

# Impact of DOL Fiduciary Rule



# Overview

- Lessons learned in UK
- Indicators of what will happen in US
- Advice matters
- Robo-advice not effective substitute
- U.S. market landscape
- Value of annuities



# What is the Retail Distribution Review?

- ✓ The Retail Distribution Review (RDR) represents one of the biggest overhauls of financial regulation in the UK since the Financial Services Act was introduced in 1986.
- ✓ Enacted in December 2012, the RDR banned commissions and required advisors to outline the fees for their advice in advance.



# What happened?

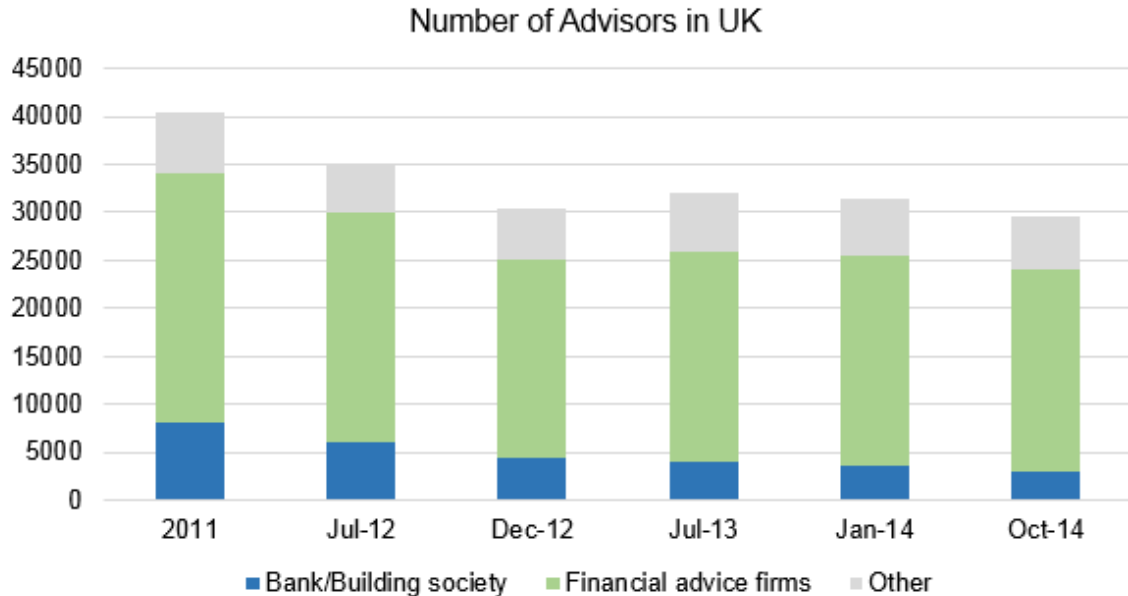


In 2016, the Financial Conduct Authority (the UK financial services industry regulator), issued a report about the market impact as a result from the rule.



