STATE OF THE

INSURED RETIREMENT INDUSTRY

2018 Review & 2019 Outlook

December 2018

ABOUT THE INSURED RETIREMENT INSTITUTE:

The Insured Retirement Institute (IRI) is the leading association for the retirement income industry. IRI proudly leads a national consumer coalition of more than 30 organizations and is the only association that represents the entire supply chain of insured retirement strategies. IRI members are the major insurers, asset managers, broker-dealers/distributors, and 150,000 financial professionals. As a not-for-profit organization, IRI provides an objective forum for communication and education, and advocates for the sustainable retirement solutions Americans need to help achieve a secure and dignified retirement. Learn more at www.irionline.org.

OVERVIEW

As the insured retirement income industry entered 2018, annuity sales continued their 2017 declines, led by historic lows in variable annuity sales as demand shifted toward fixed and fixed indexed products. While the Department of Labor's fiduciary rule was vacated by the Fifth Circuit Court of Appeals on March 15th, 2018, the impact of the rule, and more importantly the structural shifts that developed in its wake, will be felt for some time, and many are likely permanent.

KEY TAKEAWAYS

- Wealth and retirement saving are rising
- Demographic trends continue to favor growth of lifetime income solutions
- 2018 saw continued shifts in the leading annuity product types across distribution channels, a trend that will continue in 2019
- An improving interest rate environment will improve capacity and potentially have a positive impact on lifetime income benefit design
- Rising market volatility will create both challenges (sales disruption) and opportunities (highlighting the value of protecting financial assets and income)
- The vacatur of the DOL fiduciary rule created a regulatory vacuum that both the SEC and the states seek to fill
- Tax reform, retirement proposals, senior protection, and cyber security were active legislative areas in 2018 and bear watching in 2019
- IRI is confident the SEC will issue a VA summary prospectus rule in 2019

Annuity sales began to rebound almost immediately following the vacatur of the DOL rule, with the recovery a function of the elimination of uncertainty surrounding the rule rather than the elimination of the rule itself, as changes made to comply with the rule (such as reductions in, and leveling of, product compensation) have largely not been reversed. The coincident improvement in the interest rate environment has also been a significant factor in improving sales, as has the continuing swelling of demand for protection and guaranteed income solutions among consumers entering and nearing retirement. While the elimination of the uncertainty related to the DOL fiduciary rule was a positive for the industry, initiatives by the states to impose their own fiduciary standards pose a new challenge, due as much to the potential for a patchwork of varying regulatory regimes as to the substance of the regulations themselves. Overall, the industry continues to have a bright future as the sole provider of solutions that can help retirees, and those planning for retirement, create lifetime guaranteed income from their savings.

This report will examine these important issues, with a deeper look at the demographic, market, legislative and regulatory developments and trends that will shape and influence the insured retirement market in 2019 and beyond.

GROWING NEED
for Insured Retirement Solutions

- Americans' wealth continues to grow. Fidelity Investments reported the average 401(k) balance reached an all-time high of $106,500 in the third quarter of 2018, up 7 percent over the third quarter of 2017. The average contribution rate also ticked up, to 8.7 percent from 8.5 percent a year ago.
- Americans are also growing more dependent on their assets to generate sufficient retirement income. IRI research on Americans retired for between five and 15 years finds that 79 percent of retirees with at least $100,000 in retirement savings receive pension payments, with 64 percent citing a pension as providing at least 25 percent of their income.[1] Meanwhile, only 28 percent of Baby Boomers receive or expect a pension.[2]
- Demographic shifts are under way that have far reaching implications for the marketing of retirement income solutions. The populations of older and younger Americans, and especially older, are expected to increase in the next 10 years, while the segment of the population generally perceived to be in peak earning years, and historically the bulk of the target market for annuities, is projected to shrink.

Age Group	Population (Millions)		Percent of Population	
	2015	2025	2015	2025
25 to 44 Years	84.7	93.4 (+10%)	26%	27%
45 to 64 Years	84.0	82.2 (-2%)	26%	24%
65 and Older	47.8	65.9 (+38%)	15%	19%

- The wealth of younger Americans is growing; UBS reported in 2017 that Millennials wealth could reach $24 trillion by the year 2020, fueled by inheritance, entrepreneurial activity, and income gains.
- In the 2nd quarter of 2018, U.S. household financial assets were $87.8 trillion[3], with estimates of the amount of that wealth controlled by Baby Boomers ranging as high as 80 percent.
- Despite increasing wealth, most Americans have only modest savings relative to their retirement income needs (see table below).[4]

Age	Median Net Worth
Under 35	$6,900
35 – 44	$45,740
45 – 54	$100,404
55 – 64	$164,498
65 – 69	$193,833
70 – 74	$225,390
65+	$202,950
75+	$197,758

- Consumers embrace guaranteed retirement income solutions as a concept, and annuity owners are satisfied with the products.
  - Depending on age, 88 percent to 95 percent of consumers are very or somewhat interested in guaranteed lifetime income as a feature of annuities.[5]
  - Three in four consumers ages 35 – 44 say they would be very interested in a financial product providing a greater amount of guaranteed lifetime income than a non-guaranteed alternative, even if they were unable to access the principal investment.[6]
  - Eight in 10 retirees receiving income from an annuity are very or somewhat satisfied with their annuity investment.[7]

ECONOMIC, FINANCIAL MARKET AND REGULATORY ENVIRONMENTS

- As of this writing, the 10-Year Constant Maturity Treasury Rate is up 60 basis points from the start of the year, rising to 3.06 percent on November 19th from 2.46 percent on January 2nd. While still below historic norms, a sustained period of interest rates above 3 percent should improve product crediting and guaranteed withdrawal rates, lower hedging costs, and increase capacity.
- Market volatility spiked heading into the end of 2018, wiping out equity gains for the year. Increased volatility is somewhat of a double-edged sword: while often having a dampening effect on annuity sales, and on variable annuity sales in particular, it is also an opportunity to highlight the income and principal protection features available in variable and fixed indexed annuities with lifetime income benefits, fixed indexed annuities purchased for growth and principal protection, and "structured" or "buffered" annuities, which protect up to or beyond a stated level of market loss.
- While, as noted above, the DOL fiduciary rule no longer exists, its vacatur arguable left a perceived regulatory void that several states are attempting to fill, giving rise to the potential for the existence of multiple fiduciary regulations instead of one. The complexities of this issue are discussed in more detail in the Public Policy section of this report.

SIGNIFICANT TRENDS IN 2018

- New highs in fixed indexed sales, with a record year expected
- Steadily rising long-term interest rates, exceeding 3% as of this writing
- Downward trend in, and leveling of, product compensation in the wake of the DOL fiduciary rule fueling both a modest rise in fee-based annuity sales and the acceleration of efforts to improve transaction efficiency.
- Variable product innovation, most notably fee-based VA product and market development, innovative income options such as CPI-U adjusted annuity payments, and fixed indexed VA products (i.e. filed as VA but with index-based crediting and 100% principal protection).
- Consumer education efforts, such as through through the Alliance for Lifetime Income

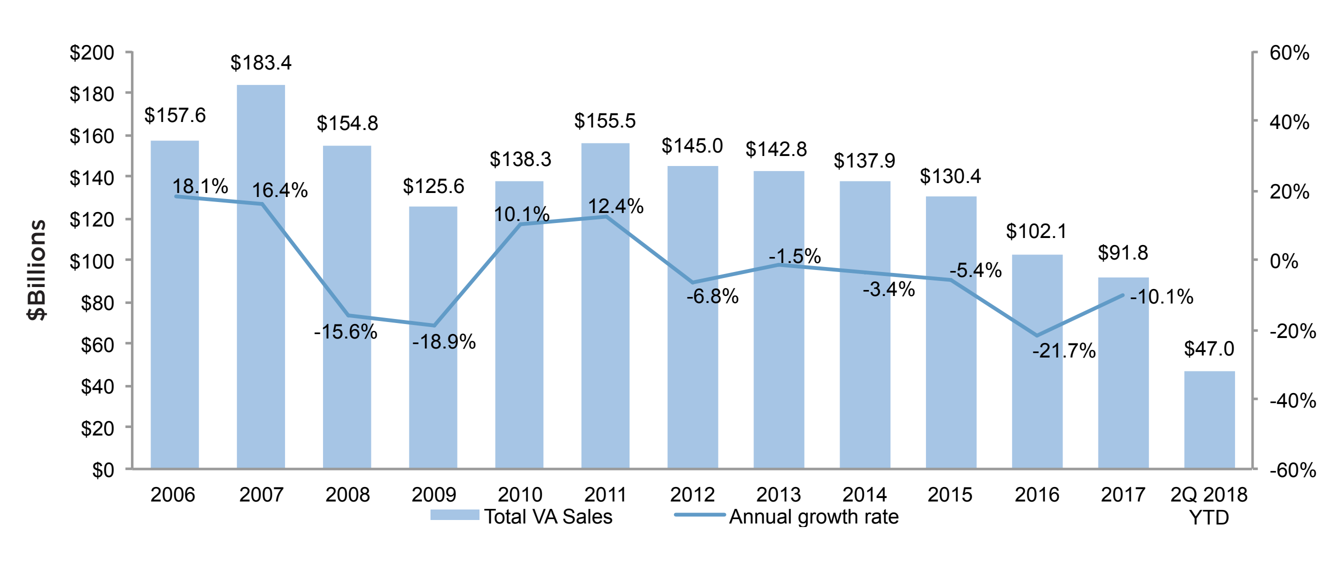
LOOKING FORWARD TO 2019

- Annuity sales continue trending upward, led by fixed indexed. Expect 5% - 10% growth over projected 2018 full-year sales of $215 - $220 billion.
- Modest but steady growth in fee-based variable annuities as efforts to educate advisors and improve transaction processing dovetail with rising consumer demand for income, accumulation and market protection solutions to "grow the pie rather than the slice."
- Market volatility, if continuing at recent levels in 2019, may negatively impact VA sales, but will also create opportunity to highlight the importance of retirement savings "guard rails" via guaranteed lifetime income benefits and principal protection products and features.
- Continued pension risk transfer, closing of pensions to new participants, and cash buyouts

