BEYOND THE NUMBER

Adding Annuities to Retirement Savings Strategies

Correcting the Conventional Wisdom on Retirement Income Planning

What is an annuity?

An annuity is an insurance product issued by an insurance company.

- **An annuity is the only financial product that can guarantee to pay you lifetime income.**
    - Like all insurance products, the ability to satisfy guarantees is subject to the claims-paying ability of the issuing insurance company.
    - Therefore, the financial strength of the insurance company is one key element to be reviewed before making a purchase decision. **However, Variable investments would be retained by a participant in a failure scenario**
- **A contract or certificate is issued by the insurance company that specifies the terms governing the annuity.**

- The annuity contract may make multiple investment options or accounts available.
- One or more annuities may be available under an employer-sponsored retirement plan (or within an IRA account).
- Annuities may be fixed (guaranteed,) fixed indexed, immediate, or variable
- Annuities may offer an enhanced or protected death benefit feature
- Annuities may include two phases – **Accumulation and Retirement Income.**

Annuity phases and types

Accumulation Phase

- Participants put money in while they work.
- Fixed and Indexed Annuities - Contributions earn a minimum rate of interest or credit interest based on the rate of return of an Index
- Variable Annuities – The rate of return is not guaranteed and is based on the performance of the underlying investments in the annuity.
- Participants may be able to transfer money to and from annuities or within investment/crediting options inside of the contract
  - Some annuities may have restrictions on transfers and or withdrawals.
    - In some cases it may take a period of years to fully transfer or withdraw.

Retirement Income Phase

- Participants take money out when they retire in partial or systematic withdrawals.
- Income options may include some or all of the following:
  - Income for the participant's life or that of the participant and a spouse or partner
    - Income will never fall below a certain guaranteed level.
    - Income would grow during accumulation phase both at fixed rate and potentially though investment returns
- **Note: Participants <u>DO NOT</u> give up control of the amount they've invested and accumulated to begin lifetime income. The decision to take income <u>CAN</u> be revoked.**

Variable Annuities, Which Offer the Opportunity to Grow and Protect Retirement Savings, are Part of the Solution for Many Consumers

Primary Consumer Concerns about Retirement

- Outliving their money
- The impact of market downturns

Key consideration for Retirement Investor	Mutual Funds	Fixed Annuity	Fixed Index Annuity	Variable Annuity
Guaranteed lifetime income (without annuitization) with purchase of guaranteed withdrawal or income benefit			√	√
Guaranteed death benefit (with lifetime income)			√	√
Protection against falling markets with purchase of guaranteed withdrawal or income benefit		√	√	√
Ability to select investments	√			√
Access to uncapped equity market returns	√			√
Tax deferral		√	√	√

WHY YOU MAY NEED TO RETHINK HOW YOU FUND YOUR RETIREMENT

Why Now

60% **4%**

In the early 1980s, around 60% of companies offered defined benefit

PENSION PLANS.

Today, that number is around 4%.[1]

SOCIAL SECURITY is expected to stop paying benefits in full by the year 2034. Even if paid in full, the average payout is around

$16,000 PER YEAR

–barely above the poverty line.[2]

LIFE EXPECTANCY continues to increase.

25%

of 65-year-old couples will have one spouse live to

AGE 97 OR LATER.[3]

The average working-age couple in the U.S. has only

$5,000

saved for retirement.[4]

A VARIABLE ANNUITY

CAN HELP GROW YOUR INCOME– AND OFFER YOU BENEFITS LIKE

GUARANTEED* INCOME FOR LIFE.**

THE PROBLEM OF PERCEPTION:

85% of Baby Boomers say it is somewhat or very important to have a source of guaranteed lifetime income other than Social Security.

Yet, **ONLY 8%** say they would purchase an annuity providing guaranteed lifetime income.[6]

MORE THAN 7 in 10 retirees receiving income from an annuity are satisfied with their investment—**higher than any other type of investment** or retirement savings vehicle.[5]

Variable annuities are long-term, tax-deferred investments designed for retirement, involve risks and may lose value. Earnings are taxable as ordinary income when distributed and may be subject to a 10% additional tax if withdrawn before age 59½.