# There are fewer advisors

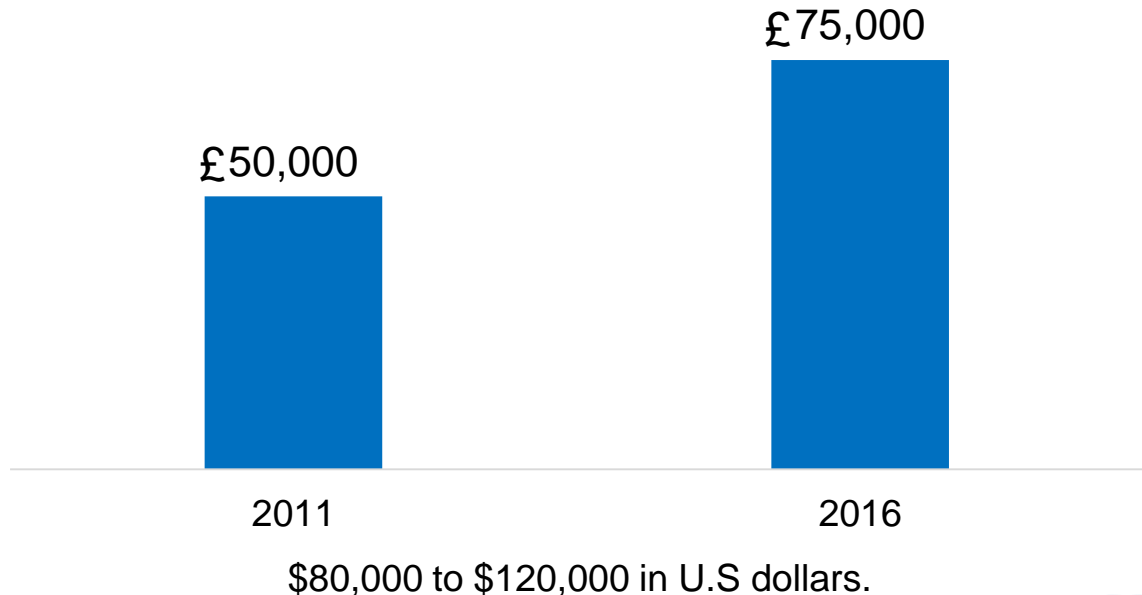
*Number of advisors declined 23 percent from 40,000 in 2011 to 31,000 in 2015, where it remains today*





# Advisors now require clients to have more assets

*Advisors increased the minimum assets required for new clients by 50 percent*





# How much were UK consumers willing to pay?



- ✓ Only **8 percent** of consumers were willing to pay more than £500 (~\$800) for investment advice.
- ✓ Just **14 percent** were willing to pay between £200 to £500 (~\$320 to \$800) for advice.

On average, it takes about 9 hours to provide advice on a pension, costing more than **£1300 (\$2100)**.



# Less affluent consumers have reduced access to advice

- ✓ Opening of investment accounts with less than \$100,000 fell by 50 percent.
- ✓ Major banks cancelled their financial advice services for clients with modest assets.





# The middle market was left behind



*“Consumers without significant wealth currently find it more difficult to access advice or support to meet their needs.”*

- excerpt from final report

# Regrets?

*“The Financial Conduct Authority is examining the possibility that commission payments be allowed once again for certain investment or pension products.”*



Tracey McDermott  
Acting Chief Executive  
Financial Conduct Authority



**LIMRA research indicates the U.S.  
will have similar outcomes...**



# There will be fewer advisors

## Advisor Perspective:

- ✓ Fifty-four percent think advisors will retire or leave the business in many cases rather than sell under the new rule. Reasons include:
  - Increased litigation (75%)
  - Changes to compensation (68%)
  - High cost to implement (61%)

## B-D Perspective:

- ✓ More than half believe advisors will retire or leave the business rather than sell under the new rule.

# How much are U.S. consumers willing to pay?



*Only*

**15%**

of Americans are willing to pay  
more than

**\$100**

for advice on financial risks and  
insurance products



# Advisors say they will turn away small investors

# 54%

Advisors who say they will be forced to drop or turn away small investors.

\* More than 15 million (or nearly half) of households with less than \$250k in investable assets works with an advisor



# Middle market consumers will lose access to advice

If just half of these advisors follow through and drop their lower-asset clients...

