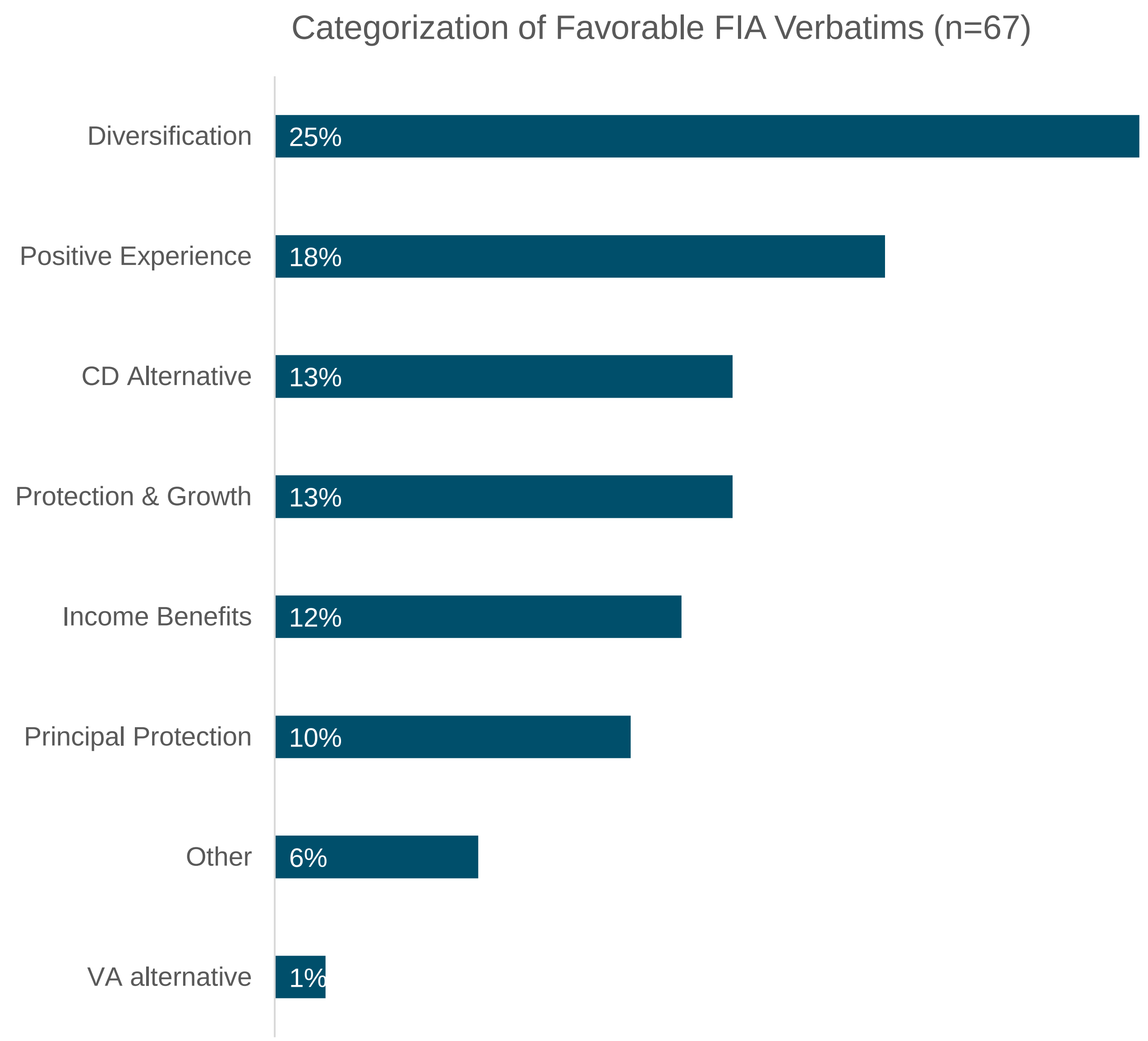
Advisors Have a Favorable View of Fixed Indexed Annuities



Nearly half of financial advisors have a favorable view of fixed indexed annuities (FIAs), with most of the other half neither liking nor disliking the product. Relatively few advisors have a negative perception of FIAs.

Q. What is your overall impression of fixed indexed annuities.

Advisors Value FIAs for Diversifying Client Portfolios



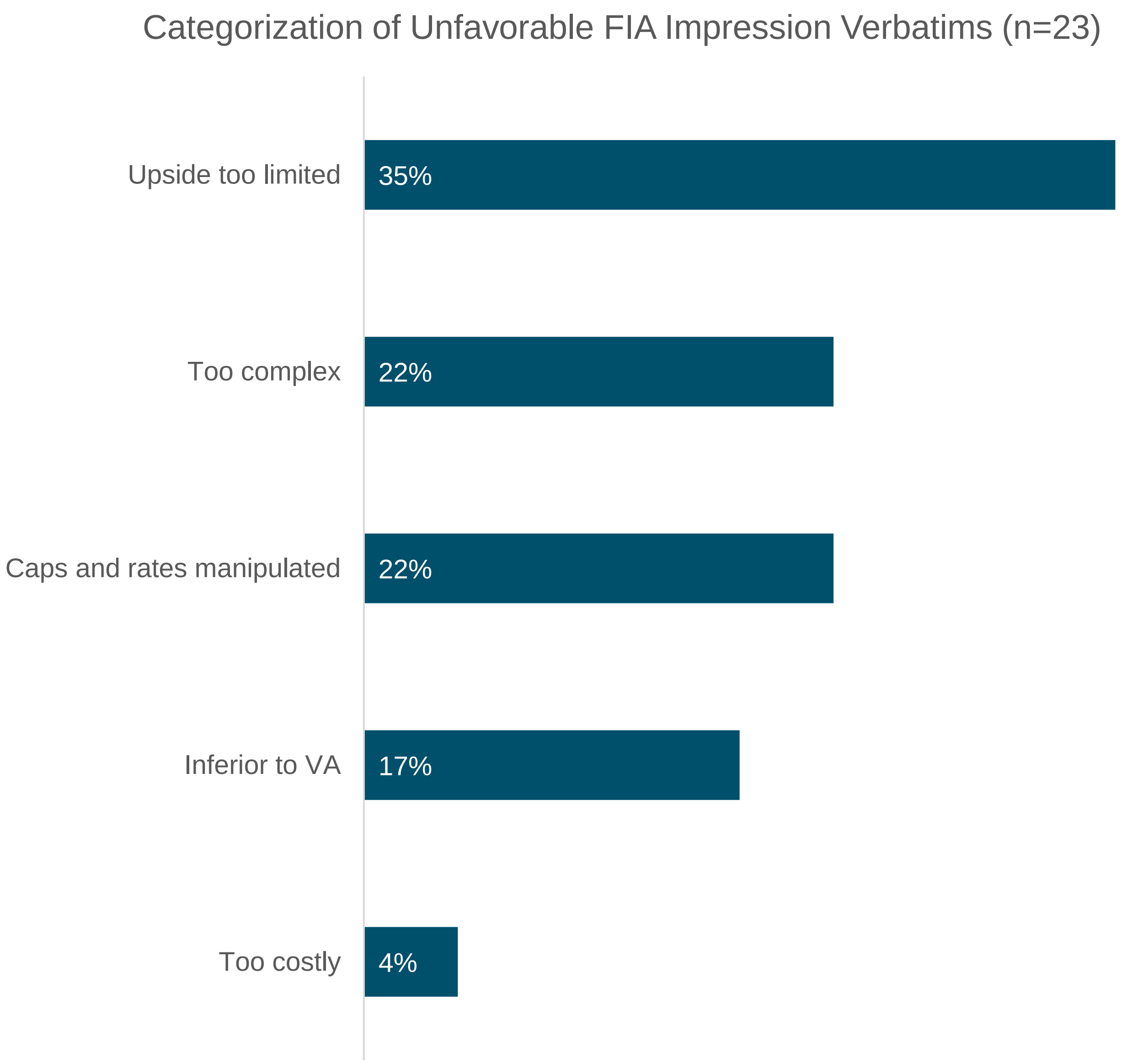
Advisors responding to the survey were asked to provide an optional brief explanation as to why they have a favorable view of FIAs. This chart attempts to group the responses into categories.