MORE THAN 32 MILLION Americans have chosen to purchase an annuity.[7]

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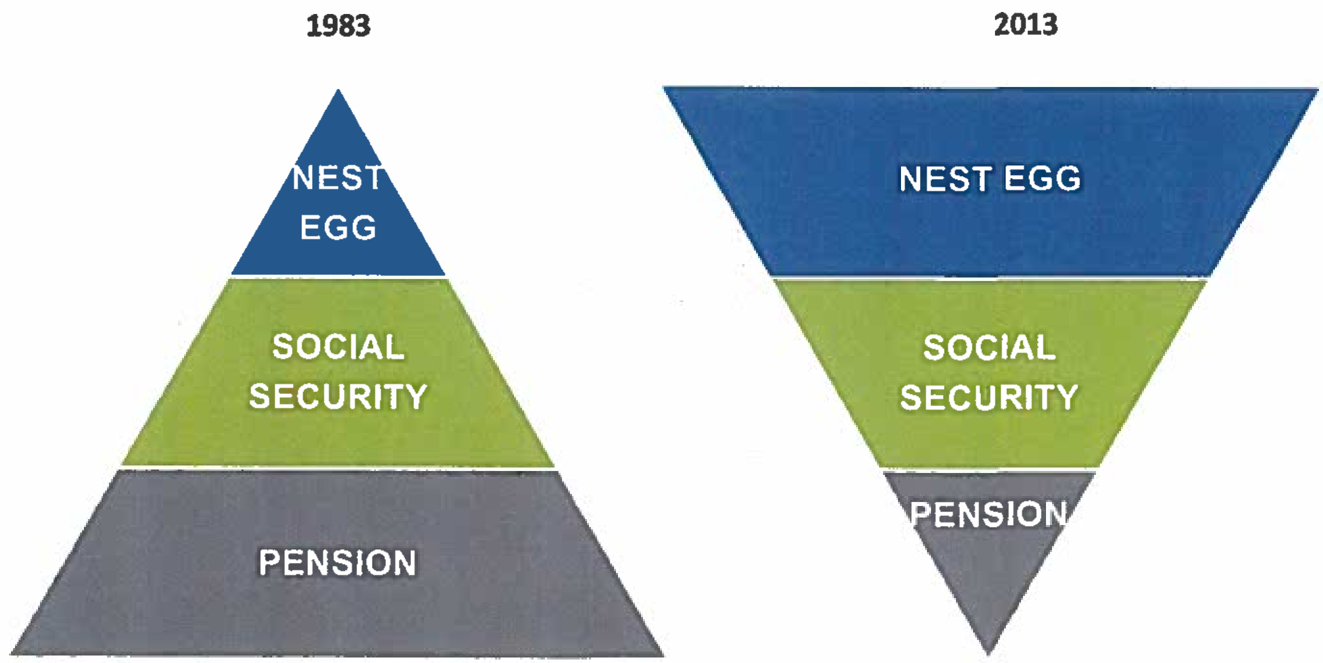
1. CNN Money, "Ultimate Guide to Retirement," October 19, 2017
2. Paul N. Van de Water and Kathy Ruffing, Center on Budget and Policy Priorities, "Social Security Benefits Are Modest," August 7, 2017
3. Merrill Lynch, "Annuities for Lifetime Income," 2016. Merrill Lynch Wealth Management, IMG Retirement Strategies calculations based on Society of Actuaries, 2012 Individual Mortality Tables, Basic
4. Kathleen Elkins, CNBC, "Here's How Much the Average American Family Has Saved for Retirement," September 12, 2016
5. Insured Retirement Institute, "It's All About Income: Inaugural Study on the American Retirement Experience," September 2016.
6. Insured Retirement Institute, "Baby Boomer Expectations for Retirement," April 2017.
7. TIAA.org, "TIAA 2016 Lifetime Income Survey Executive Summary," September 14, 2016
8. LIMRA Secure Retirement Institute U.S. Individual Annuities Sales Survey, Year-end 2016