The RETIREMENT INCOME MARKET

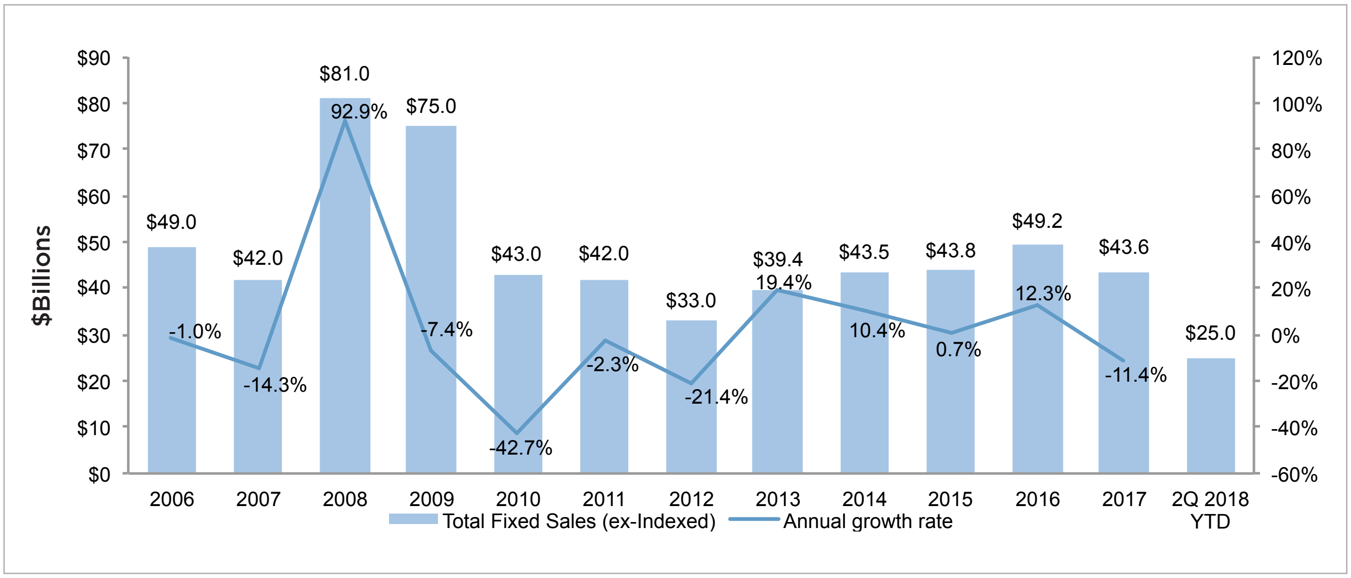
Variable annuity sales are recovering this year after a dismal 2017. Variable annuities bore the brunt of the impact from the DOL fiduciary rule, due as much to the disruption and uncertainty introduced by the rule as to the substance of the rule itself. With the rule vacated, product development and distribution energies can now focus on aligning solutions with consumer needs rather than re-tooling to comply with the new regulations. It is also important to note that product exchanges (1035 exchanges or exchanges inside IRA accounts) have been trending lower for several years, and the DOL fiduciary rule may have had an even greater impact on exchanges than on new sales due to uncertainty around how exchanges would be treated under the rule. Additionally, some portion of “exchanges out” that may have, in the past, been exchanges into other VA products have in recent years become exchanges into fixed indexed products. While comprehensive, accurate data on industry-wide product exchanges has never been consistently developed and trended over time, anecdotally exchanges represented 60 percent, or more, of total sales in any given quarter in the 2000s. If, for example, exchanges were 60 percent of total sales in 2007 but only 15 percent of total sales in 2017, from a “new investment in annuities” perspective the two years would be roughly equal at about $65 billion in new dollars invested in variable annuities. This is hypothetical, of course, but there is little doubt that exchanges represent a much lower percentage of variable annuity sales than in years past, and it is important to keep this disparity in mind when analyzing sales trends.

Variable Annuity Sales and Growth



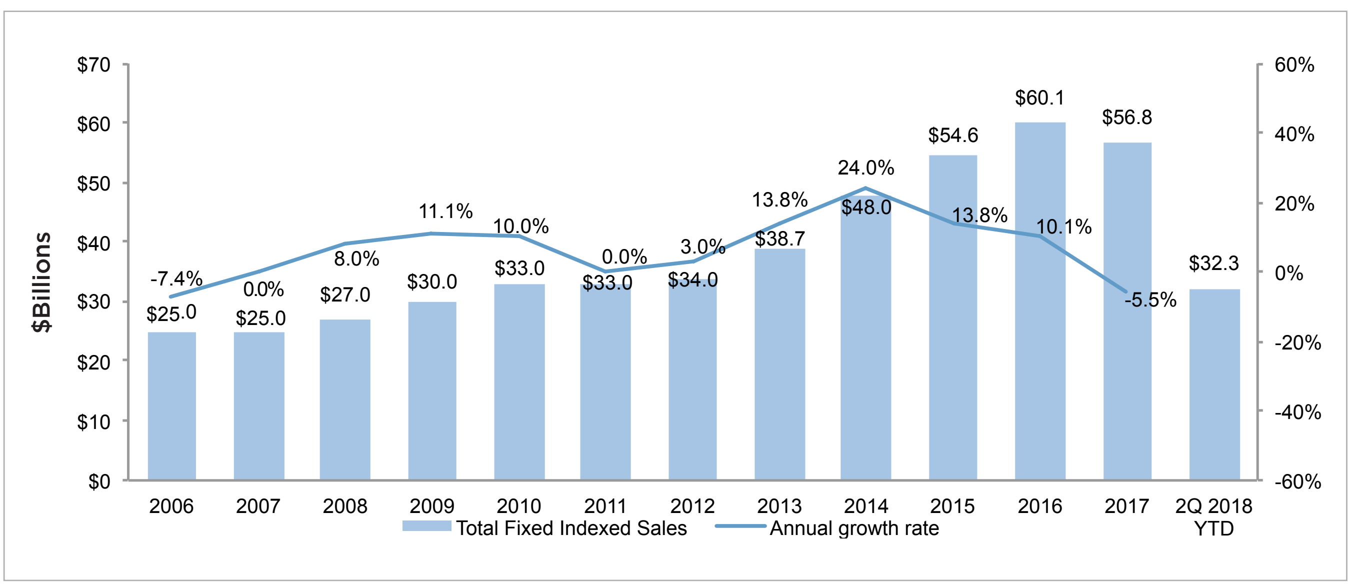
Fixed (non-indexed) annuities enjoyed significant growth in sales throughout 2018 as well, with significant jumps in quarter-over-prior-year-quarter in both MVA and non-MVA products in the first and second quarters, and expectations for double digit percentage gains in both categories for the year.

Fixed (ex-Indexed) Annuity Sales & Growth



Unsurprisingly, fixed indexed product sales growth accelerated in 2018, and a record sales year is expected. Amidst an aging bull market showing signs of rising volatility (i.e. risk) and a rising interest rate environment (anathema to a bond portfolio), the fixed-indexed annuity provides a way to lock in a decade of gains, secure guaranteed lifetime retirement income (through optional lifetime income benefits) and protect against loss in retirement and pre-retirement life stages. And with transacting minimally disrupted by the DOL fiduciary, fixed-indexed products have taken center stage and should see further outsize growth in 2019.

Fixed Indexed Annuity Sales & Growth



DISTRIBUTION CHANNEL DISRUPTION AND EVOLUTION

The table below shows distribution channel trends over the past five years, focusing on the top 10 products sold in each channel in the second quarter of 2018, versus the second quarter of 2013. Certainly, it should be expected to find fixed indexed annuities displacing variable annuities as the top selling products over this timeframe, as sales of the former have risen significantly while the latter have trended downward. However, this shift has not been uniformly distributed across channels. In the bank channel, for example, where five years ago variable annuities dominated annuity sales, in 2018 the top 6 products are traditional, non-MVA fixed annuities. Regional broker-dealers show a similar shift, now primarily favoring fixed products over VA, which led the pack in 2013. The independent channel is strongly led by fixed indexed annuities today, versus almost 80 percent of top 10 products being VA in 2013. The wirehouse and captive channels, by comparison, are channels where VA continues to show a strong presence among top 10 products, with market share losses mostly (or in the case of the wirehouses almost entirely) going to fixed indexed.

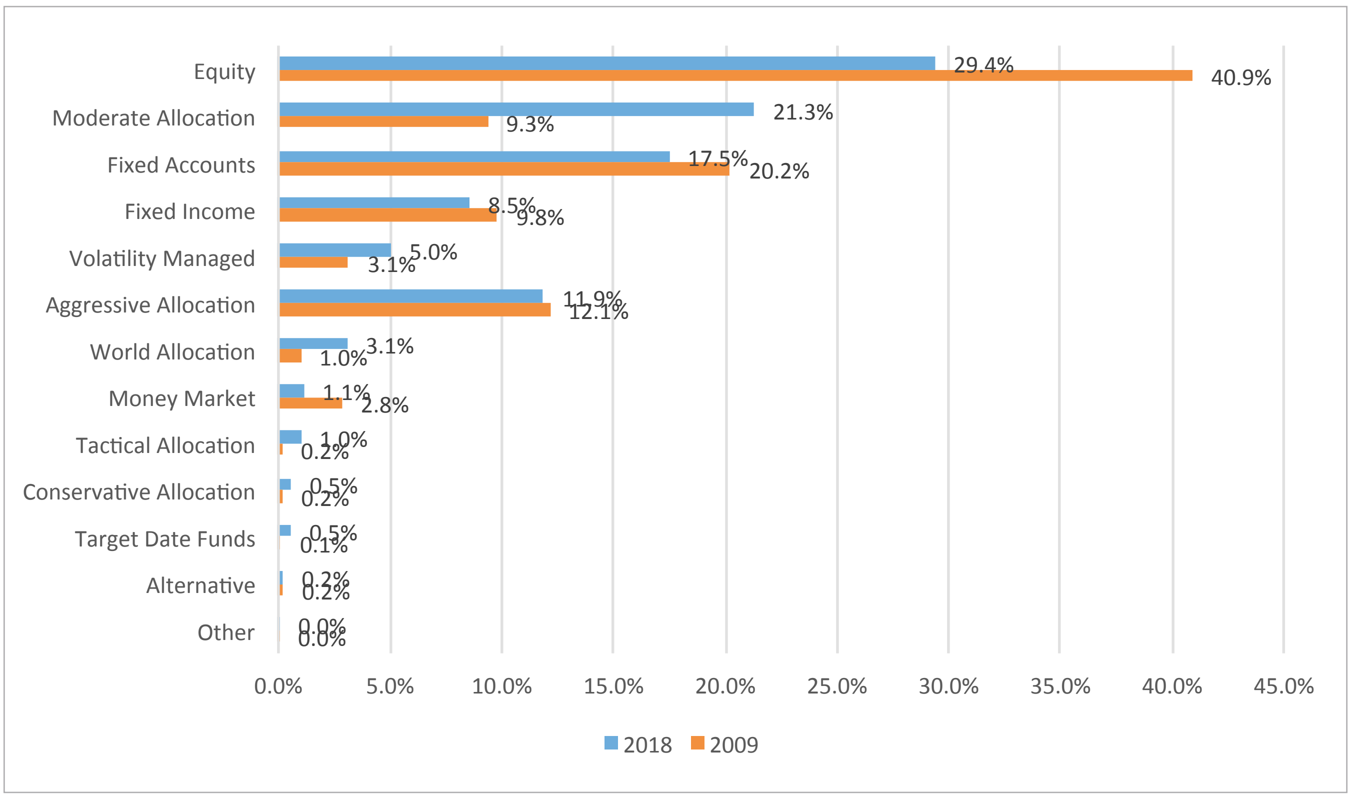
Distribution Channel Evolution – Q218 YTD versus Q213 YTD