The most frequent answer was a reference to using FIAs to diversify their clients' portfolios, and one may argue that the third most popular answer, using FIAs as a CD alternative, amounts to the same thing. This supports the utility of FIAs as "bond surrogates," playing an important role in the fixed income wedge of the portfolio pie as instruments with bond-like returns but without interest rate risk.

Of note is how few advisors mentioned FIAs as an alternative to VAs. This is positive, as it shows advisors who have a favorable view of FIAs do not view them as equity products, which can lead to clients having unrealistic return expectations.

Q. Why do you say that (optional).

Some FAs Believe FIA Upside Too Limited, Product Too Complex

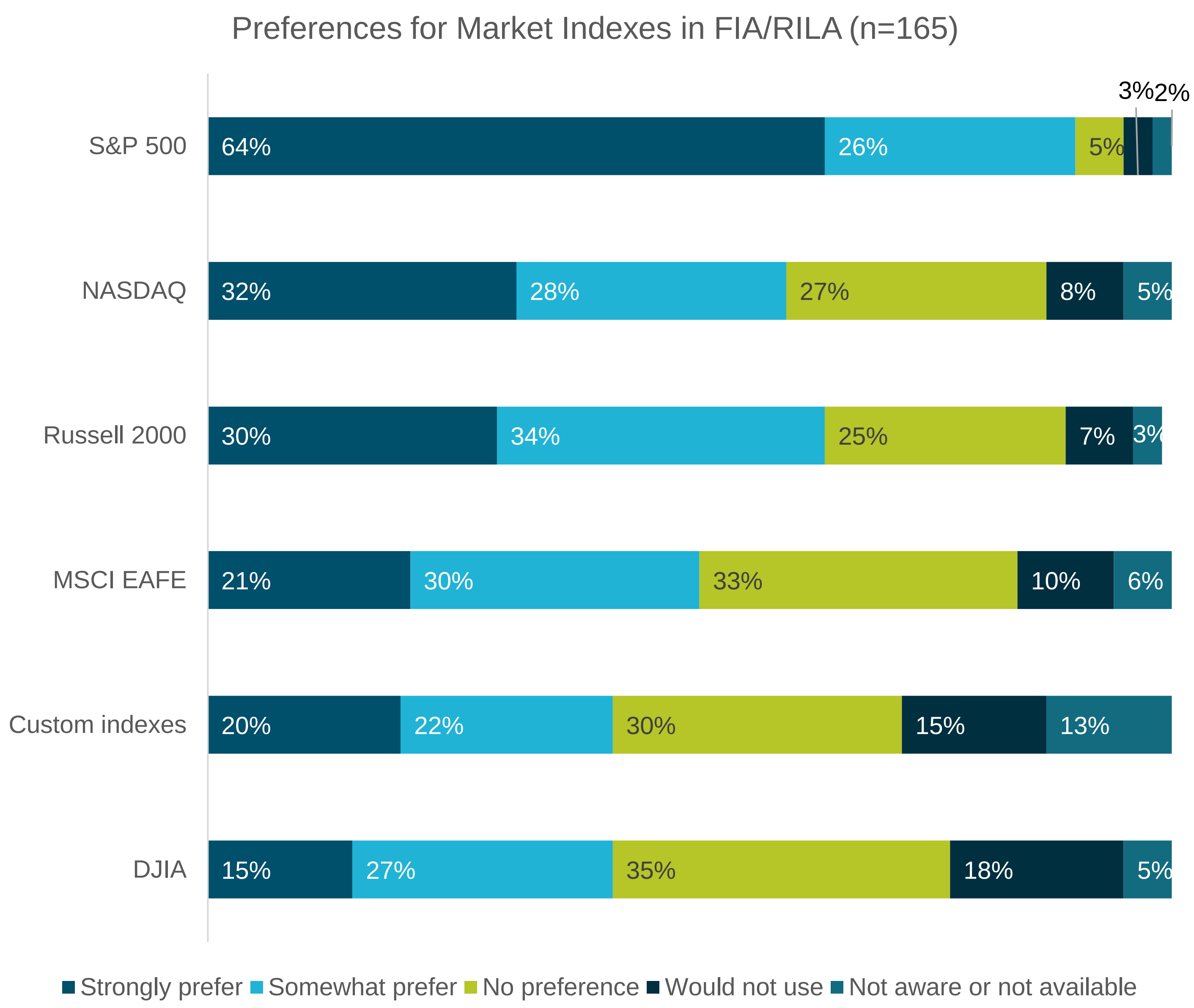


While relatively few advisors expressed a negative view toward FIAs, more than one-third of the comments expressed a desire for the products to have more upside potential. Others felt that the products are generally too complex or that the insurance companies are unfairly manipulating caps and crediting rates to the detriment of their clients.

Frustrations such as these generally indicate a need for greater transparency and education. In this interest rate environment, upside potential is constrained due to the limited options available to provide that upside. Advisors and clients would benefit from simple (or as simple as possible) explanations of the relationship between prevailing interest rates and the setting of crediting and participation rates, caps, and spreads.