Ratings current as of 6/30/17. Financial strength ratings do not apply to the principal amount or investment performance of the separate account or underlying investments of variable annuities. While ratings can be objective indicators of an insurance company's financial strength and can provide a relative measure to help select among insurance companies, they are not guarantees of the future financial strength and/or claim paying ability of a company and do not apply to any underlying variable investment options. The broker/dealer from which an annuity is purchased, the insurance agency from which an annuity is purchased, and any affiliates of these entities make no representations regarding the quality of the analysis conducted by the rating agencies. The ratings agencies are not affiliated with the broker/dealer from which an annuity is purchased, the insurance agency from which an annuity is purchased and any affiliates of these entities, nor were they involved in any rating agency's analysis of the insurance companies.

iii Jackson also has $236.4 billion of IFRS policy liabilities set aside to pay future policy owner benefits (as of June 30, 2017). International Financial Reporting Standards (IFRS) is a principles-based set of international accounting standards indicating how transactions and other events should be reported in financial statements. IFRS is issued by the International Accounting Standards Board in an effort to increase global comparability of financial statements and results. IFRS is used by Jackson's parent, Prudential plc (Group), to report the Group's financial results.

SQM (Service Quality Measurement Group) Contact Center Awards Program for 2006–2016.

Retirement Income – Your Parents vs. You



Defined Benefit Pension Answers

Investor Questions:	Pension Answers:
Q When can I retire? How much income will I have if I retire at that point?	A You can retire at age 65 and take 60% of your final salary.
Q What if I retire early?	A You can take early retirement at age 55 with 45% of your average salary.
Q What would happen if I stopped working today?	A If you leave now, you will receive $1,500/month at age 65.

Today's Answers

Investor Questions:

Q When can I retire? How much income will I have if I retire at that point?

Q What if I retire early?

Q What would happen if I retired today/in 5 years/in 10 years?

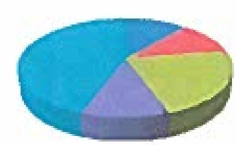
Today's Answers:

A Your account balances:
Stock fund: $23,948
Bond fund: $16,418
Other: $11,218
Total: $41,548

A Return this period: 3.2%

A Weighted index: 4.31%

A Sharpe Ratio: 0.510



Account balances, returns, weighted index and Sharpe Ratio are hypothetical for this illustration.

What's So Special About Retirement Income?

Robert Merton
MIT Professor and
Nobel Laureate in Economics

"*[Retirement] Investment decisions are now focused on the value of funds… and how volatile those returns are. Yet the primary concern of the saver remains…* ***Will I have sufficient income in retirement to live comfortably?***

The only way to avoid a catastrophe is… ***to shift the mindset and metrics from asset value to income.***[1]"