	Bank		Captive		Independent		Regional		Wirehouse	
	Q218 YTD	Q213 YTD	Q218 YTD	Q213 YTD	Q218 YTD	Q213 YTD	Q218 YTD	Q213 YTD	Q218 YTD	Q213 YTD
VA Sales as a percentage of Top 10	7.0%	85.9%	61.7%	94.4%	33.8%	78.5%	8.8%	76.8%	72.3%	100.0%
Fixed Sales as a percentage of Top 10	85.4%	6.8%	12.9%	5.6%	0.0%	13.1%	78.7%	23.2%	0.0%	0.0%
Fixed Indexed Sales as a percentage of Top 10	7.6%	7.2%	17.1%	0.0%	66.2%	0.0%	2.2%	0.0%	27.7%	0.0%
SPIA Sales as a percentage of Top 10	0.0%	0.0%	8.3%	0.0%	0.0%	8.4%	10.3%	0.0%	0.0%	0.0%
First	Fixed (Non-MVA)	GLWB VA	GLWB VA	GLWB VA	Fixed Indexed	GLWB VA	Fixed (MVA)	GLWB VA	GLWB VA	GLWB VA
Second	Fixed (Non-MVA)	GLWB VA	Fixed (Non-MVA)	GLWB VA	GLWB VA	GLWB VA	Fixed (MVA)	GLWB VA	Fixed Indexed	GLWB VA
Third	Fixed (Non-MVA)	GLWB VA	GLWB VA	GLWB VA	Fixed Indexed	GLWB VA	Fixed (MVA)	Fixed (Non-MVA)	GLWB VA	GLWB VA
Fourth	Fixed (Non-MVA)	GLWB VA	Fixed Income (SPIA)	GLWB VA	Fixed Indexed	GLWB VA	Fixed (MVA)	Fixed (Non-MVA)	GLWB VA	GLWB VA
Fifth	Fixed (Non-MVA)	GLWB VA	GLWB VA	GLWB VA	Fixed Indexed	IOVA	Fixed Income (SPIA)	GLWB VA	GLWB VA	GLWB VA
Sixth	Fixed (Non-MVA)	IOVA	Fixed Indexed	GLWB VA	Fixed Indexed	Fixed Income (SPIA)	GLWB VA	GLWB VA	Fixed Indexed	GLWB VA
Seventh	Fixed Indexed	GLWB VA	Fixed Indexed	Fixed (Non-MVA)	GLWB VA	Fixed (MVA)	GLWB VA	GLWB VA	GLWB VA	GLWB VA
Eighth	GLWB VA	Fixed Indexed	Fixed Indexed	GLWB VA	GLWB VA	GLWB VA	Fixed Income (SPIA)	GLWB VA	Fixed Indexed	GLWB VA
Ninth	Fixed (Non-MVA)	GLWB VA	GLWB VA	GLWB VA	Fixed Indexed	Fixed (Non-MVA)	GLWB VA	GLWB VA	GLWB VA	GLWB VA
Tenth	Fixed (MVA)	Fixed (Non-MVA)	GLWB VA	GLWB VA	Fixed Indexed	GLWB VA	Fixed Indexed	GLWB VA	IOVA	GLWB VA
Top 10 as a Percent of Total Channel Sales	34%	37%	24%	49%	23%	33%	56%	53%	28%	50%

VARIABLE ANNUITY ASSETS UNDER MANAGEMENT (AUM)

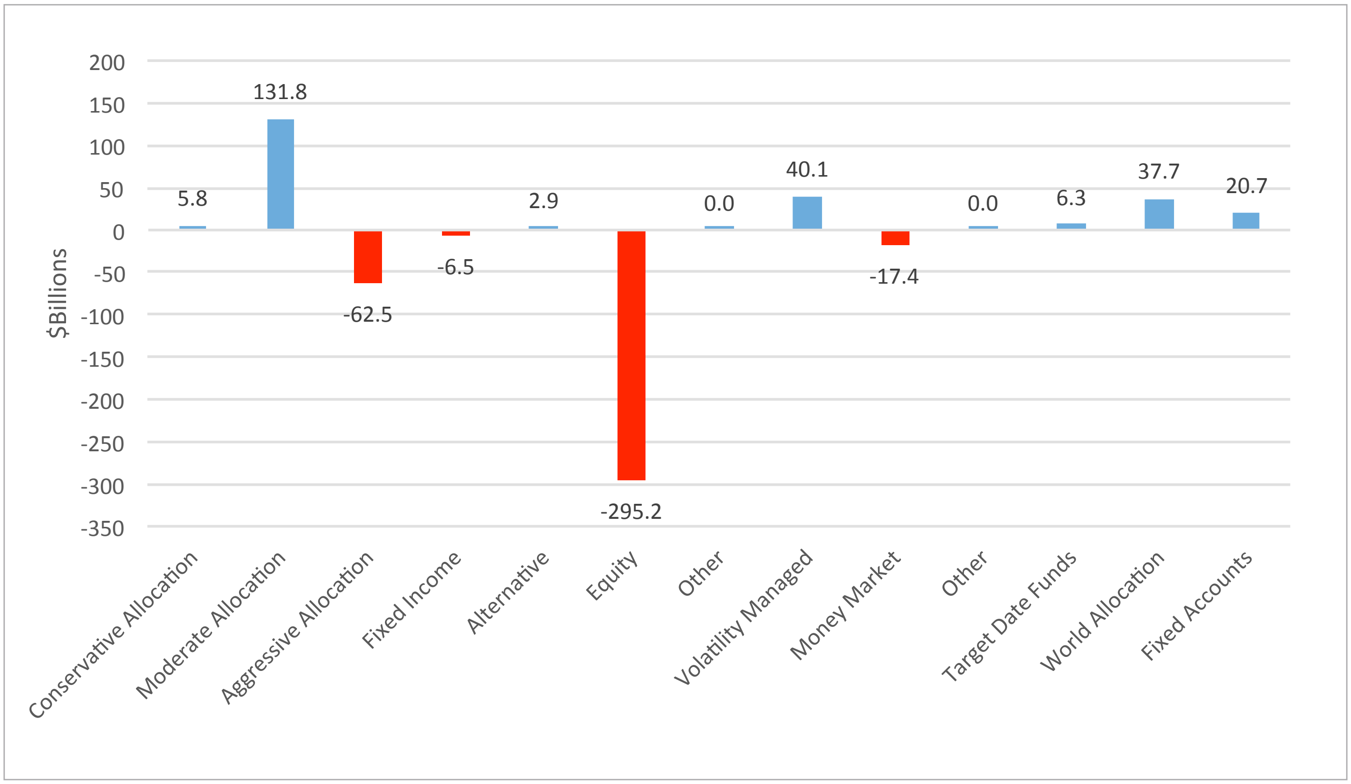
Variable annuity assets have undergone quite a migration in the last 10 years, with assets in allocation funds more than doubling as a percentage of total AUM. Equity funds, meanwhile, have lost more than 10 percent market share over the same time period. This is primarily a function of the asset allocation requirements dictated by guaranteed lifetime income benefits, most of which require investment in moderate allocation portfolios. Volatility managed funds, which are typically allocation funds in terms of holdings, are pulled out as a separate category in the charts below to highlight their growth. While mandatory investment in volatility managed funds is frequently cited as an example of insurance company efforts to further "de-risk" their living benefits, it's worth noting that they account for a relatively small percentage of VA AUM, and that percentage has not grown tremendously in the past decade.

Percentage of AUM by Investment Category
6/30/2018 versus 6/30/2009



The next chart shows net asset flow (the amount of cash moving in and out of each category, net of investment gains or losses) over the same 10-year period. As one would expect, moderate allocation funds show the largest net inflows, while equity funds show the greatest outflows. Volatility managed funds are second only to moderate allocation in inflows, but they represent less than one-third the amount that has flowed into the moderate allocation (ex-volatility managed funds) category in the past 10 years.

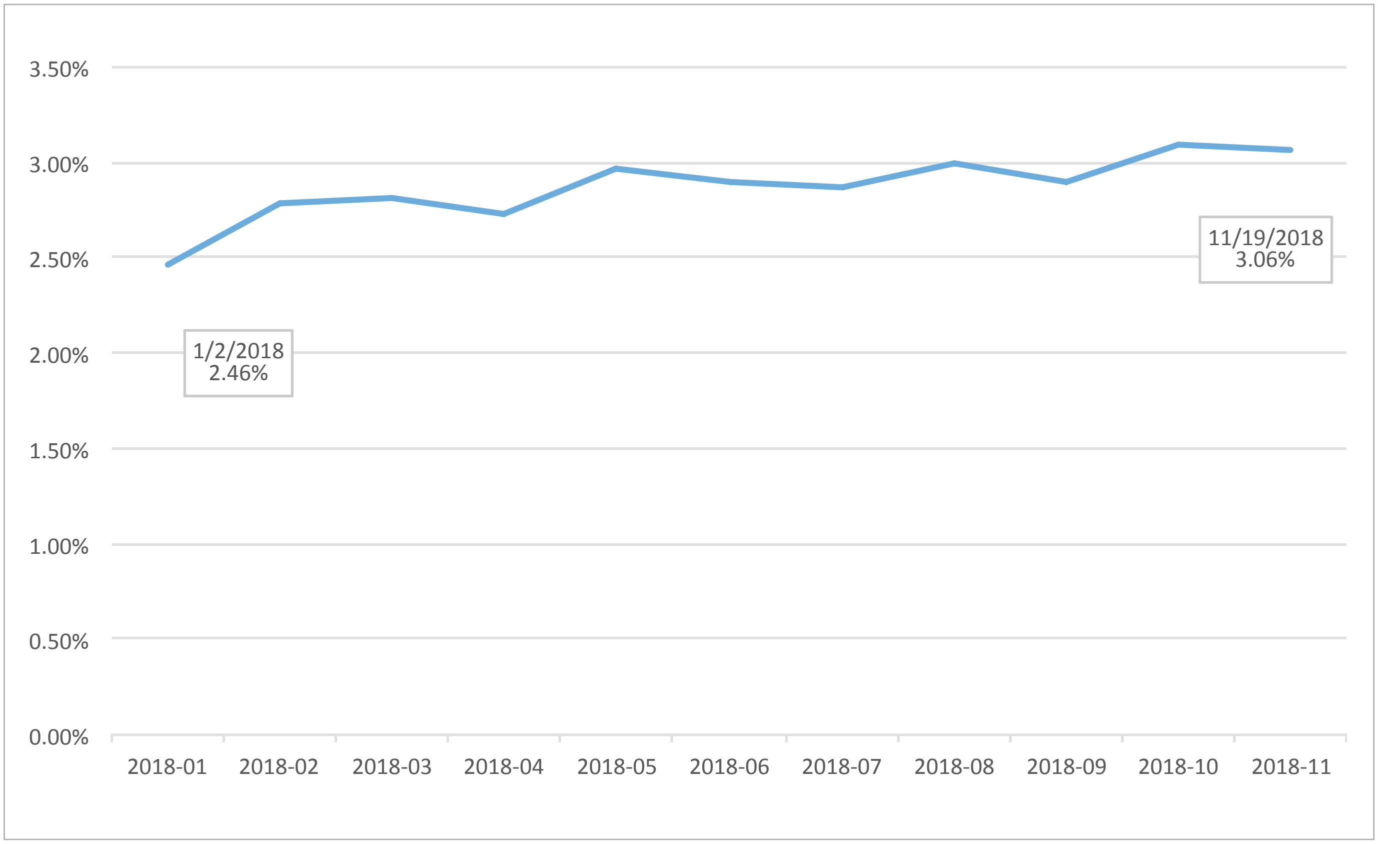
Aggregate Net VA Asset Flow by Investment Category
6/30/2009 to 6/30/2018