Q. Why do you say that (optional).

Strong Preference for S&P 500 Index in FIA and RILA

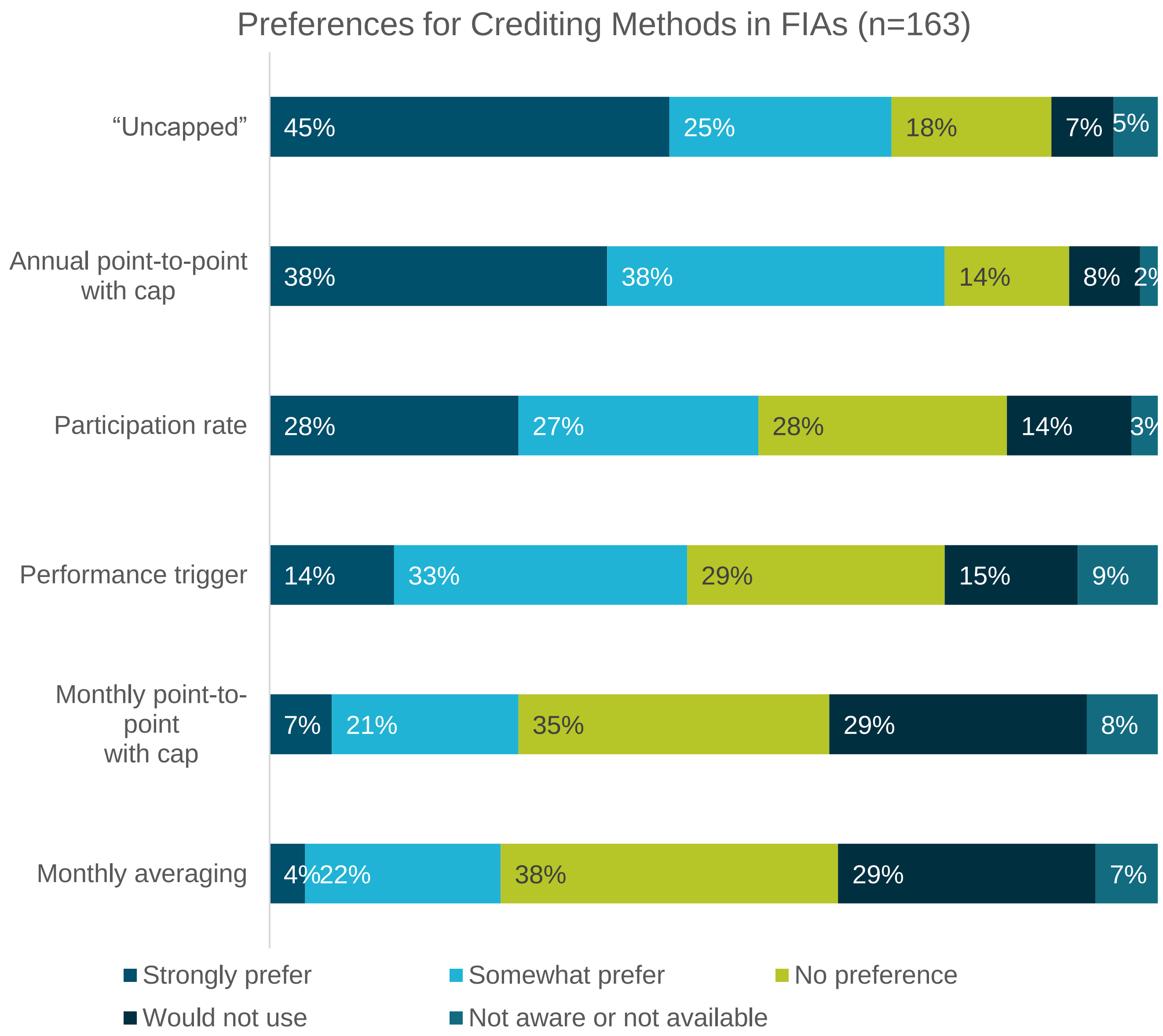


Advisors overwhelmingly prefer broad, well known market indexes in FIAs and RILAs with the strongest preference being for the S&P 500. This is likely due to its recognition with clients and its broad use as a performance benchmark.

Custom indexes (hybrid indexes that typically include a cash component in addition to a market index to reduce volatility) are much less preferred by advisors than the broader market indexes, though it is worth noting that only 15 percent of advisors say they would not use a custom index option in an FIA or RILA product.

Q. What are your preferences regarding these market indexes that are commonly available in fixed indexed annuities and RILAs?

Disconnect: Weak Preference for Custom Indexes, Strong Preference for Uncapped Strategies

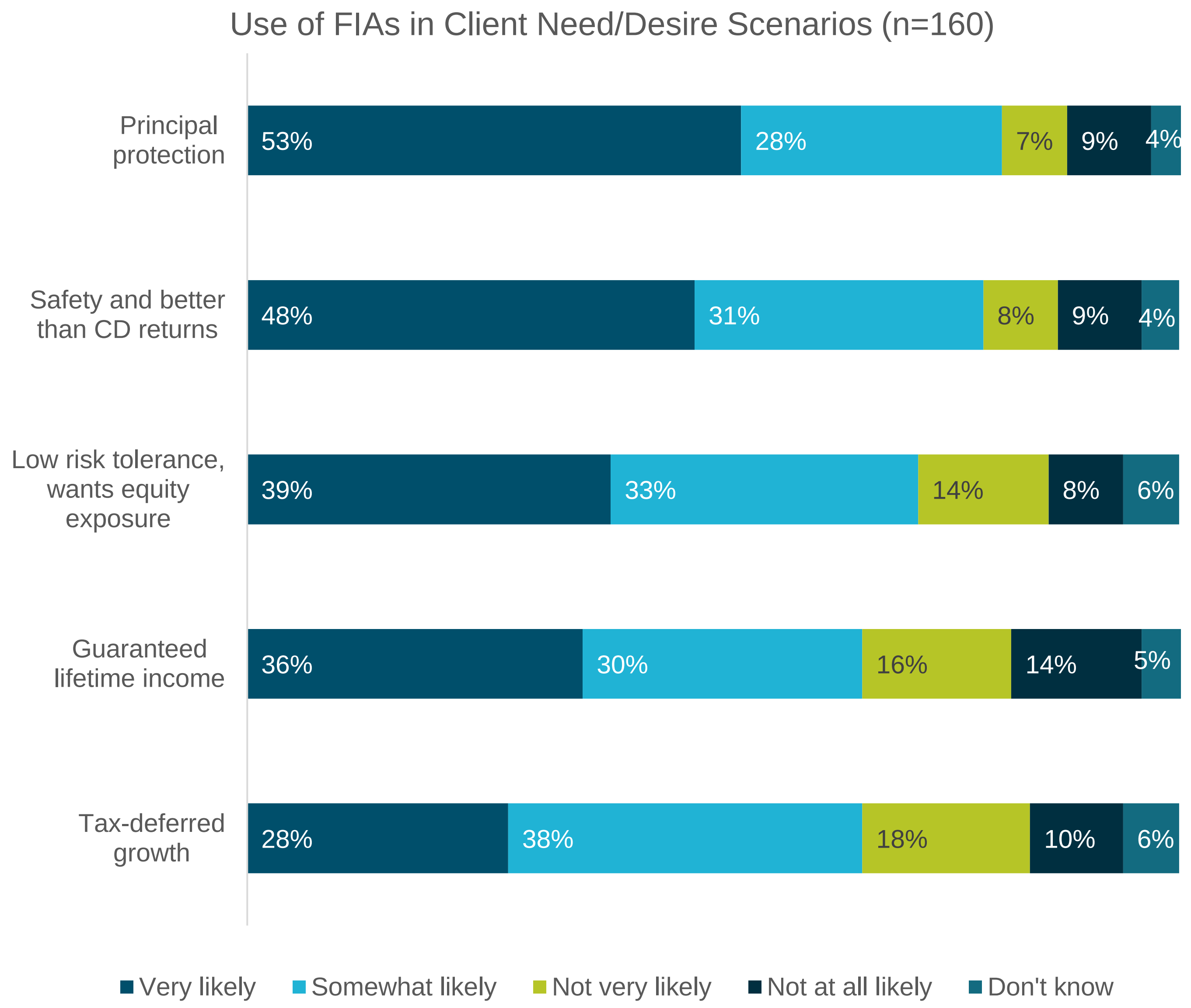


Interestingly, while only 20 percent of advisors express a strong preference for custom indexes, we see 45 percent have a strong preference for "uncapped" crediting methods. These methods are referred to as "uncapped" because there is a 100 percent participation rate in the index return. However, the only way to offer 100 percent participation in an index is to use a custom index or require a substantial allocation of the premium to a fixed option. Some advisors may not see this relationship clearly.

Annual point-to-point and participation rate methods are also strongly favored over performance triggers and monthly crediting methods, likely at least in part because they are easier to understand and explain. The performance trigger, where a rate is either credited or not based on index performance being positive or negative, is a simple, straightforward design that may rise in advisor preference with more education.