*More than*

**4 million middle market households would lose access to advice**

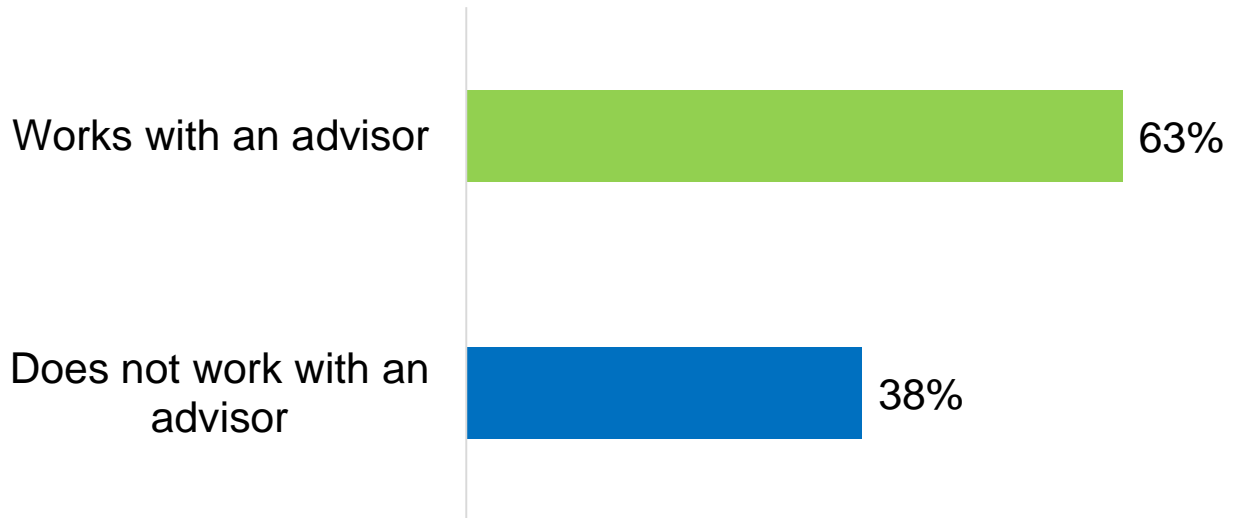


# Advice Matters



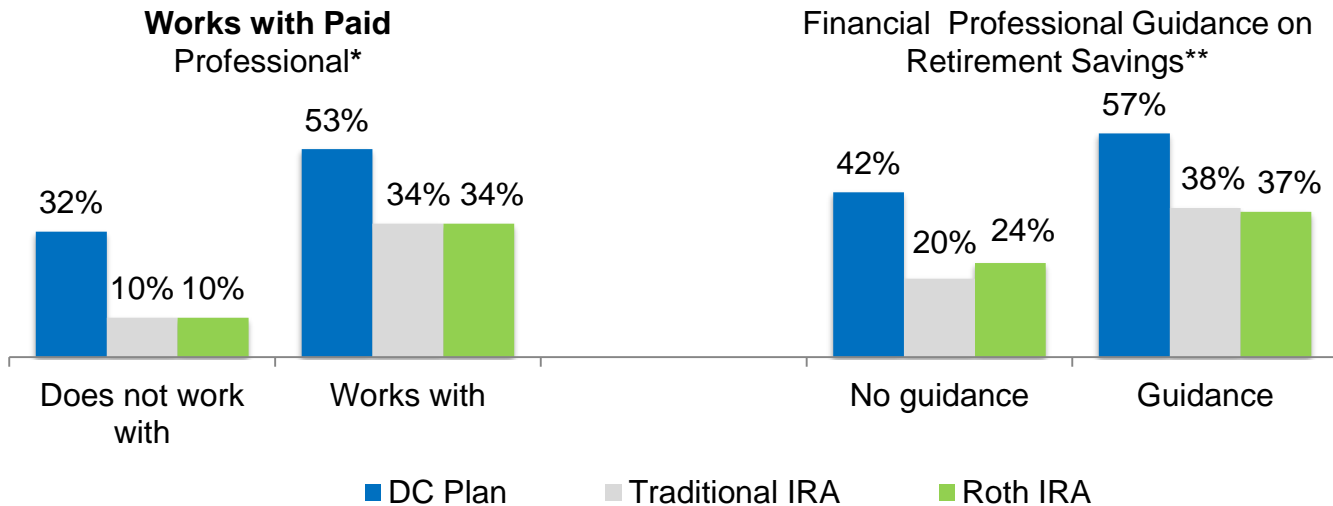
# Working with an advisor improves savings habits