INTEREST RATES

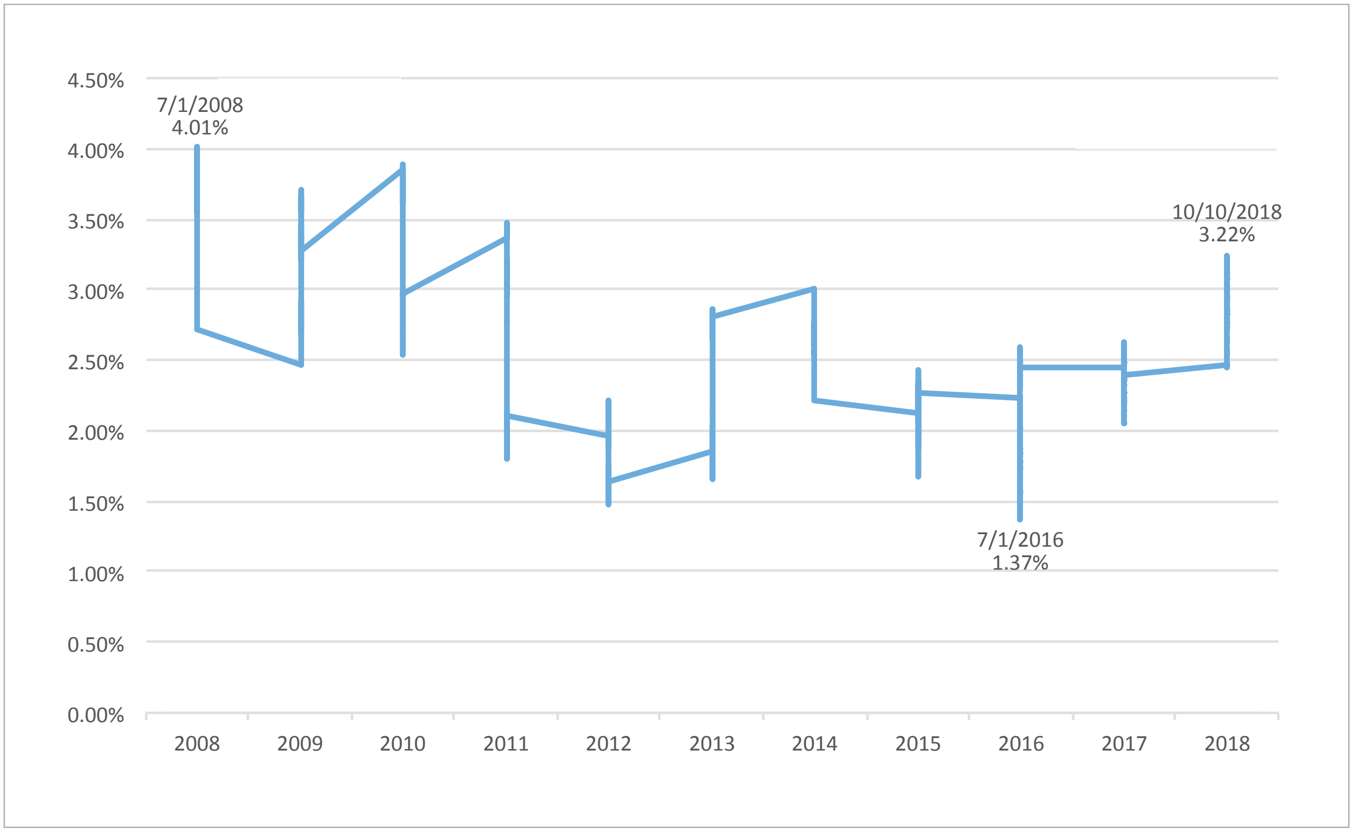
Long-term interest rates, with a few dips, rose steadily throughout 2018 and are just over 3% as of this writing. Interest rates above 3% are an important level for the insurance industry, helping to improve capacity, crediting rates, annuity payout rates, guaranteed lifetime withdrawal rates, and hedging costs.

10-Year Treasury Constant Maturity Rate in 2018



Rates hit a 10-year low of 1.37% in July of 2016 and meandered in the 2% to 2.5% ranges until this year. Sustained long-term rates above 3% will continue to improve the outlook for annuity sales in 2019 and beyond.

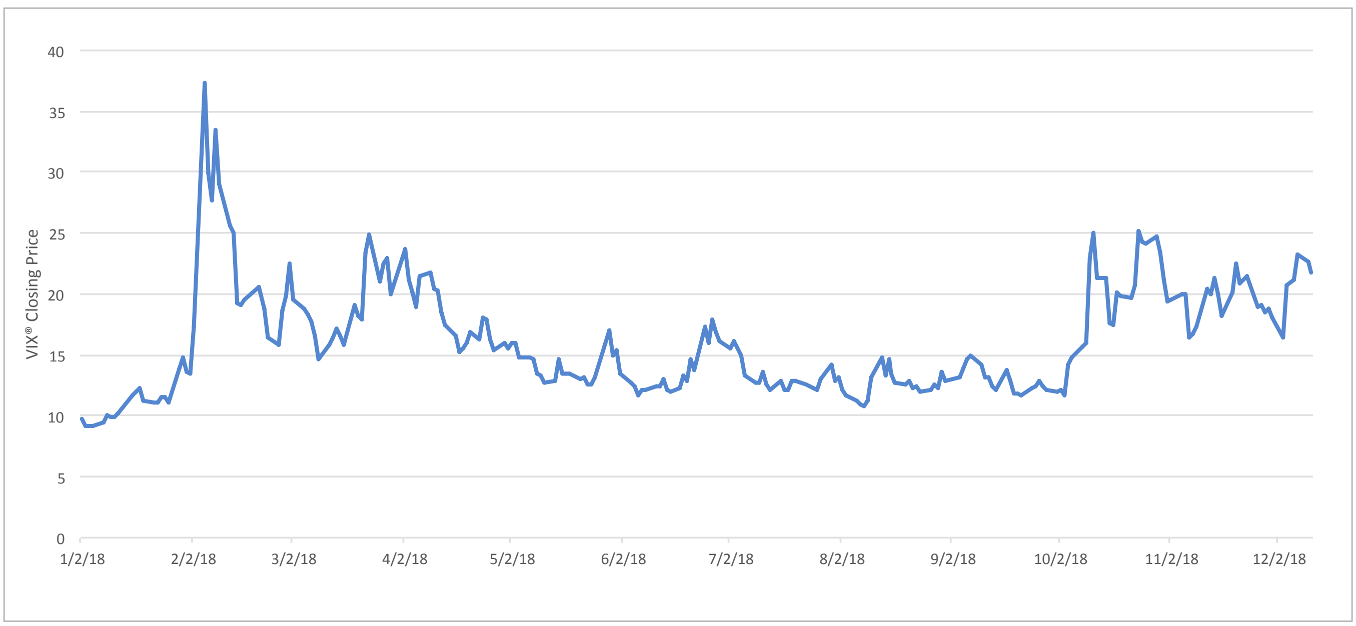
10-Year Treasury Constant Maturity Rate: 2008 to 2018



MANAGING RISK AND CAPACITY

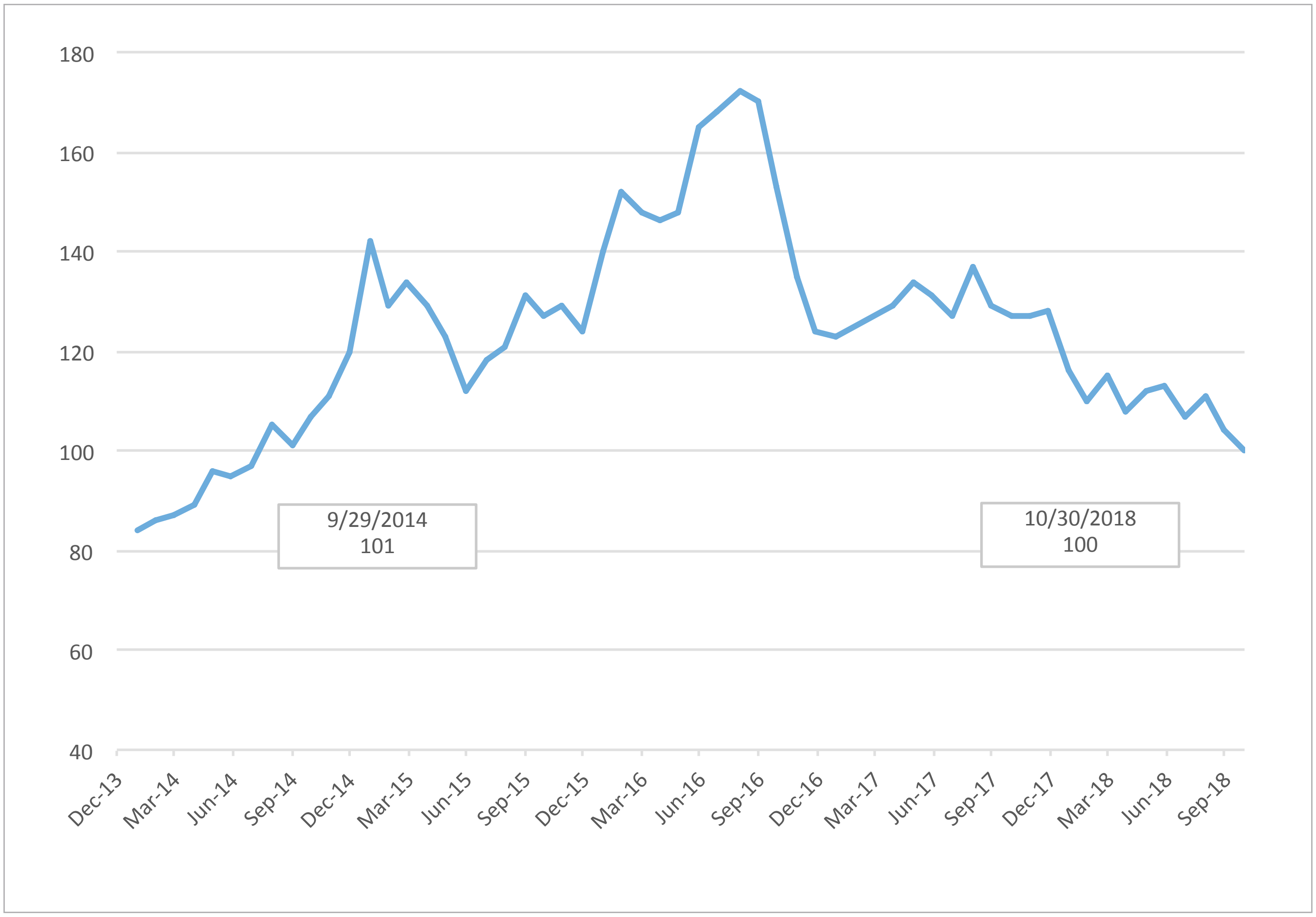
As noted above, higher interest rates should ease pressure on reserves and allow insurers to increase crediting rates, capacity, and potentially the value of benefits (e.g. increasing guarantee lifetime withdrawal rates). However, there are nearly $2 trillion in assets under management in variable annuities, some $800 million to $1 billion of which are paired with the liability of lifetime income guarantees. As market volatility increases, financial markets hedging costs tend to increase, while rising long-term interest rates (and specifically swap interest rates) have the opposite effect. Today, after 10 years of well above historic trend returns in domestic equities, volatility is on the rise. While certainly not the only period of increased volatility over the last ten years, volatility has increase significantly in the second half of 2018. A chart of the Chicago Board Options Exchange (CBOE) Volatility Index (VIX®) over the past year shows heightened volatility at the start of 2018, relatively calms seas from March through October, and volatility spiking and become quite erratic as we approach the end of this year.