Q. What are your preferences regarding the following interest crediting methods used in fixed indexed annuities?

Safety and Yield Drive FA Use of FIAs



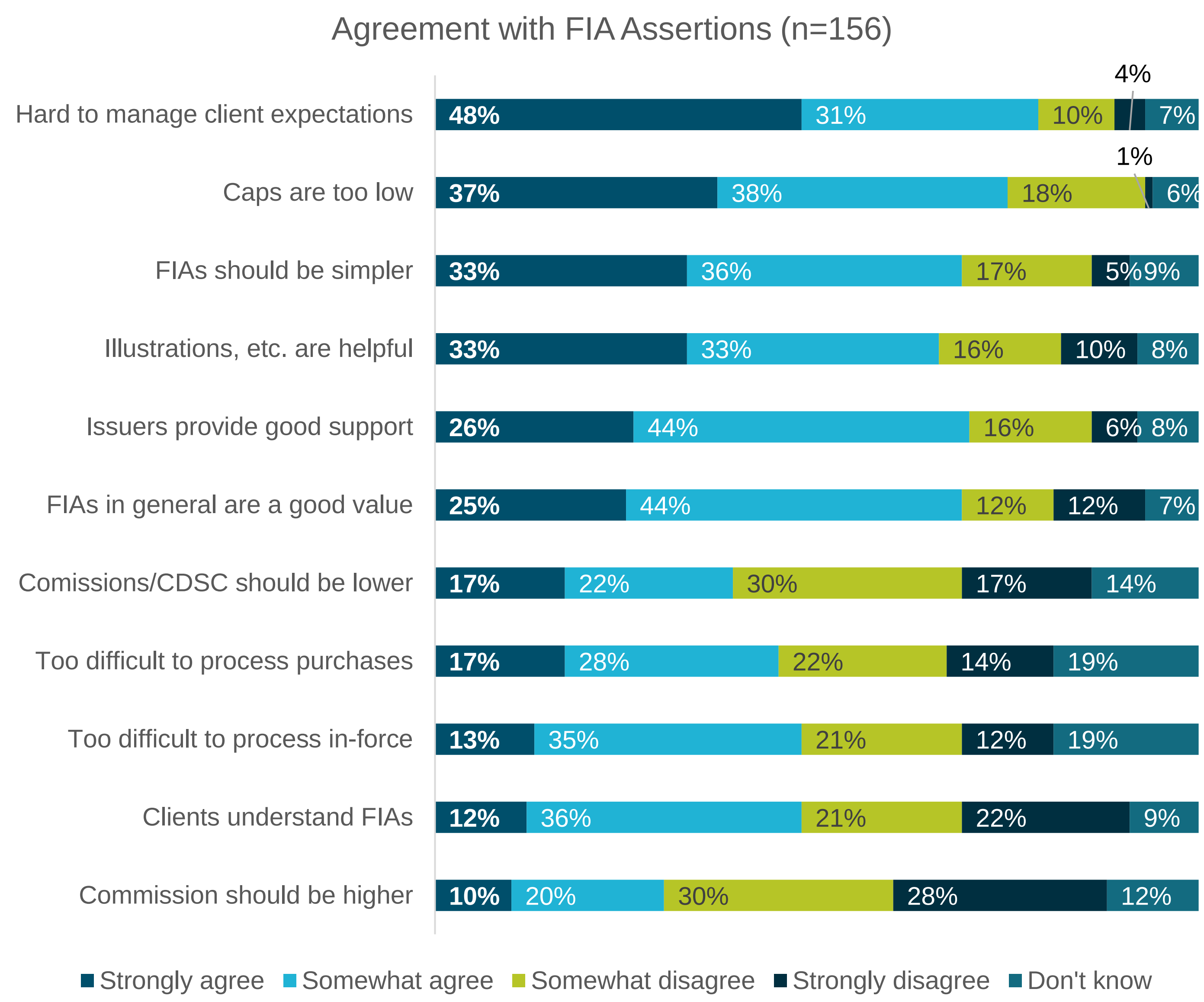
When advisors use FIAs in their clients' portfolios, the top reasons they cite are principal protection and the desire to substitute a CD with an option that offers principal protection and a better return.

A bit concerning is finding 39 percent of advisors very likely to use FIAs to give their clients with low risk tolerance exposure to equities. "Exposure" to an asset class generally means allocating to that asset class in an expectation of realizing the returns of that asset class. Due to the principal guarantee, FIAs cannot provide the same or even close to the return experienced by the underlying index(es), especially in a low interest rate environment. FIAs should never be positioned as an equity-like investment.

More than a third of advisors are very likely to use FIAs as a component of retirement income for their clients, indicating good demand for this solution but also growth potential among advisors less likely to use this option.

Q. How likely would you be to use a fixed indexed annuity in each of the following situations?

Managing Client Expectations Is Difficult



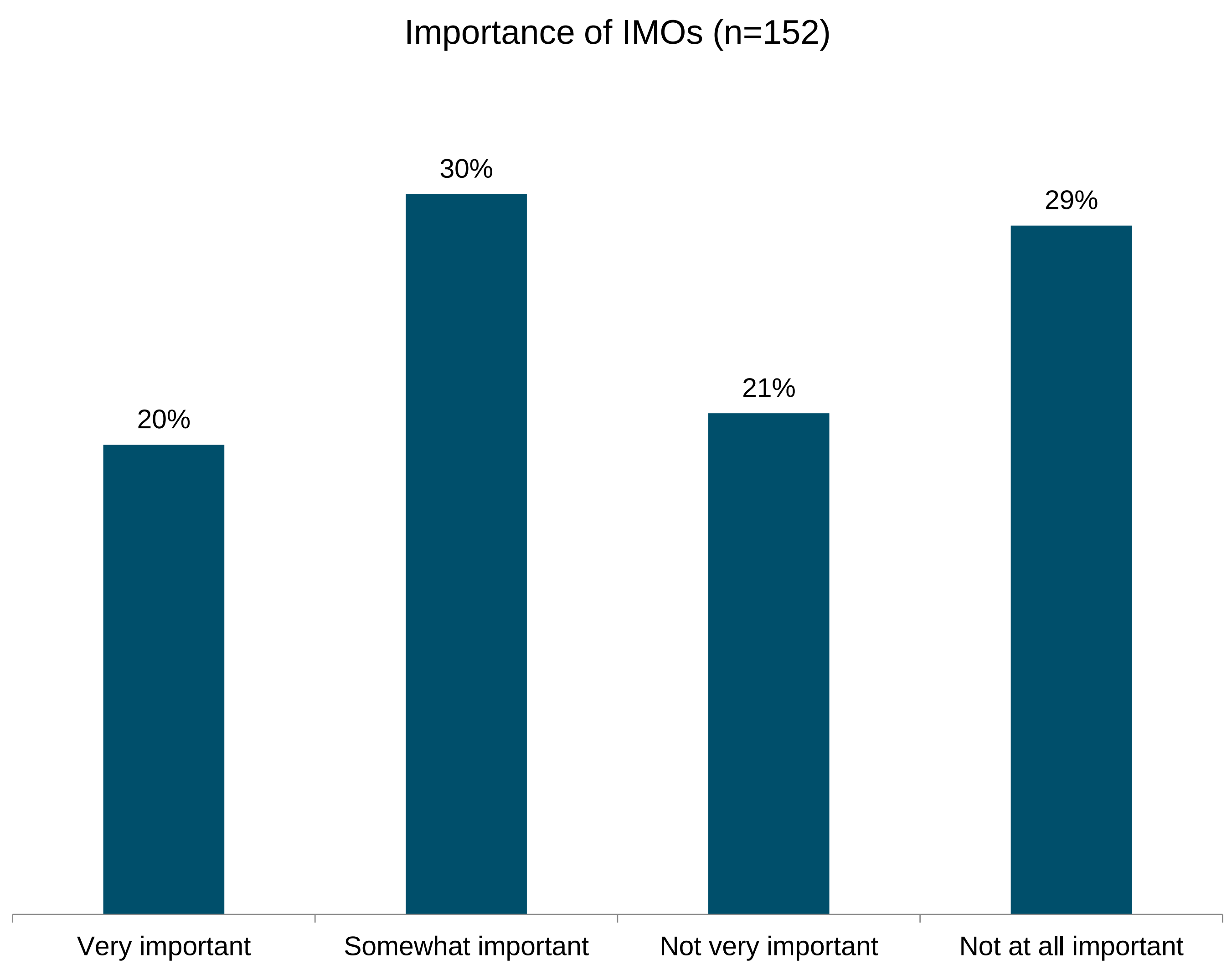
Advisors were asked to state their level of agreement with several statements about FIAs. The largest cohort of advisors strongly agreed with the statement “it is hard to manage client expectations [with FIAs].” Related, there was also strong agreement with the statement that FIAs should be simpler.