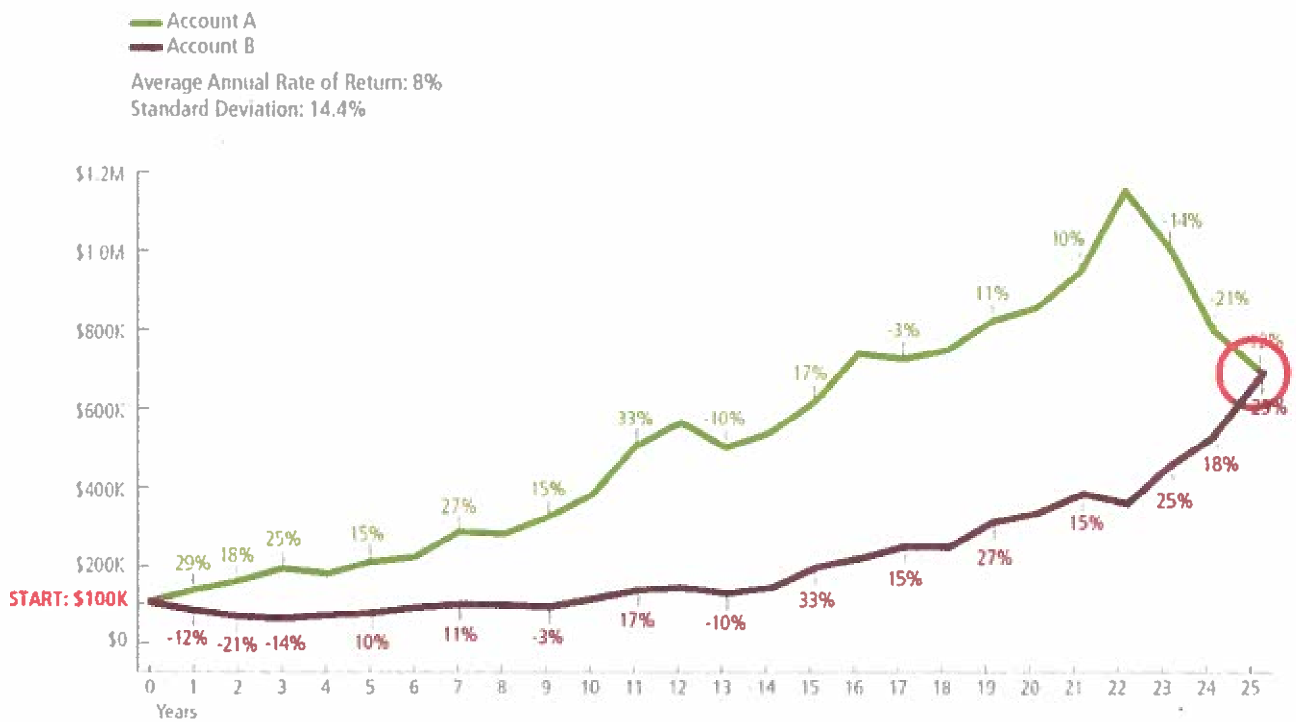
[1] Robert C. Merton, Harvard Business Review, "The Crisis in Retirement Planning," July-August 2014.
[2] Speaker reference: Our summarization of Robert C. Merton, Harvard Business Review, "The Crisis in Retirement Planning," July-August 2014.

Retirees #1 Worry - running out of Money

- 8 in 10 consumers say they would purchase an investment product providing guaranteed lifetime income – even if it cost more than an alternative.
- Only 1 in 10 consumers would refuse to consider an annuity recommendation from a financial advisor.
- 3 in 4 consumers age 35-44 say they would be very or somewhat interested in a financial product providing a greater amount of lifetime income than a non-guaranteed alternative, even if they were unable to access the principal amount.
- One third of advisors report having had two or more clients exhaust their investable assets.
- More than half of advisors believe at least some of their clients who don't own annuities will run out of money during retirement.

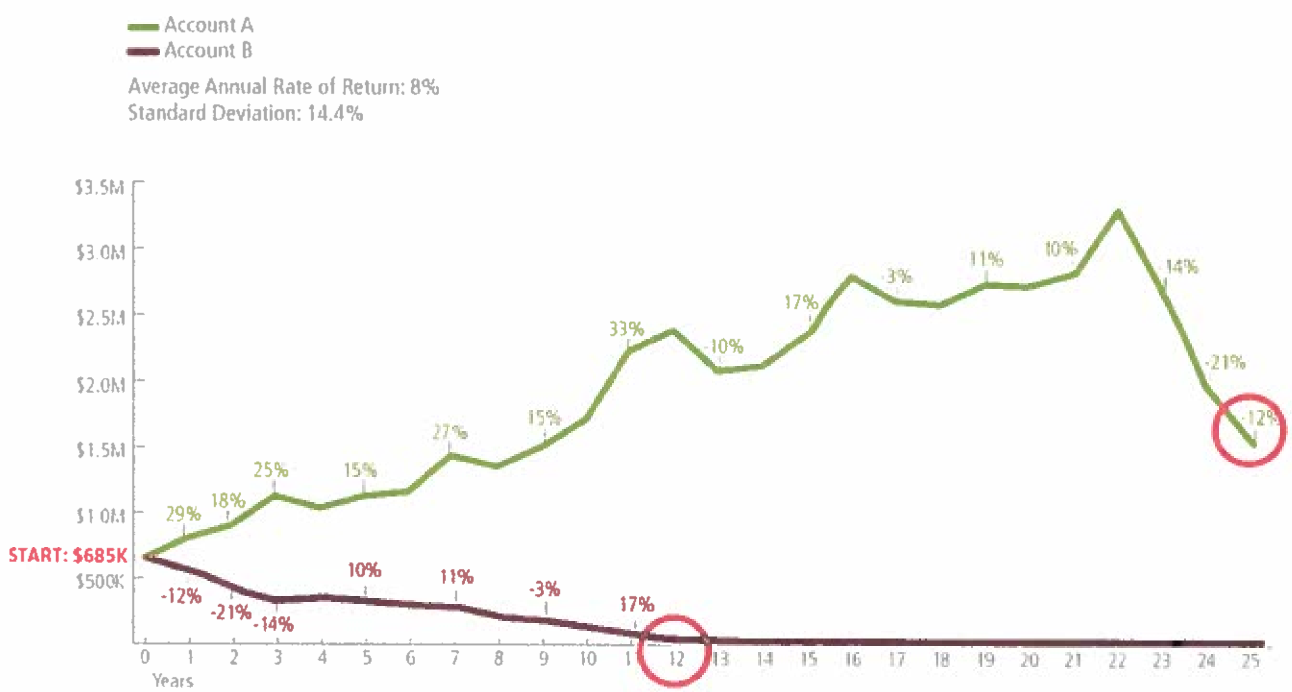
The Language of Retirement 2017 – Advisor and Consumer Attitudes Toward Securing Income in Retirement, Jackson and Insured Retirement Institute Study (Sep 2017), https://www.jackson.com/content/dam/cfk/documents/cmc19005/Language%20of%20Retirement-IRI%20Study-CMC19005_0617_Final.pdf.