2018 Chicago Board Options Exchange Volatility Index (CBOE VIX®)



The Milliman Hedge Cost Index™ (MHCI) provides the estimated hedging cost for a hypothetical Lifetime Guaranteed Withdrawal Benefit block of business. As of October 30, 2018, the expected hedge cost for a hypothetical guaranteed lifetime withdrawal benefit was 100 basis points, reaching the lowest point since September, 2014 after steadily dropping throughout the year. Rising interest rates, then, are driving down hedge costs more than increased volatility is pushing them up; bear in mind, however, that the most recent Milliman hedge cost calculation pre-dates the recent spike in the VIX. A complete description of the Milliman methodology can be found at http://www.milliman.com/mhci-methodology/.

Expected Hedge Cost for a Hypothetical GLWB



Source: Milliman Hedge Cost Index™

FINANCIAL RESILIENCE AND COMPANY STRENGTH

From a product sales perspective, 2017 and 2018 have been challenging years. Total annuity sales in 2017 sank to $192.2 billion, down over 9 percent from 2016 and to a level not seen since the 1990s. Total annuity sales in 2018 will likely end up in the $215 billion range, above 2016 sales but below historic high-water marks.

POSITIVE DEVELOPMENTS AND OUTLOOKS

- Rising interest rates and robust returns in risk assets. As noted earlier, interest rates are higher than they have been at any point in the last five years, and from October 2008 to October 2018, the annualized total return of the S&P 500 (with dividends reinvested) was 13.875%.
- Vacatur of the DOL fiduciary rule
- Elimination of Systemically Important Financial Institution (SIFI) status, removing a complicated and costly additional layer of oversight from the industry (in October Prudential Financial Inc. become the last non-bank to shed the SIFI designation).
- Moves toward selling off "legacy" blocks of business; Moody's estimates insurers hold over $400 billion in annuity, life, and long-term care liabilities that are publicly designated as "runoff."
- Average annuity compensation levels trending downward, driven by the rise in the number of fee-based products and leveling of compensation. A positive for the industry in that it weakens the "too costly" argument frequently leveled against annuities.
- Improvements in transaction processing. From e-signature to electronic transaction processing, more automation and elimination of redundancy means less time to transact and reduced probability of "Not In Good Order" (NIGO) application rejections. Measurable improvements in transaction efficiency can help maintain or improve profitability levels in a lower compensation environment.
- Industry collaboration toward developing positive consumer perception of annuities through the Alliance for Lifetime Income's "Retire Your Risk" campaign.

HEADWINDS

- Potential for an economic slowdown and pauses or reductions in interest rates. A trade war, geopolitical instability, and an aging economic expansion are risk factors that could result in an economic slowdown and anticipatory or reactive central bank moves in 2019.
- Regulatory body movements toward creating state-level fiduciary standards. Complying with differing standards across several states has the potential to increase transaction complexity and cost.
- Potential for a significant equity market correction. The 13.875% annualized total return enjoyed by the S&P in that last decade is unlikely to materialize over the next 10 years, but the timing and severity of any correction is of course unknown.
- Distributor, advisor, and consumer perception of, and reaction to, moves to reduce the risk of lifetime income guarantee liabilities. Ohio National's buyout offer, and subsequent suspension of trail commissions, were the most notable examples of de-risking actions driving negative media coverage in 2018. Such moves may look good from an accounting and actuarial perspective, but they risk creating perception of an industry reluctant to stand behind its products. Buyout offers, when deemed necessary, should be clearly communicated as optional and whenever practicable should be delivered through financial advisors.

ADVISORS ARE THE KEY

Automated investment advice (robo-advice) continues to develop and expand in terms of capabilities. However, such solutions remain primarily automated asset allocation tools with limited, or no, ability to help consumers make decisions about, and manage, products designed to help them generate sustainable income from their investable assets.

The financial advisor is currently, and for the foreseeable future will be, the gateway through which consumers will find annuities. As reported last year, in late 2017 IRI conducted focus groups with top producing financial advisors to learn how they view themselves, their practices, and their responsibilities to their clients. Some of the learnings from those groups bear repeating and reinforcing this year:

- Advisors who successfully use annuities tend to perform complete financial reviews, identifying both financial goals and financial habits.
- Successful advisors do not shy away from characterizing annuities as insurance. They compare annuities to other solutions, such as managed accounts, and explain to the client that the annuity costs more because it insures against a negative outcome, such as market loss or loss of income.
- Advisors perceive that robo platforms are good for small portfolios, beginning investors, and the very few true do-it-yourselfers, but ultimately consumers want advice from someone they trust.
- Advisors believe do-it-yourself does not work for most people due to paralysis of choice – there are simply too many options.
- Advisors continue to make significant investments in technology in order to maintain or increase efficiency. The DOL fiduciary rule may be gone, but savvy advisors expect to face continued, and perhaps worsening, downward pressure on profit margins.
- Advisors are increasingly helping their clients manage all their retirement income sources, risks and insurance needs – Social Security, Medicare, Health Savings Accounts and health care in general, and long-term care – either within their own practices by hiring specialists, or through strategic partnerships.
- Managing family dynamics is often a large part of the value advisors deliver. Whether helping clients see the impact of overspending or showing them how their retirement will be affected if they continue to support adult children, financial advisors can help consumers avert a slow-motion disaster before it occurs – another function a robo-advisor simply cannot perform.

As mentioned earlier, from a demographic perspective the insured retirement income industry is in a growth environment, and there are many advisors dedicated to using annuities to help their clients reach goals and mitigate risk. The more that can be done to smooth the path for them, the more the industry can grow, and the more advisors that will embrace annuities in their practices. The financial advisors who participated in the focus groups are members of the IRI Advisor Council, a diverse group of 30+ accomplished financial professionals who help inform and guide IRI's research and outreach efforts. Annually during National Retirement Planning Week, these individuals gather in Washington, D.C. and conduct a Financial Fitness Fair for Senate and Congressional staff, helping to promote a deeper understanding of the importance and complexity of retirement planning, and the critical role financial advisors play. Ten Advisor Council members provided financial counseling to more than 125 staffers during the April 2018 event, a 39 percent increase over the 2017 event.

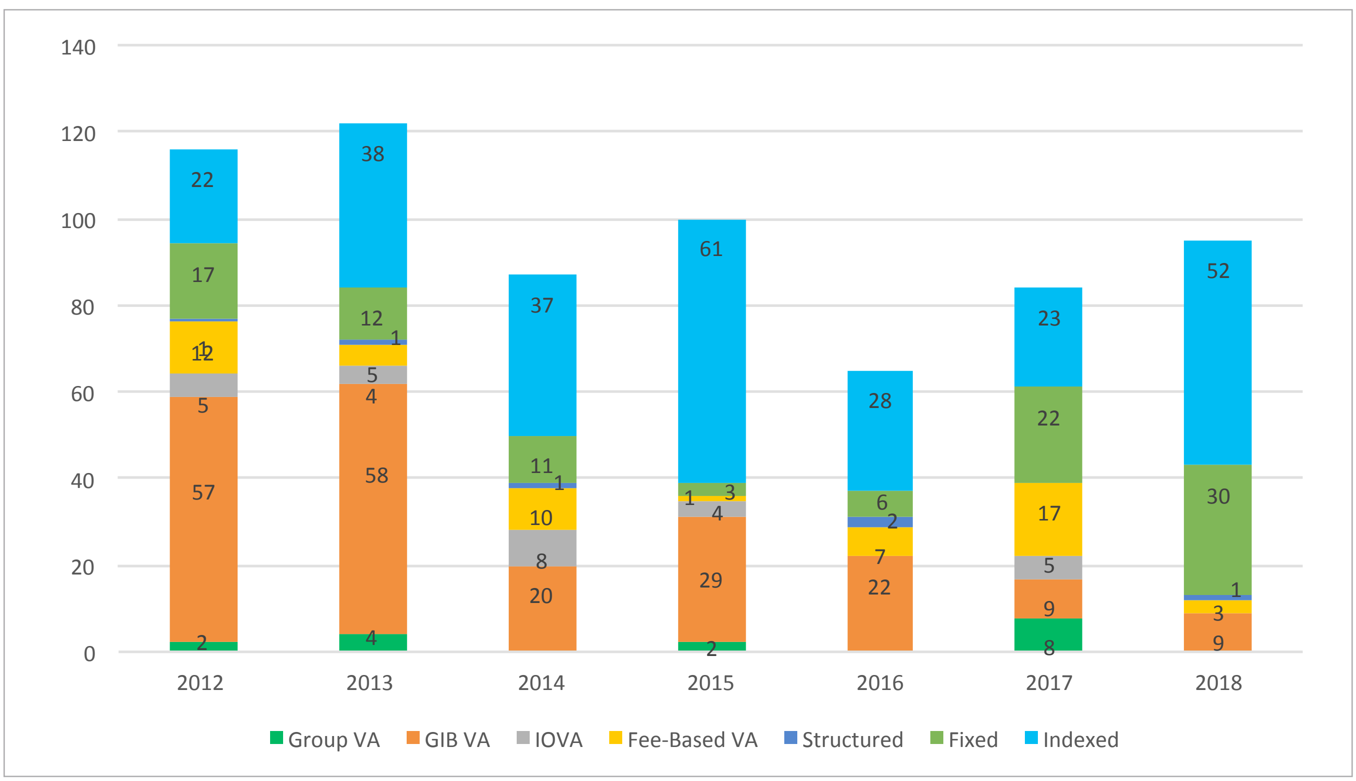
PRODUCT DEVELOPMENT

Product development in 2018 was dominated by fixed indexed annuities, 52 of which were newly issued in the year-to-date period ending October 31st. On the VA side, only 13 new products were issued – nine with embedded or optional lifetime income benefits (seven B-share with five to seven-year surrender charges; one X-share, or bonus product, with a nine-year surrender charge; one C-share with no surrender charges), three fee-based VAs, and one structured VA.

Issuance of new deferred annuities has changed dramatically over the past several years. Where variable annuities with lifetime income benefits once accounted for most new products each year, fixed indexed has been the largest single category since 2014, and fixed products have also outpaced all VA issues over the same timeframe.

However, on the variable side there are a few product innovations worth specific mention. In May of this year Principal debuted a variable annuity offering an annuitization option with payment increases tied to the Consumer Price Index for All Urban Consumers (CPI-U). A few immediate annuities are available with true inflation adjustment, but this appears to be the first of its kind in the deferred variable annuity space. Among protection-oriented products, the lines between variable and fixed indexed products continues to blur with the introduction of Allianz Index Advantage and Index Advantage Income in August. As opposed to structured variable products, in which the consumer absorbs market losses to or beyond a certain level, Index Advantage fully protects principal. For example, in a typical structured or buffered VA the insurance company protects against losses of up to 5% with anything beyond 5% reducing the account value, or the account value is reduced by the first 5% and the insurer absorbs anything beyond that. The Index Advantage products operate like fixed indexed annuities, guaranteeing principal (subject to the claims paying ability of the issuer) and crediting interest based on the change in value of a domestic or European stock index.