Most advisors at least somewhat agreed with positive statements such as FIA illustrations and support being helpful, and FIAs being a good value for clients. Relatively few believe that clients understand FIAs, which is related to the desire for the products to be simpler and highlights the important of strong support and client friendly illustrations.

About 40 percent of advisors think commissions should be lower, and 30% think they should be higher, and interesting disparity that might be related to the relative complexity of the products they are used to using.

Q. Please indicate your level of agreement with each of the following statements regarding fixed indexed annuities.

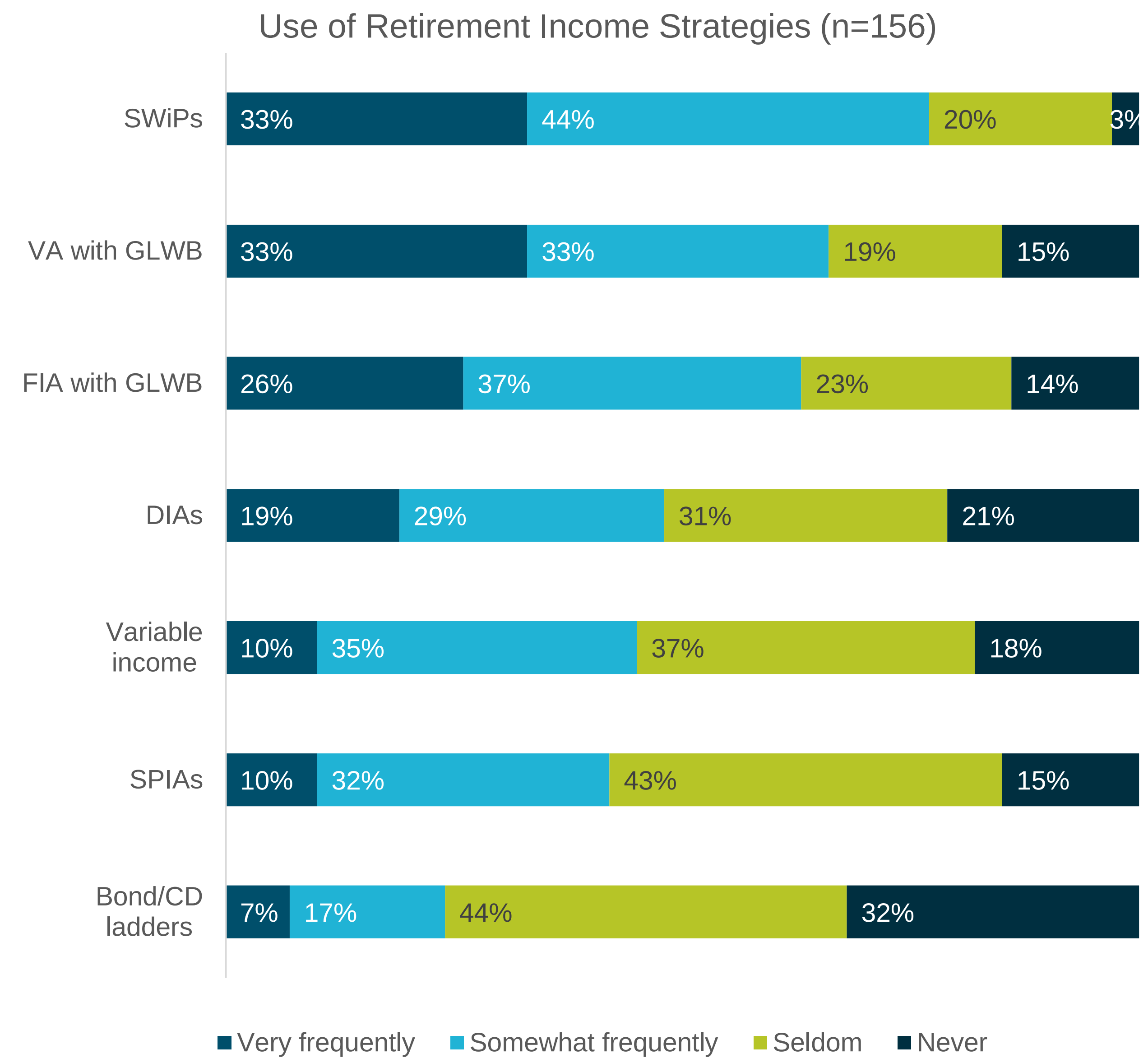
FAs Split Down the Middle on IMO Importance



Despite seven in 10 advisors believing FIAs should be simpler and only 12 percent agreeing that their clients understand FIAs, only 50 percent of advisors believe independent marketing organizations (IMOs) are important to their business. IMOs have an opportunity to add significant value to advisors by helping them and their clients understand FIAs, including the role they play in portfolios and their limitations, to ensure that neither advisors nor clients are surprised by the product’s performance over time. A negative perception of the value provided by IMOs is a real opportunity for IMOs to examine, clarify, and potentially improve the services they provide to advisors.