Sequence of Returns Risk



This chart is hypothetical. The average annual return is equal to 8.0% in both scenarios and does not reflect the performance of an actual product or account, or the taxes and other fees that, if applied, would reduce performance. Performance over the time period shows an inverse relationship between Accounts A and B.

Sequence of Returns Risk



During the distribution phase, each hypothetical account is adjusted for the annual return indicated in the Before Retirement chart, then reduced according to a 5% hypothetical withdrawal at the end of each year. Starting in year two, the withdrawal amount is increased each year by 3% for an assumed rate of inflation.

Sequence of Returns in History

A 70/30 Stock/Bond portfolio grows from $100,000 to over $300,000 from 1997-2014.[1]

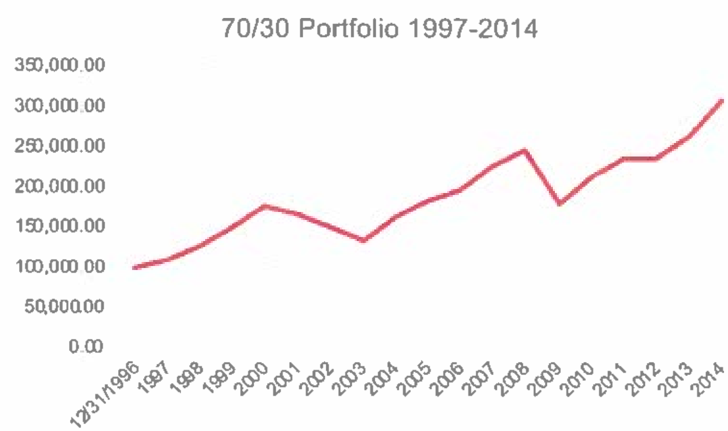
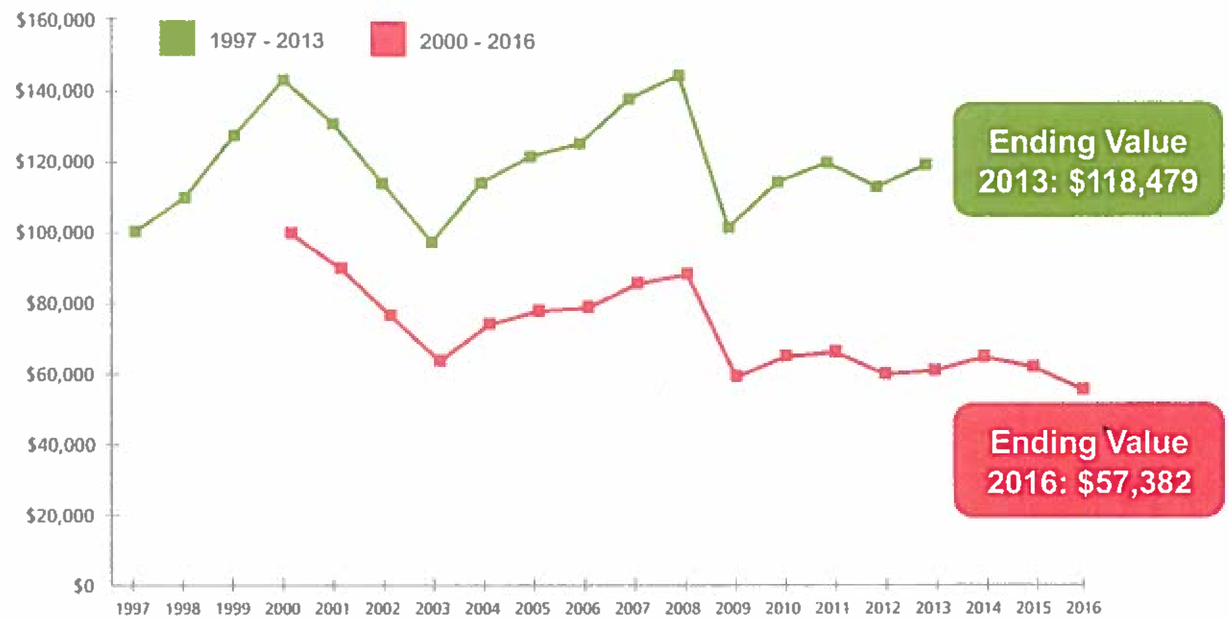