New Annuity Contract Issuance 2012 - 2018



Sources: Morningstar Inc. and Beacon Research

PUBLIC POLICY

2018 Retirement Security Blueprint

In February IRI released its 2018 Retirement Security Blueprint detailing common sense, bipartisan policies to help Americans achieve their retirement goals. The Blueprint called upon Congress and the Trump Administration to expand access to workplace retirement plans; preserve current tax treatment for retirement savings; expand automatic savings features for retirement savings; increase access to retirement lifetime income that cannot be outlived; protect access to professional financial advice to assist Americans in saving more and preparing for retirement; and improve access to education and information allowing American savers to make effective and informed decisions regarding their finances.

STANDARDS OF CONDUCT FOR FINANCIAL PROFESSIONALS

DOL Fiduciary Rule – Legal Challenge

On March 15, 2018, the 5th Circuit Court of Appeals issued its decision in our litigation challenging the Department of Labor's fiduciary rule, ruling in favor of IRI and our co-plaintiffs. As a result, the rule was vacated in its entirety, including the impartial conduct standards as well as the Best Interest Contract (BIC) exemption and the changes to PTE 84-24. The vacatur of the rule took effect upon issuance of the 5th Circuit's mandate on June 21, 2018.

With the rule officially vacated, the term "investment advice fiduciary" is once again defined by reference to the old five-part test, PTE 84-24 reverts to its previous form, and the BIC exemption is stricken from the books.

DOL Fiduciary Rule – Temporary Enforcement Policy

The DOL issued Field Assistance Bulletin No. 2018-02 to fill the void left by the vacated BIC exemption. Under this temporary enforcement policy, the DOL "will not pursue prohibited transactions claims against investment advice fiduciaries who are working diligently and in good faith to comply with the impartial conduct standards for transactions that would have been exempted in the BIC Exemption."

This policy will apply retroactively, dating back to June 9, 2017, and will remain in place until the DOL issues new regulations, exemptions or guidance. Fiduciaries may also rely on other exemptions, such as PTE 84-24 (excluding the vacated amendments adopted as part of the fiduciary rule). This policy will not, however, prevent individuals from suing under ERISA's existing private right of action with respect to advice given to employer plans or plan participants, including rollover recommendations.

SEC Activity

On April 18, 2018, the SEC unveiled a package of regulatory proposals related to the standards of conduct applicable to investment professionals. The package includes the following:

- *Proposed Regulation Best Interest (or Reg BI).* The first element of the regulatory package would enhance the standard of conduct owed by broker-dealers (BDs) to their clients. A BD making a recommendation to a retail customer would have a duty to act in the best interest of the retail customer at the time the recommendation is made, without putting the financial or other interest of the BD ahead of the retail customer.

  A BD would discharge this duty by: (a) disclosing to the customer the key facts about the relationship, including material conflicts of interest; (b) exercising reasonable diligence, care, skill, and prudence, to (i) understand the product; (ii) have a reasonable basis to believe the product is in the customer's best interest; and (iii) have a reasonable basis to believe a series of transactions is in the customer's best interest; and (c) establishing, maintaining and enforcing policies and procedures reasonably designed to identify and, at a minimum, disclose and mitigate, or eliminate, material conflicts of interest arising from financial incentives; other material conflicts of interest must be at least disclosed.

- *Proposed Form CRS (Client/Customer Relationship Summary).* The second element of the regulatory package would create a new disclosure form, known as "Form CRS" (short for Client or Customer Relationship Summary), intended to help their clients understand the nature of their relationship with their investment professional. This standardized, short-form (4-page maximum) disclosure would highlight key differences in the principal types of services offered, the legal standards of conduct that apply to each, the fees a customer might pay, and certain conflicts of interest that may exist.

  In addition, Form CRS would prohibit certain BDs and their associated persons from using the terms "adviser" and "advisor" as part of their name or title to avoid misleading retail customers into believing their firm or professional is an IA.

- *Proposed Investment Adviser Interpretation.* The third element of the regulatory package would reaffirm, and in some cases clarify, certain aspects of the fiduciary duty that an IA owes to its clients.

IRI submitted written comments to the SEC on the regulatory package on August 7. In its letter, IRI emphasized the importance of regulatory coordination and urged the SEC to move expeditiously to finalize the proposals. Among other things, IRI recommended that the conflict of interest obligation be simplified and streamlined to give BDs the flexibility to determine appropriate steps to manage material conflicts, and that the disclosure requirements under Reg BI and Form CRS provide sufficient flexibility to allow firms to develop innovative disclosure techniques that would improve the investor experience.

State Activity

NAIC. In late 2017, the National Association of Insurance Commissioners (NAIC) formed a new Annuity Suitability Working Group to consider possible enhancements to the NAIC Suitability in Annuity Transactions Model Regulation. Consistent with IRI's view on the importance of regulatory coordination, the working group's effort is intended to establish a baseline for NAIC leadership's engagement with the SEC in order to arrive at a consistent and harmonized standard for all insurance and investment professionals.

The working group held several meetings in 2018 to discuss possible revisions to the model regulation, and IRI provided written and oral feedback throughout the process. In November 2018, the working group's parent committee, the NAIC Life Insurance and Annuities (A) Committee, exposed the working group's latest draft of possible revisions for public comment until mid-February 2019. It is unclear at this time whether the Committee will take over the effort or return it to the working group for completion. IRI will provide comments on this working draft.

New York. In mid-2018, the New York Department of Financial Services (NY DFS) amended the state's annuity suitability regulation to incorporate a best interest standard of conduct. IRI actively engaged with NY DFS to provide constructive feedback throughout the rulemaking process. The amended regulation applies to recommendations of new sales and in-force transactions involving life insurance and annuities, as well as recommendations that a client refrain from entering a transaction. Insurers remain responsible for oversight of producers' suitability determinations but are not charged with supervising best interest determinations. The rule will take effect with respect to annuities on August 1, 2019, and with respect to life insurance on February 1, 2020. As we did with the DOL rule, IRI has undertaken an effort to provide implementation support for our members as they prepare to comply with the amended regulation.

In November 2018, two lawsuits were filed against NY DFS challenging its authority to promulgate the amended regulation. IRI is not participating in these cases but will monitor them and keep members apprised of significant developments.

Nevada. In mid-2017, the Nevada legislature enacted legislation imposing a fiduciary duty on broker-dealers, investment advisers and sales representatives who receive compensation for giving advice to clients regarding money. Insurance producers and consultants are exempt. The Nevada Securities Division is charged with adopting regulations to implement this legislation, and IRI has provided written comments and oral testimony to help the regulator craft rules that would mitigate the consumer harm likely to result from the new law. As of press time, the Securities Division has not yet issued a proposal.

In addition, the Nevada Insurance Division issued a proposal in October 2018 to amend the state's annuity suitability regulation. The Insurance Division held a workshop on the proposal in November 2018. IRI submitted written comments and provided oral testimony at the workshop. The written comments and our oral testimony highlighted the fact that the proposal was based on an interim working draft developed by the NAIC Annuity Suitability Working Group and urged the Division to instead proceed with adoption of a regulation based on the 2015 version of the NAIC suitability model regulation. IRI will be working with the Insurance Division to develop appropriate revisions to the proposal. The Insurance Division is not expected to take final action on the proposal until Q2 or Q3 of 2019.

New Jersey. In October 2018, the New Jersey Bureau of Securities published a pre-proposal regarding possible rulemaking to hold more financial professionals to a fiduciary standard. The Bureau held two informal conferences on the pre-proposal in November 2018, and IRI testified at the second conference. IRI's testimony focused on the importance of regulatory coordination, our support for the approach taken in the SEC proposal, the possibility of federal pre-emption, and the Bureau's lack of jurisdiction over insurance products under New Jersey law. A formal rule proposal by the Bureau could be issued in early to mid-2019.

Other States. Legislators and regulators in several other states – including California, Connecticut, Maryland, Massachusetts and Illinois – have introduced or are considering similar proposals to establish state fiduciary standards for financial advisers. IRI is monitoring state activity and will engage as appropriate.

2019 Outlook

The vacatur of the DOL rule has created a blank slate for development of a new, workable best interest standard. IRI will continue to work closely with its members and its coalition partners to help the regulators develop a workable best interest standard and a cohesive regulatory framework.

TAX REFORM

The Tax Cuts and Jobs Act (H.R. 1) passed both the House of Representatives and the Senate with only Republican Members of Congress voting in favor of the legislation. It was signed into law by President Trump on December 22, 2017. The new law preserved the tax deferred treatment of retirement savings and maintained the current structure and diversity of workplace retirement plans which were created to meet the needs of different types of workers. IRI worked intensely throughout 2017 to educate members of Congress about these two issues and the dangers of so-called "Rothification" (i.e., eliminating up-front tax deferral for all or some portion of retirement savings, which would instead be exempt from taxation upon withdrawal during retirement).

The new tax law reduced the corporate tax rate to 21 percent (effective in 2019), eliminated the corporate AMT, set a 20 percent deduction for pass-through entities, nearly doubled the standard deduction, imposed new limits on the deductions for mortgage interest and state and local taxes, and reduced individual tax rates while raising the income thresholds for each tax bracket. It also included changes to the tax treatment of life insurance companies, including reserves, the dividends received deduction (DRD), and deferred acquisition costs (DAC). These changes are expected to cost the industry $23 billion over ten years but represent a vast improvement over the provisions contemplated in the original House tax bill.

The House of Representatives introduced its Tax Reform 2.0 proposal as a three-bill package on September 11, 2018. The bills are: the "Protecting Family and Small Business Tax Cuts Act of 2018" (H.R. 6760) which would make permanent the individual and small business tax cuts from H.R. 1, the Tax Cuts and Jobs Act, currently set to expire in 2025; the "Family Savings Act of 2018" (H.R. 6757) a retirement security bill which contained a number of measures from IRI's 2018 Blueprint for Retirement Security and the Retirement Enhancement and Savings Act (H.R. 5282/S. 2526); and (3) the "American Innovation Act of 2018" (H.R. 6756) containing measures to spur innovation by helping brand-new businesses with startup costs and capital. The three bills passed with overwhelming Republican support and only a token number of Democratic votes in favor.

The Family Savings Act has not yet been taken up by Senate even though it includes ten of the measures from a bill which shares near unanimous support from Senators, the Retirement Enhancement and Savings Act of 2018 (H.R. 5282/S.2526). The RESA measures included in the Family Savings Act included provisions to: allow small businesses to join to create a 401(k) plan more affordably (Open MEPs); give employers more time to put new retirement plans in place; simplify the rules for participation in employer plans; and provide a safe-harbor for including lifetime income options in employer-sponsored retirement plans. The bill did not include several crucial provisions that IRI supports which would require lifetime income disclosures in participant benefit statements and enhancements for plan features relating to auto enrollment and escalation. The measure also included a few reforms not included in RESA but which IRI supports to help workers participate in retirement plans so their retirement years are more secure including exempting small retirement accounts from mandatory payouts; eliminating the age limit on IRA contributions and allowing military reservists to maximize their retirement contributions

In addition, the Family Savings Act proposed some new measures to help families start saving earlier and save more throughout their lives. The measures included are: a new Universal Savings Account (USA) offering a fully flexible tax-deferred savings tool for families; expanded 529 Education accounts to provide families with the flexibility to use education savings to pay for apprenticeship training fees, cover the cost of home schooling, and help pay off student debt; and a "New Baby" savings to allow families access to their own retirement accounts on a penalty-free basis to use when welcoming a new child into the family, whether by birth or adoption, and replenish those retirement accounts in the future.