Q. How important are Independent Marketing Organizations (IMOs) to your fixed indexed annuity business?

SWiPs and VA/FIA with GLWB Top Strategies for Income



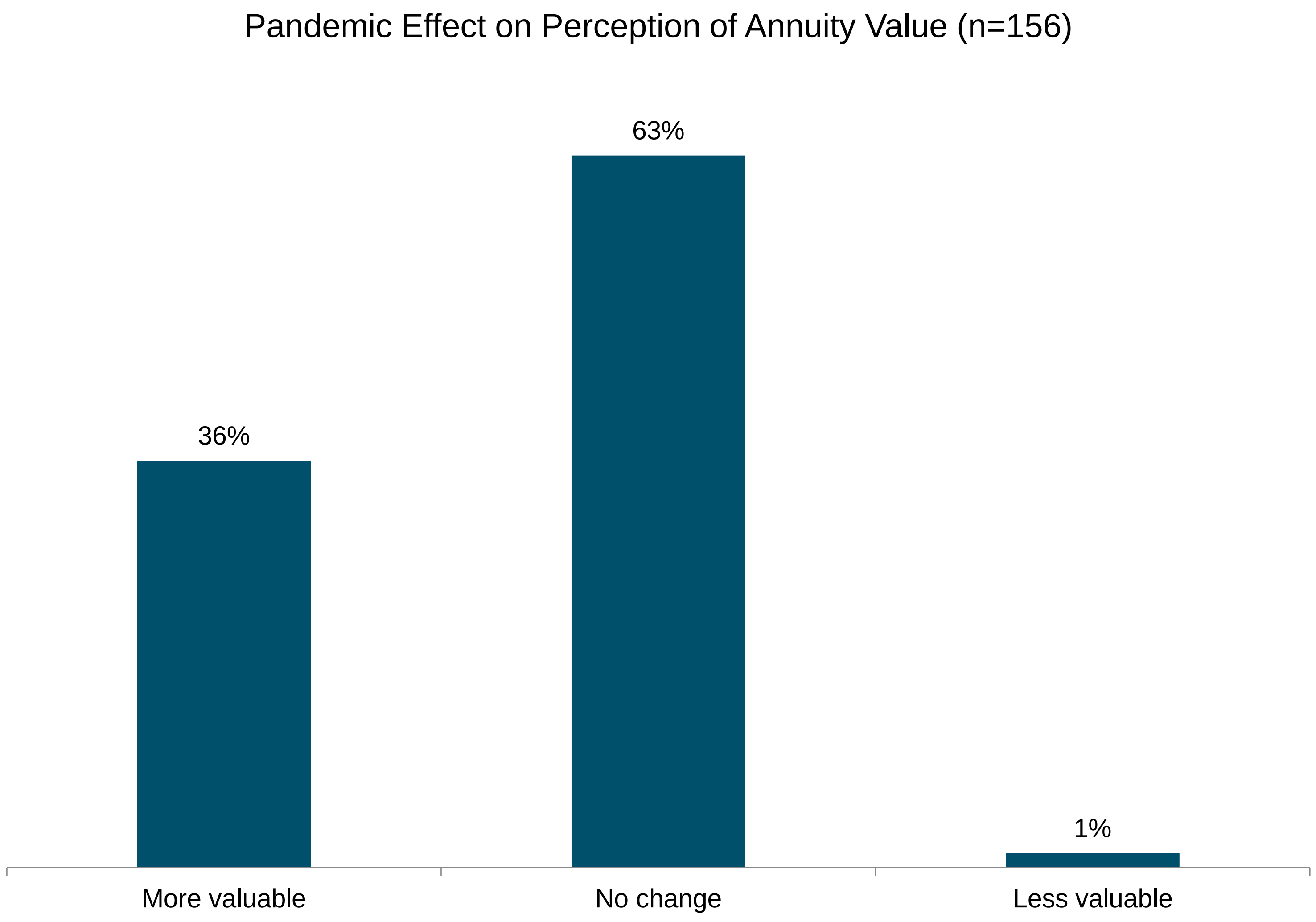
It is also important to understand how frequently advisors use various annuity and non-annuity approaches to generate retirement income for client portfolios. Systematic withdrawal plans (SWiPs) and VAs with guaranteed lifetime withdrawal benefits (GLWBs) are used very frequently by a third of advisors, with FIA with GLWB used by over a quarter. SWiPs were the least likely strategy to be seldom or never used.

Bond ladders, once a cornerstone of retirement income planning, are far less appealing in today's low interest rate environment and are used very frequently by only seven percent of advisors. Risk assets must almost always be tapped to produce sufficient income from a portfolio, highlighting the need for the protection provided by annuity guarantees.

More than third of advisors "seldom" or "never" use VA or FIA as an income strategy. This is a growth opportunity for the industry.

Q. Please rate each of the following approaches to generating retirement income from investor portfolios in terms of how frequently you use them with your clients, or if you are answering on behalf of an IMO how frequently you recommend each approach to advisors.

COVID-19 Highlighting Annuity Value

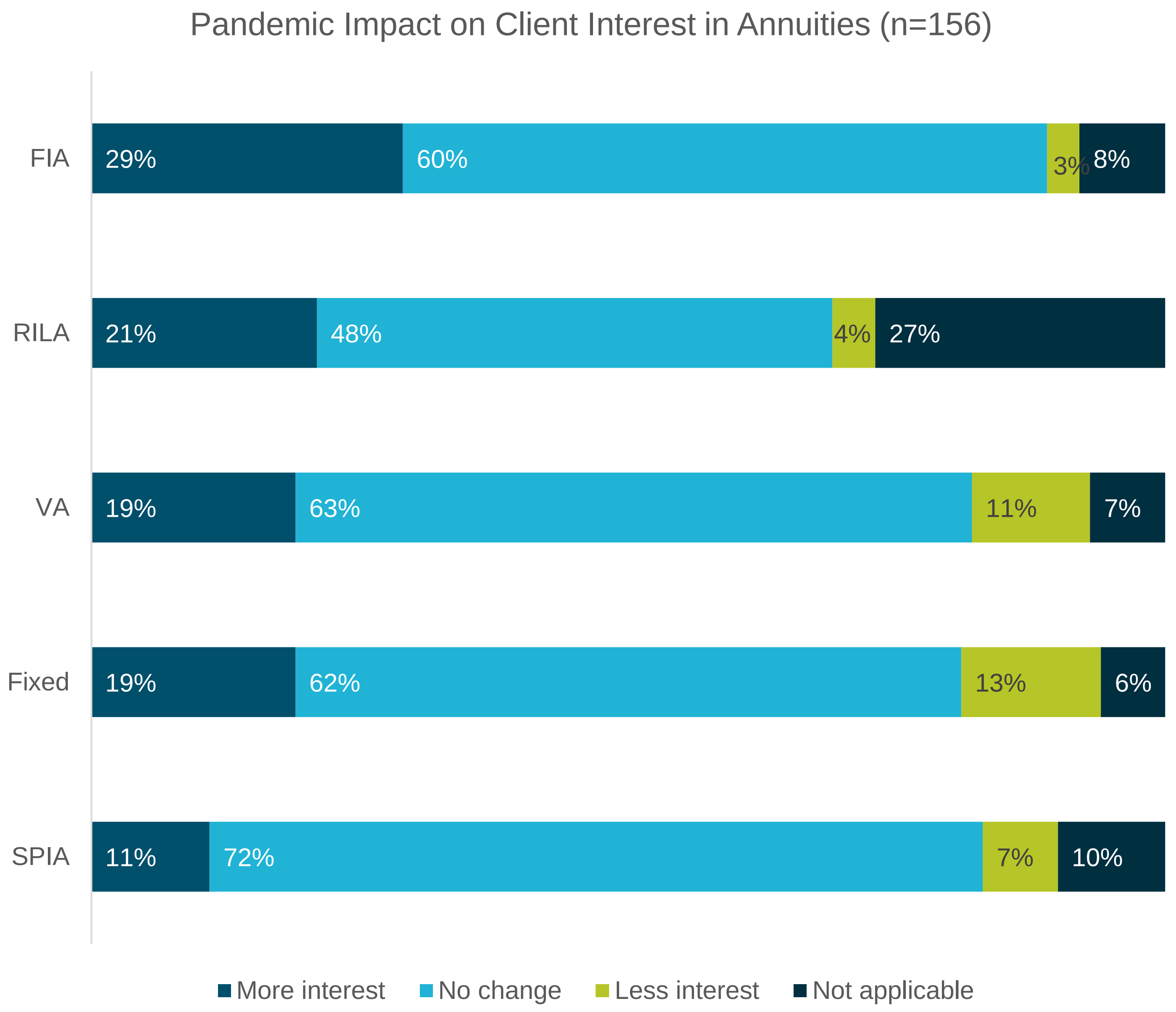


It appears that the COVID-19 crisis may have had had an impact on advisor and consumer perception and use of annuity products.

More than one-third of advisors perceive annuities in general to be more valuable as a result of COVID-19. This is likely tied to the value of guarantees and the impact of those guarantees on their clients as markets fluctuated wildly in the early months of the pandemic.