Chart Source: 70% MSCI World Index, 30% Bank of America Merrill Lynch U.S. Treasury Index.
The MSCI World Index is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries. The MSCI World Index is unmanaged and not available for direct investment. The Bank of America Merrill Lynch U.S. Treasury Index is an unmanaged index that tracks the performance of the direct sovereign debt of the U.S. Government and is not available for direct investment. **Past performance is no guarantee of future results.**
[1]Speaker reference: James M. Sanford, Chicago Tribune, "The Strong Case Against Annuities," June 23, 2016.

Sequence of Returns in History

70/30 Portfolio

($100,000 value, 4%/Year withdrawal adjusted for inflation)[1]



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Retiring at the Wrong Time

...Markets don't have to go down and stay down to ruin your retirement. All you need is a bear market at the wrong time, and the sustainability of your income can be cut in half.[1]

- **Moshe A. Milevsky, Ph.D.**
  "Confessions of a VA Critic"

[1]Moshe A. Milevsky, Research Magazine, "Confessions of a VA Critic," January 1, 2007.

So which RISK is #1?

Longevity Risk is HANDS DOWN the #1 Risk in Retirement!

Why? Because it is NOT just a Risk. It is a RISK MULTIPLIER of the other Risks!

Longevity Risk	Long-Term Care Risk
Deflation Risk	Mortality Risk (Death)
Market Risk	Inflation Risk
Withdrawal Rate Risk	
Sequence of Returns Risk	

The New Reality

Chance of Success over 30-Year Retirement[1]

Withdrawal Rate	Stock / Bond% Mix: 100/0	75/25	50/50	25/75	0/100
3%	90	95	98	99	98
4%	77	80	84	82	55
5%	60	59	53	31	8
6%	45	38	23	4	1
7%	31	21	8	0	0
8%	20	11	2	0	0

More Likely — Less Likely

[1]Wells Fargo, "Withdrawal Rates and Your Retirement," 2015.
[2]Speaker reference: Michael Finke, Wade D. Pfau, David M. Blanchett, "The 4% Rule is Not Safe in a Low-Yield World," January 2013.

The Big Question: Can we design a plan where “failure” is still an acceptable retirement?