At press time, as Congress has entered its final days before adjourning in 2018, the consideration of a comprehensive retirement security bill appears to be on its agenda. Representative Kevin Brady (R-TX), the Chairman of the House Ways and Means Committee, has introduced the "Retirement, Savings, and Other

Tax Relief Act of 2018" (H.R. 88). The bill includes measures for retirement and other savings enhancements; redesigning the Internal Revenue Service; providing temporary disaster tax relief for victims of the wildfires, hurricanes, and volcanoes; extending certain expiring provisions of the tax code and technical corrections to the tax reform bill adopted back in December last year. Specifically, the bill includes all the important retirement security measures IRI has long supported, which were included in the Retirement Enhancement Savings Act and called for in our 2018 Retirement Security Blueprint. The measures included are: open MEPs, annuity selection safe harbor, annuity portability, lifetime income disclosures, enhancements for auto features and tax credits/ incentives for small business plan providers. The passage of such a bill remains uncertain given the wide-range of issues that Congress is being presented with to address before it adjourns in December.

2019 Outlook

IRI will continue its active advocacy efforts with respect to protecting and enhancing retirement savings incentives in the tax code during the next session of Congress. IRI remains optimistic that as the new Congress convenes in 2019, the issue of retirement security will be one that receives more attention as the new leadership in the House of Representatives takes office. They have shown great interest in advancing retirement security legislation, especially the incoming Chair of the House Ways and Means Committee, Representative Richard Neal (D-MA). He has publicly stated that retirement security and family-friendly tax policies will be a priority agenda item for committee action under his leadership during the next session of Congress. It is anticipated that as Chairman, he will advance reforms he has long championed to enable all Americans to have access to retirement plans and accumulate savings to enjoy a financial security during their retirement years.

PROMOTING RETIREMENT SECURITY AND INCREASING ACCESS TO LIFETIME INCOME

In the past, many Americans relied on employer-based pension plans for retirement savings. Today, most Americans rely on other types of retirement savings plans, such as 401(k) accounts and Individual Retirement Accounts (IRAs), which make individuals responsible for their own financial security and retirement options. IRI's 2018 Retirement Security Blueprint includes the several common-sense, bipartisan policy recommendations to help Americans address many challenges and overcome obstacles they face in saving for their retirement years.

Two bills which have been introduced in Congress contain many of the top policy proposals from IRI's 2018 Retirement Security Blueprint. They are: the "Retirement Enhancement and Savings Act of 2018" (RESA) (S.2526/H.R.5282) introduced by Senators Orrin Hatch (R-UT) and Ron Wyden (D-OR) and Representatives Mike Kelly (R-PA) and Ron Kind (D-WI) and the "Family Savings Act" (H.R. 6757) introduced by Representative Mike Kelly (R-PA) which passed the House in September. The details of what measures are included in these two bills are described in more detail in the Tax Reform section of this report.

In addition to these two retirement savings bills considered by Congress this year, there have also been numerous individual standalone bills introduced reflecting policy proposals from the 2018 Retirement Security Blueprint. These include measures to: expand access to workplace retirement plans by removing barriers to open up multiple employer plans (MEPs); increase access to lifetime income strategies that help retirees ensure they do not outlive their financial assets in retirement; give certainty to retirement plan sponsors regarding the selection of a lifetime income provider; enable annuity portability; provide for increases in the default rates for auto enrollment and auto escalation; and require benefit plan statements to include lifetime income estimates. The bills are: the "Retirement Security Act" (S. 1383), co-sponsored by Senators Susan Collins (R-ME) and Bill Nelson (D-FL), the "SAVE Act of 2017" (H.R. 4637), co-sponsored by Representatives David Reichert (R-WA) and Ron Kind (D-WI), the "Retirement Security for American Workers Act" (H.R. 854), co-sponsored by Representatives Vern Buchanan (R-FL) and Richard Neal (D-MA), the "Increasing Access to a Secure Retirement Act of 2017" (H.R. 4604) introduced by Representatives Tim Walberg (R-MI) and Lisa Blunt-Rochester (D-DE), the "Retirement Plan Simplification and Enhancement Act of 2017" (H.R.4524), sponsored by Representative Richard Neal (D-MA) and H.R.3910, co-sponsored by Representatives Richard Neal (D-MA) and Mike Bishop (R-MI), and the "Lifetime Income Disclosure Act" (LIDA) (S.868/H.R.2055), introduced by Senators Johnny Isakson (R-Georgia) and Chris Murphy (D-CT) and Representatives Luke Messer (R-IN), Mark Pocan (D-WI), David Reichert (R-WA), Joe Wilson (R-SC), Donald Norcross (D-NJ), and Jared Polis (D-CO).

IRI was the first financial services trade association to express its strong support for a bill to increase access to workplace retirement plans by requiring all but the smallest employers to maintain a 401(k) plan. The "Automatic Retirement Plan Act of 2017" (H.R. 4523), sponsored by Representative Richard Neal (D-MA), would automatically enroll employees (with the ability to opt out) in a workplace sponsored 401k retirement plan. The bill would also remove the cumbersome legal and regulatory impediments that currently discourage many employers from offering retirement plans by authorizing open Multiple Employer Plans and enhancing automatic enrollment and escalation features, while also maintaining protections for employers and their employees.

Another bill IRI advocated for was the "Receiving Electronic Statements to Improve Retiree Earnings Act" (RETIRE Act) (H.R. 4610), introduced by Representatives Phil Roe (R-TN) and Jared Polis (D-CO). The bill will modernize and foster more efficient communications between the retirement income industry and consumers by authorizing the use of electronic communications as the default mode of communication between firms, plan participants, and beneficiaries. The RETIRE Act will also maintain important safeguards to ensure participants who still want to receive required communications in paper format can do so.

In August, President Trump signed an Executive Order on retirement policy in which he directed the Department of Labor and the Treasury Department to consider issuing regulations or guidance to expand the availability of multiple employer retirement plans ("MEPs"), loosen the required minimum distribution ("RMD") rules that apply to individuals over age 70½, and improve notice requirements to reduce the paperwork and administrative burdens for plan sponsors. IRI strongly supports all the proposals contained in the Executive Order, as they were all included as priority advocacy items in our 2018 Retirement Security Blueprint.

2019 Outlook

IRI will continue to encourage Congress and/or the administration to enact the measures included in the Retirement Enhancement and Savings Act and the Family Savings Act to increase workers' access to lifetime income in retirement plans, help Americans to better prepare for a secure retirement, promote consumer choice and education, and reduce regulatory burdens for lifetime income options.

VARIABLE ANNUITY SUMMARY PROSPECTUS

Since late 2008, IRI has been advocating for the SEC to adopt a rule allowing for the use of a simplified summary prospectus for variable annuities to improve consumers' understanding of their investment choices through more streamlined disclosures. In support of this effort, IRI developed and provided the SEC with a proof-of-concept sample variable annuity summary prospectus. Nearly a decade after IRI submitted its initial rulemaking request, the SEC issued a proposal in October 2018 to allow for the use of variable annuity summary prospectuses. The following are the key elements of the proposal:

- The proposal would allow the optional use of two distinct types of summary prospectuses for all variable insurance contracts, including variable annuities and variable life insurance, including initial summary prospectuses for offerings to new investors and updating summary prospectuses for use with existing investors.

- The initial summary prospectus would provide key information about the contract's terms, benefits and risks in a concise, plain English and reader-friendly format, with additional information to be made available online or in paper upon request.
- The updating summary prospectus would provide a brief description of key changes to the contract, as well as a subset of the information included in the initial summary prospectus.
- Certain key information about the underlying investments would be provided in both the initial summary prospectus and updating summary prospectus.
- The Great-West line of no-action letters, which have been relied on by the industry for many years to provide alternative disclosures in lieu of updated statutory prospectuses for variable contracts that are no longer being offered to new investors, would be grandfathered, meaning that contracts relying on the relief provided under those no-action letters would be permitted to continue relying on that relief. However, contracts that are taken off the market after the effective date could not do so and would instead have to provide updating summary prospectuses rather than the alternative disclosures required by the Great-West letters.
- The registration forms for variable contracts – Forms N-3, N-4, and N-6 – would be amended to consolidate certain summary information and reflect recent developments in the industry, such as the increasing prevalence of optional benefit riders since the forms were originally developed over 30 years ago.

Comments on the proposal are due in mid-February 2019. IRI will be working with its members to assess the proposal and formulate written comments to assist the SEC as it works to finalize the rule.

2019 Outlook

IRI is optimistic that the SEC will finalize its proposed rule in 2019.

SENIOR FINANCIAL PROTECTION PROPOSALS

IRI continued to pursue initiatives to protect older investors by seeking measures to increase awareness about the financial exploitation of older investors, and advocate for programs and policies to protect older investors. This past year IRI's advocacy efforts realized positive results with the enactment of the "Senior$afe Act" which was included in the "Economic Growth, Regulatory Relief and Consumer Protection Act" (S.2155), introduced by Senators Mike Crapo (R-ID), Joe Donnelly (D-IN), Heidi Heitkamp (D-ND), Jon Tester (D-MT) and Mark Warner (D-VA). The bill was signed into law by President Trump in May. The new law will help to increase the level of training, education and awareness required of financial professionals to understand and recognize the signs and symptoms of financial exploitation. The new law will also empower and encourage financial professionals to report suspected cases of exploitation to law enforcement and other appropriate governmental agencies, thereby helping to prevent older investors from becoming victims.

IRI also successfully advocated for Congress to restore funding for the Social Services Block Grant program to its previously funded level of $1.7 billion after the President's budget proposed to defund the program. The funds for this program are the primary source of federal funds used to support state adult protective services agencies. These governmental agencies anticipate an increase in the number of reports of cases of suspected elder financial exploitation because of the implementation of the Senior$afe Act.

IRI played a pivotal role in amending a bill to remove problematic language before the House of Representatives passed the "National Senior Investor Initiative Act of 2018" (H.R. 6323), introduced by Reps. Josh Gottheimer (D-NJ) and Trey Hollingsworth (R-IN). The bill directs the SEC to establish an interdivisional task force focused on the exploitation of older investors and to provide a report to Congress on its findings every two years.

In addition, the legislation directs the Government Accountability Office to study the economic costs of senior exploitation, including losses incurred by victims of exploitation as well as costs incurred by the financial services industry and government agencies.

In June 2018, IRI hosted a World Elder Abuse Awareness Day event on Capitol Hill which featured remarks from Representative Susan Bonamici (D-OR), one of the co-chairs of the House Elder Justice Caucus, and a panel of experts from academia, consumer advocacy organizations and the financial services industry. The panel focused on the impact of cognitive decline and efforts being undertaken to implement policy solutions to protect older investors from financial exploitation, including the recently enacted Senior$afe Act.