Q. What impact has COVID-19 had on your perception of the value of annuities?

COVID-19 Driving Client Interest in Annuities, Especially FIA

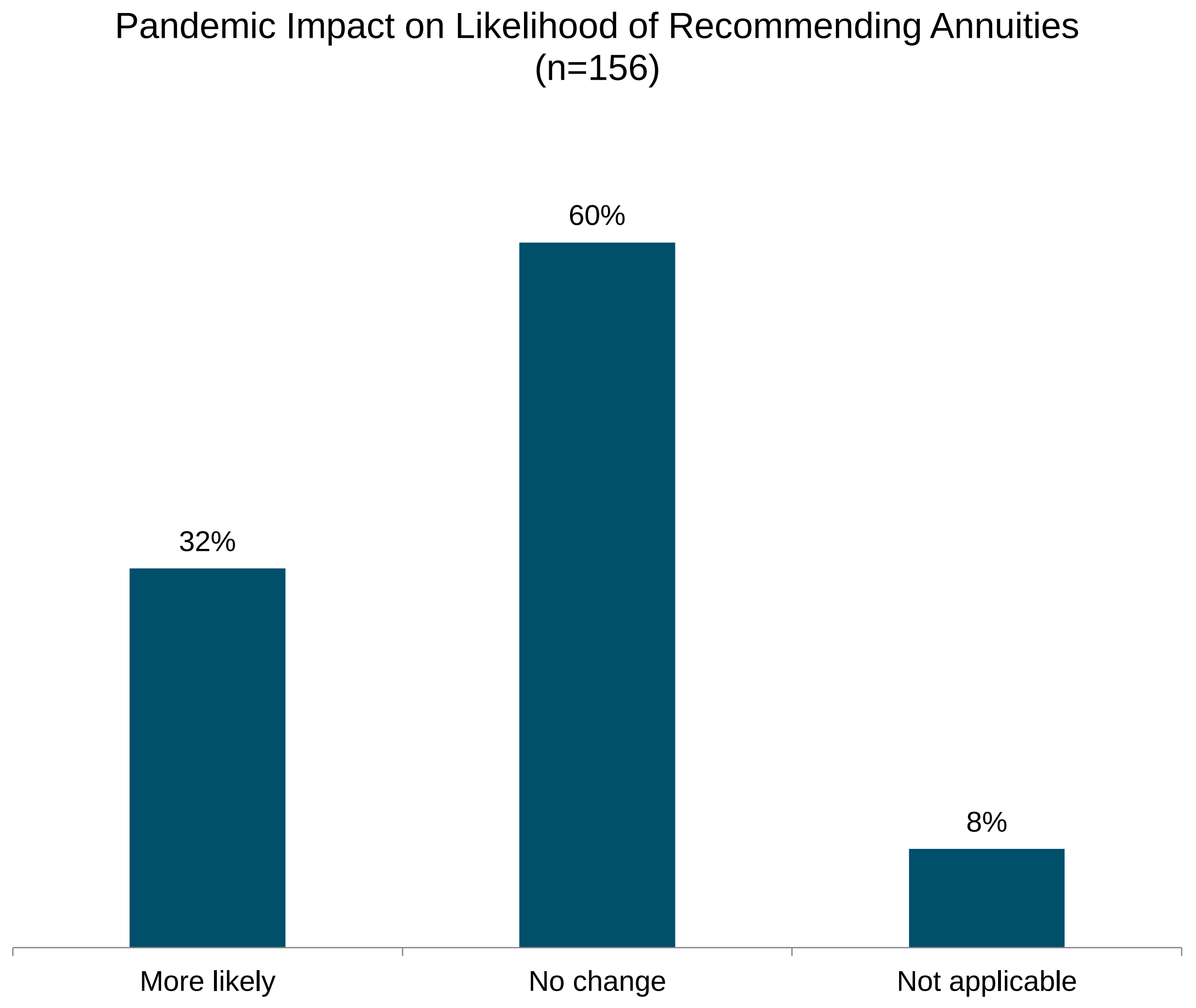


Since the onset of the pandemic, a significant number of advisors say their clients are showing more interest in annuities, with the most increased interest focused on FIAs. About the same number of advisors have seen clients show more interest in RILAs, VAs, and traditional fixed annuities, with single premium immediate annuities (SPIAs) quite a bit lower.

Few advisors observed their clients showing less interest in annuities, but an opportunity in RILAs is shown here, with 27 percent of advisors choosing “not applicable” because they are not using the product.

Q. What impact has COVID-19 had on your clients’ interest in annuities?

One in Three Advisors More Likely to Recommend Annuities Since COVID-19

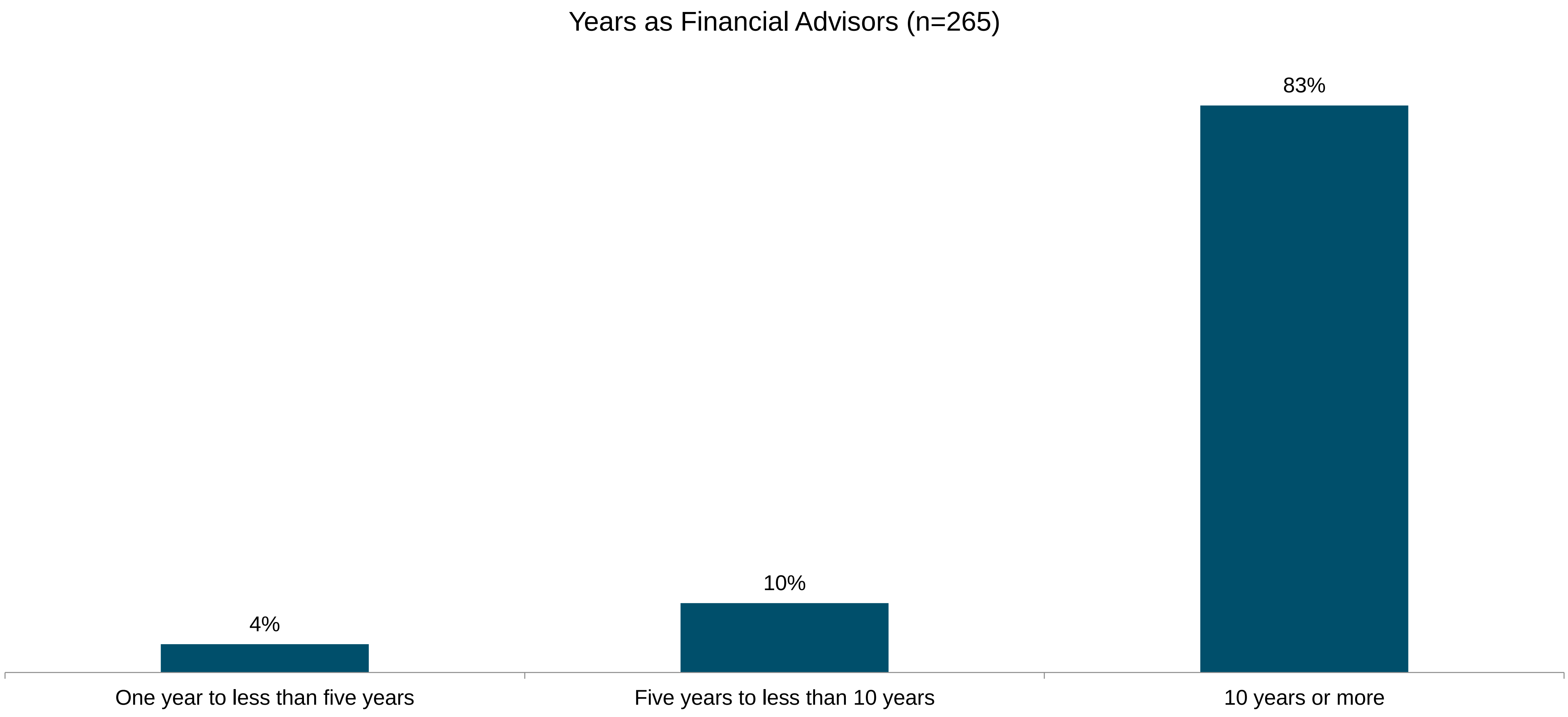


In line with their evolving perception of value, about one-third of advisors say they are more likely now than prior to the onset of the pandemic to recommend annuities to their clients.

No advisors said they were less likely to recommend annuities.

