FINDING CONFIDENCE IN CHAOTIC TIMES

Annuities as an income strategy for beleaguered investors

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Where do we go from here? That's the big question on everyone's minds — individual investors and many professionals included. After COVID-19 emerged, panic entered the market and the ensuing selloff that took place in late February and March was a rude awakening from the euphoria of a historically long bull market.

The rush for liquidity was dizzying, and most asset classes were not spared in the short term. Record highs quickly gave way to staggering new lows with the S&P 500® posting more than a 30% loss, leaving many wondering if we were heading to a 2008-level trough.

For the average investor, fear isn't easily shook and many are still looking at the markets wondering when the storm will pass. The good news is many of those investors are also revisiting their retirement plans, looking for stability among uncertainty. Now is the time when financial professionals can bring all of their tools to the table and help clients regain some sense of control over their financial futures. For those seeking retirement income, annuities with living benefits may offer welcome diversification and a boost of confidence through guarantees.*

The strategy may be particularly attractive following an event that will likely make many investors more conservative. Over the past 15 years, there has been a sizeable shift in the percentage of Americans who own stocks, even though the last 10 years brought record-setting gains to equity indices. **According to a Gallup poll**, 65% of Americans owned stocks in April of 2007, prior to the Great Recession.[1] More than a decade after the financial sector meltdown that left many pockets empty, only 55% of Americans had returned to owning stocks in 2018.

The emotional impact of stock market crashes can have lasting effects on an investor's outlook. With that in mind, let's consider what's happening today.

"Net trading activity in 401(k) saving plans was higher in the last week of February than all of the combined activity in the fourth quarter of 2019," wrote **CNBC's Lorie Konish on March 6**.[2] By February 24 of this year, the S&P 500 had only slid 4.3% from its previous highs, and already retirement savers began seeking safe havens with all inflows going to bond funds, stable value funds, and money market funds.

With COVID-19 fears lingering among investors, the year ahead brings much uncertainty. Are we in a bear market rally waiting to test new lows, or has the market properly priced in the loss of demand for the rest of 2020? Hopes for a V-shaped recovery seem to be slimming, but will it be an L-, W-, or U-shaped recovery? Those questions are hard to answer at the moment, particularly as more troubling data continues to come forward.

By late April, **80 companies had withdrawn full-year financial forecasts**, leaving analysts less guidance for setting price targets.[3] Not surprisingly, job-loss claims have skyrocketed and the Congressional Budget Office is projecting **unemployment will hit 16% by Q3 2020**, ultimately settling at an average 11.4% for the year.[4]

For investors nearing retirement, the situation presents a unique challenge. They're trying to shift from accumulating assets to generating income in an environment where many companies have cut dividends and yield is hard to find due to rising bond prices and low interest rates. And, again, many investors are in a state of despair about using equities at all. These investors might want to hear about a strategy that guarantees income while providing the opportunity to increase that income and combat inflation.

Demand for fixed index annuities is expected to ratchet up this year because investors may appreciate the ability to participate in market gains, as the market rebounds, but be guaranteed a floor under foot to protect against losses.[5] If market volatility continues, this type of strategy could give the conservative investor more confidence about remaining invested, allowing them to skip the weekly or monthly gut punch some people experience with large swings in account value.**

A similar case can be made for variable annuities. If income is the primary objective, variable annuities often offer a wider array of living benefit options that allow an investor to customize their approach toward gaining income. Once an investor has decided income is the goal, any growth can be set aside and the true value of the living benefit, available for an additional cost, can take the stage.

Withdrawal base guarantees offer certainty, but the current market conditions may lead to even larger growth of the withdrawal base*** in a relatively short amount of time. Following the 2008 intra-year low of 49%, the market returned 23% in 2009.[6] With an annuity providing guarantees, the conservative investor can potentially still gain the benefit of equity exposure while transferring risk to the insurance company.

Obviously, it's always important to remember an investor's plan and be sure an annuity and optional benefits — or any financial or insurance product, for that matter — meets a clearly defined need within the plan. Some of the market's best days follow its worst ones, and you should consider the timing of adding any instrument and its associated fees with regard to whether the objective is principal growth, income, or something else. It's never a one-size-fits-all approach.

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As we discussed earlier, some clients may have already moved to cash and debt before the major declines took place. For the correct investor, particularly a conservative one who has maintained purchasing power through cash reserves, certain bond funds, or a recently well-performing commodity like gold, an annuity could be an attractive way to add some certainty to their retirement in a time where markets' near future is murky.

As always, the client's financial situation and goals are a big part of the equation, but the type of annuity needs to be right, too. If income is the objective, a Transamerica variable annuity with a living benefit like *Retirement Income Choice® 1.6* might work. Open architecture allows its withdrawal base to grow at what could be record market returns, lock in that growth, and then offer a guaranteed withdrawal rate when the client is ready to take income.

Again, it's an income play in a time where income could be hard to generate for years to come. Even if equity prices rise to near peak levels by year's end, interest rates are likely to remain low for the foreseeable future. **Following the 2008 crash, interest rates didn't begin to rise until 2015.**[7]

The economy needs time to stabilize. The Federal Reserve will likely ensure money remains cheap so that investment is encouraged. For businesses seeking to re-establish themselves, that's good news. For retirees trying to generate income, it's not as welcome.

Securing guaranteed income may make a large difference in the timing of when someone

Continued on page 6

Continued from page 5

is able to retire. Entering retirement when planned is often as important to retirees as making their assets last. Americans are living longer than they used to and running out of money in retirement is a big fear for about half of them.[8] Couple that with a turn toward conservative investing, and annuity purchases begin to match risk tolerance even closer.

With the markets looking like they do and emotions running on overdrive, now could be the ideal time to diversify a portion of assets into an income-generating strategy that provides guarantees and allows retirement investors to feel like they've stepped off the rollercoaster.

*All guarantees are based on the claims-paying ability of the issuing insurance company.

****Fixed index annuities are not a security and are not an investment in the stock market or in the indexes. Index account interest is based on the index performance.** There is no guarantee that the index interest rate will be greater than zero percent or that the insurance company will declare an interest rate greater than the guaranteed minimum interest rate.

***The withdrawal base does not establish or guarantee the policy value, surrender value, minimum death benefit, or return for an investment option.

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1 *"How the Financial Crisis Still Affects Investors," Barron's, September 2018*

2 *"You might be Tempted to Move to Safer 401(k) assets amid coronavirus market swings. What to know before you shift your money," CNBC, March 2020*

3 *"Why Next Earnings Season Will be Worse," Barron's, April 2020*

4 *"CBO's Current Projections of Output, Employment, and Interest Rates and a Preliminary Look at Federal Deficits for 2020 and 2021," Congressional Budget Office, April 2020*

5 *"Annuities Take Center Stage," Investment News, April 2020*

6 *"Standard and Poor's, FactSet, J.P. Morgan Asset Management." Used with permission.*

7 *"Open Market Operation," Board of Governors of the Federal Reserve System, March 2020.*

8 *"Almost Half of Americans Fear Running Out of Money in Retirement," AARP, May 2019*