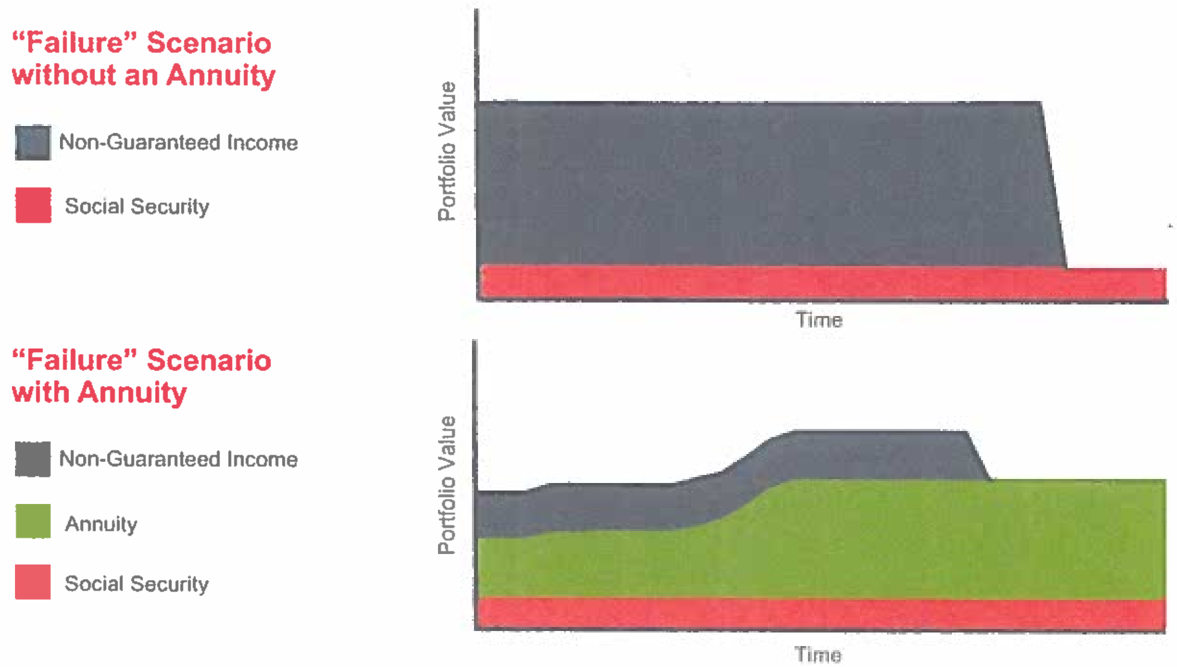

Chart source: Ibbotson, 2016.
These hypothetical examples are for illustrative purposes only and are not representative of the future performance of any product. Past performance is no guarantee of future results.
Guarantees are backed by the claims-paying ability of the issuing insurance company.
Annuities are long-term, tax-deferred vehicles designed for retirement. Variable annuities involve investment risks and may lose value. Earnings are taxable as ordinary income when distributed and may be subject to a 10% additional tax if withdrawn before age 59½.

"All of these researchers agree that life annuities are a legitimate and core product for the optimal retirement portfolio."

- Moshe A. Milevsky, PhD

Annuities provide options that may not be available in other investment vehicles.

- Annuities can provide a guaranteed lifetime income.
- Annuities can guarantee a return of premium.
- Annuities can provide a guaranteed death benefit to your beneficiaries.

Guarantees are backed by the claims-paying ability of the issuing insurance company and do not apply to the principal amount or investment performance of the separate account or its underlying investments.

Q&A

- Do annuities have to be "annuitized" in order to provide guaranteed lifetime income?
- Is the decision to purchase an annuity irrevocable?
- Why include an annuity into a qualified work sponsored retirement plan, instead of rolling over assets at separation of service into an annuity?
- Why would an annuity be used inside a qualified work sponsored retirement plan that already has tax deferral?
- Why do I hear that annuities are too expensive?
- Are annuities too complicated for the average participant to understand?
- What happens if the issuer of the annuity encounters financial difficulty?
- Are annuities available without surrender charges / holding periods?
- Can a participant benefit from investing in similar/same funds within an annuity if they are incurring a higher cost?
- Is there any benefit for a younger participant to begin to fund an annuity within a qualified work sponsored plan?