In October, IRI held its fourth annual Protecting Older Investors Summit in Washington, DC, bringing together financial services industry leaders and nationally recognized law enforcement figures, as well as policymakers and regulators, to discuss ways to increase awareness and develop new strategies to address the increasing problem of elder financial abuse, dementia and diminished capacity. This year's summit examined recent industry research on older investors; the changing profile of the older investor; the challenges law enforcement faces in combatting elder financial exploitation; longevity and lifestyle preparation; and what's next in the way of legislation and regulation to address senior financial exploitation.

2019 Outlook

IRI will look to build on the dialogue at the Older Investors Summit through the development of industry best practices, educational efforts, and training modules to help firms and financial professionals take appropriate steps to prevent the financial exploitation of seniors and other vulnerable investors. IRI will also continue to pursue increasing awareness about senior financial exploitation and the enactment of legislation and adoption of regulations to strengthen and enhance protections for older investors.

CYBERSECURITY

State Activity

South Carolina became the first state to adopt the NAIC's Insurance Data Security Model Law, enacting the model in May 2018. The law provides standards for data security, investigation, and consumer breach notification requirements, and will go into effect on January 1, 2019. Rhode Island also introduced the NAIC's model law for consideration by the state legislature; however, the Rhode Island House Corporations Committee recommended the proposed legislation be held for further study and no additional legislative action was taken. The NAIC also hosted a cybersecurity summit with Silicon Valley experts in October 2018 to continue the conversation on best protecting consumers

NASAA introduced its own cybersecurity model rule to govern information security and privacy issues for investment advisors. The rule would amend a number of current NASAA data security model regulations, including the Recordkeeping Requirement rule, Unethical Business Practice of Investment Advisers rule, the Investment Adviser Representative rule, and the Federal Covered Advisers rule. Collectively, the amendments would require IAs to establish policies and procedures on information security, which would need to be delivered to clients on an annual basis. The policies and procedures would also include recordkeeping responsibilities. A failure to comply with the new rule would constitute a violation of IA's uniform business practice obligations.

California adopted its own cybersecurity standards in June 2018. The law, which will go into effect in 2020, will provide consumers with the ability to receive disclosures about personal information companies have collected, the business purpose for the collection, and how and with whom the information is shared.

Federal Activity
Multiple federal regulators governing the insured retirement industry announced early in 2018 that cybersecurity would be a top priority. FINRA included cybersecurity measures as a top regulatory and examination priority in 2018. The SEC issued a guidance document on how to properly disclose cybersecurity risks to consumers.

Capitol Hill also focused heavily on cybersecurity throughout 2018. In February, the House Financial Services Committee held a hearing to examine the current data security and breach notification regulatory regime to identify areas for potential reforms. As a result of the hearing, Rep. Blaine Luetkemeyer (R-MO) introduced H.R. 6743, the "Consumer Information Notification Requirement Act", which would create a national standard for data security by amending existing law to preempt the individual states' notification requirements.

The Senate Committee on Commerce, Science, and Transportation examined consumer digital data protections at a hearing held in October 2018. The hearing was aimed at investigating the possible unintended consequences of standards put in place by California (as described above) and the European Union. Senator Ron Wyden (D-OR) proposed a comprehensive cybersecurity discussion draft calling for national minimum standards, the creation of a "DO NOT TRACK" list, disclosure requirements, and strict punishments for violators. At press time, IRI is working with its Cybersecurity Task Force to provide comments to Sen. Wyden's office on the proposal.

2019 Outlook

IRI will continue to monitor activity and support actions to protect consumers' personal information from cyber threats. The Cybersecurity Task Force will continue its mission to provide IRI's membership with updates as cybersecurity and privacy become more intertwined and critical to our members' business operations.

NCSL INSURANCE TASK FORCE

IRI is one of the founding sponsors of the National Conference of State Legislatures (NCSL) Insurance Task Force. NCSL is the bipartisan organization that serves the legislators and staffs of all 50 states by providing research, technical assistance and opportunities for policymakers to exchange ideas on the most pressing state issues and focuses on what issues states should be advocating for in our nation's capital.

The mission of the newly formed Insurance Task Force is to engage state legislator members of NCSL who perform a crucial role in the development of insurance public policy in discussions regarding the state regulation of the business of insurance. The Task Force will educate members and extend networking opportunities to legislative leaders on insurance issues through a series of well-defined programs, webinars on key definitions and critical policy issues.

At the Task Force meeting which took place in December in Washington, DC, IRI secured a session that focused on the issue of state fiduciary duty laws considering the court decision vacating the Department of Labor fiduciary rule and the release of SEC Regulation Best Interest. The panel discussed the roles of federal and state regulation of the industry in this space and the standard of conduct financial professionals should be required to follow. It also addressed how the Employee Retirement Income Security Act of 1974 (ERISA) preemption provisions and the National Securities Market Improvement Act of 1996 (NSMIA) apply in this regulatory space at the state level, as well as to federal securities laws.

2019 Outlook

IRI will explore additional opportunities to engage with the NCSL Insurance Task Force to advocate for and advance IRI's retirement security policy priorities.

IRI AND IRIPAC ON CAPITOL HILL

In advocating on behalf of our members, during 2018 IRI organized and/or participated with our coalition partners in 121 meetings with Members of Congress and their staffs to discuss tax reform and retirement security policy priorities. In addition, through the IRIPAC – which is a critical component of our outreach and is often the most effective way of developing relationships with Members of Congress – IRI was able to contribute $120,000 to 71 Members of Congress and host 11 events raising more than $121,000 in 2018.

In conjunction with the meetings, IRI led and participated in several events on Capitol Hill, all aimed at educating and recognizing Members of Congress and their staffs. In April, IRI hosted a panel discussion and luncheon as a portion of National Retirement Planning Week to explore with prominent leaders of the insured retirement industry the challenges of retirement savings in the 21st Century and what opportunities exist to expand access to savings and lifetime income. Joining IRI for remarks were Chairwoman Virginia Foxx (R-NC) of the House Education and Workforce Committee and Rep. Donald Norcross (D-NJ). Also, during National Retirement Planning Week, IRI hosted two days of free financial counseling for congressional staffers during which over 125 staffers met with members of IRI's Advisor Council.

2019 Outlook

IRI and the IRIPAC will continue its aggressive advocacy activity on Capitol Hill both through meetings with Members of Congress and their staffs to articulate our legislative policy IRI will also continue to attend small, private events with key Members of Congress who serve on committees relevant to IRI's issue areas, often specifically targeted for their partnership on important legislation and action on our main advocacy agenda items.

LONG-TERM OUTLOOK

Despite regulatory challenges, consumer reticence to commit retirement savings dollars to annuities, and years of persistently low interest rates, consumer demand for guaranteed lifetime income can be expected to grow in the future, for several important reasons:

- **Demographics:** Pew Research Center estimates that 10,000 Baby Boomers will turn 65 every day for the next 13 years.
- **Consumer needs:** IRI research shows that "guaranteed income each month" and "will not lose principal" are two of the most important traits consumers say they want in a retirement product.
- **Increased longevity:** As people live longer, guaranteed lifetime income becomes a key component to managing longevity risk. According to the Society of Actuaries, healthy 65-year-old males in the United States have a 50 percent chance of living to age 87 and a 25 percent chance of living to age 93. Their female counterparts have a 50 percent chance of living to age 89, and a 25 percent chance of living to age 95. For a couple aged 65, there is a 50 percent chance at least one spouse will live to age 93 and a 25 percent chance at least one spouse will live to age 97.
- **Decline of traditional pension plans:** In 1985, there were 114,000 private-sector defined benefit pension plans, but by 2013 there were only 23,769 of these plans remaining, according to the Pension Benefit Guaranty Corporation (PBGC). The PBGC currently pays benefits to approximately 840,000 retirees, with another 560,000 workers scheduled to receive benefits when they retire. The March 2018 Bureau of Labor Statistics' National Compensation Survey reports that only about 17 percent of private-sector workers have access to a traditional pension (down from 18 percent in 2017), with only 15 percent of workers participating.
- **Industry Efforts to Educate and Raise Awareness:** It will take time, but the Retire Your Risk campaign launched by the Alliance for Lifetime Income will serve to educate consumers and raise awareness of the importance of ensuring that one does not outlive one's retirement savings, destigmatizing annuities in the process.
- **Large dollar amounts in qualified plans:** The total assets in qualified retirement plans, as of the end of 2017, were $27.9 trillion, up 10.3 percent from the end of 2016. The following table details this amount by the different types of retirement plans.

ASSETS IN TAX QUALIFIED RETIREMENT PLANS Year-End 2017	
Private Trusted Defined Benefit Plans	$3.1 trillion
Private Trusted Defined Contribution Plans	$7.7 trillion
Individual Retirement Accounts (IRAs)	$8.9 trillion
State and Local Government Plans	$4.3 trillion
Federal Government Retirement Plans for Federal Employees	$1.7 trillion
Annuities	$2.2 trillion
Total	**$27.9 trillion**

Sources: Investment Company Institute with data derived from Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and the Internal Revenue Service Statistics of Income Division.

.• **Concerns about Social Security and other governmental programs:** The 2018 Social Security Trustees Report projects the combined Old Age and Survivors Insurance and Disability Insurance Trust Fund will be exhausted in 2034; thereafter, absent changes, scheduled tax income is projected to be sufficient to pay only about three-quarters of scheduled benefits. The 2018 Medicare Trustees Report projects that the Hospital Insurance Trust Fund (Part A) will be depleted in 2026, three years earlier than noted in the 2017 report.

SUMMARY

Current retirees rely heavily on pension income to enjoy a secure retirement. As America ages, and particularly as Baby Boomers without pensions enter retirement at the rate of 10,000 per day, the need to efficiently use retirement savings for guaranteed lifetime income continues to grow. Baby Boomers, and Generation X and Millennials that will inevitably follow, have not saved enough to withdraw as needed to fund their lifestyles and be assured of both maintaining the ability to support themselves and defraying the expenses associated with health care and long-term care. The retirement industry must work diligently to ensure that consumers are aware of the longevity, health care, and other risks they face in retirement, that they adequately protect themselves against those risks, and that they are educated about the solutions that can protect them. “Winning” at retirement saving and investing is not defined as achieving the highest possible return or the lowest possible cost, but by creating sustainable, lifetime income and protecting against financial ruin. Despite headwinds such as potential new regulatory changes (especially at the state level), the difficulties involved in the development and industry-wide adoption of transaction processing improvements, shifting product focus in the various distribution channels, and other factors the insured retirement industry continues to evolve and is poised for significant growth.

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Supporting data for this report were derived from publicly available research from the United States Census Bureau, the 2018 Social Security Trustees Report; 2018 Medicare Trustees Report; American Council of Life Insurers; Beacon Research; the Bureau of Labor Statistics; the Department of Labor; the Federal Reserve Board; Internal Revenue Service Statistics of Income Division; Investment Company Institute; Merrill Lynch; Morningstar, Inc.; the National Association of Government Defined Contribution Administrators; Pension Benefit Guaranty Corporation; St. Louis Federal Reserve Board, Federal Reserve Economic Data (FRED); Society of Actuaries.

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