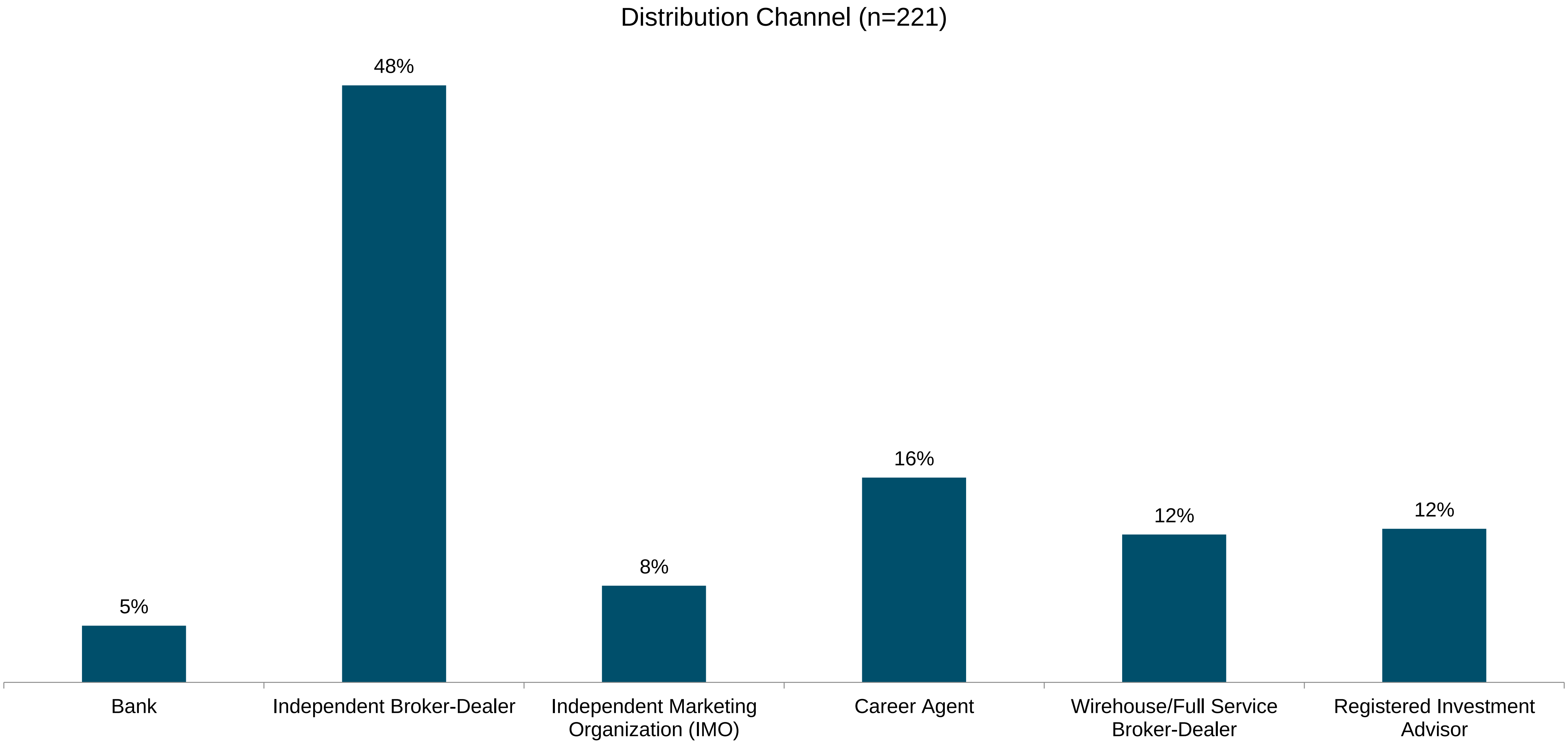
Q. Are you more likely to recommend annuities now than you were before COVID-19?

Respondents Are Experienced



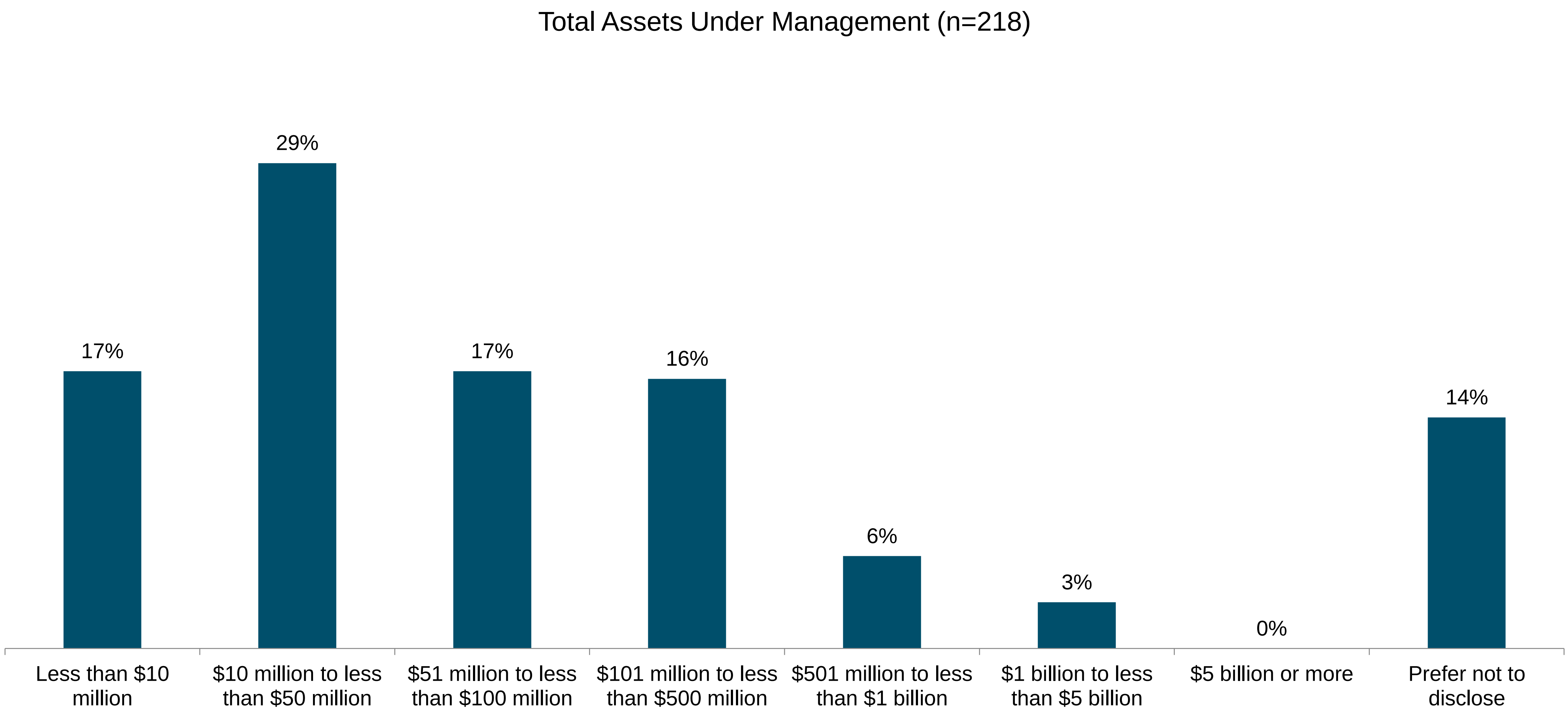
Q. How long of you been a financial professional?

Respondents Are Channel Diverse



Q. Which distribution channel do you represent?

Respondents Reflect a Range of Total AUM



Q. Select the range that best represents your total assets under management.