Households that save 10% or more of their income



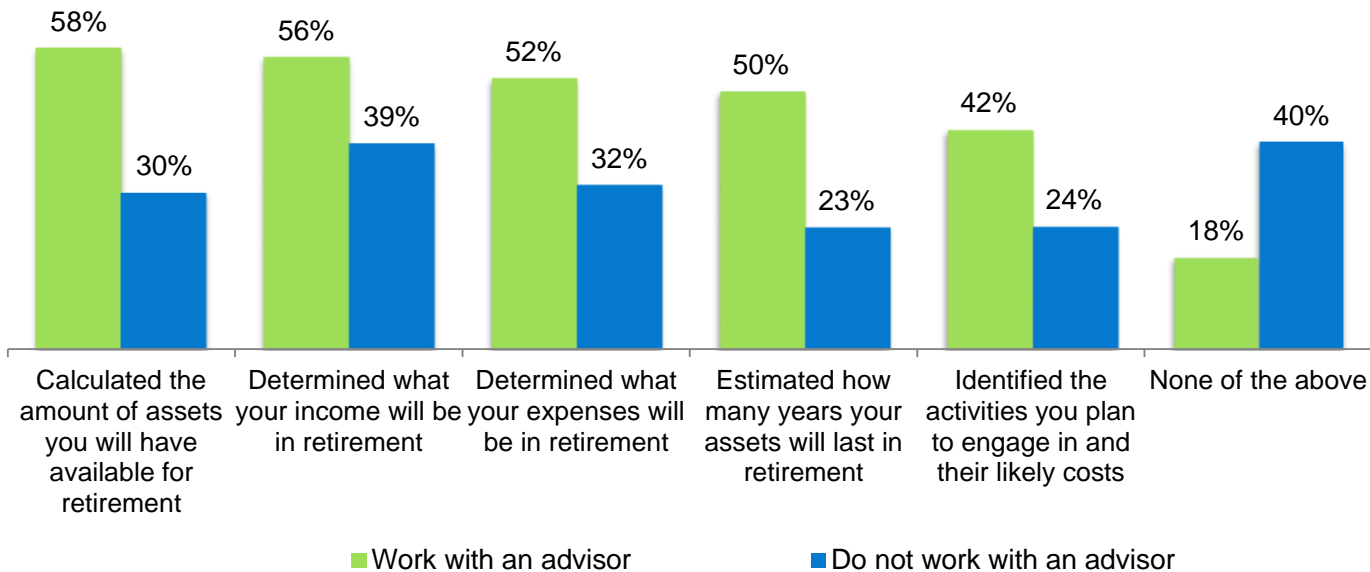
# Consumers who work with an advisor save more

## Contributing To Retirement Plan



# Pre-retirees with advisors have done more planning

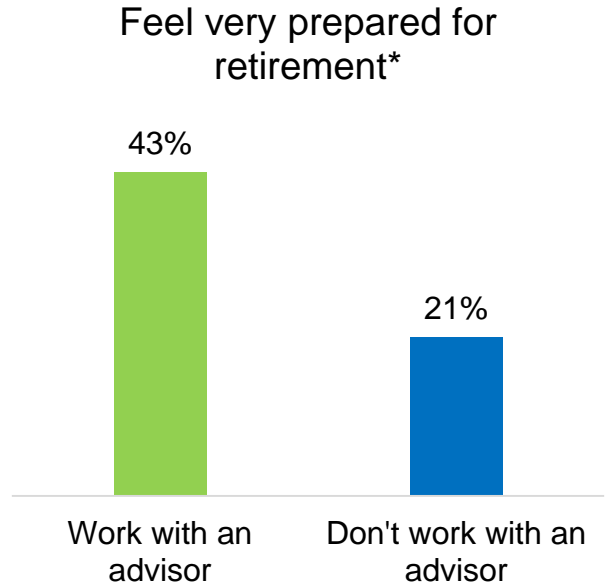
## Pre-retiree Retirement Planning Activities Completed



# Working with an advisor improves confidence that pre-retirees are prepared



\*This is true at all asset levels





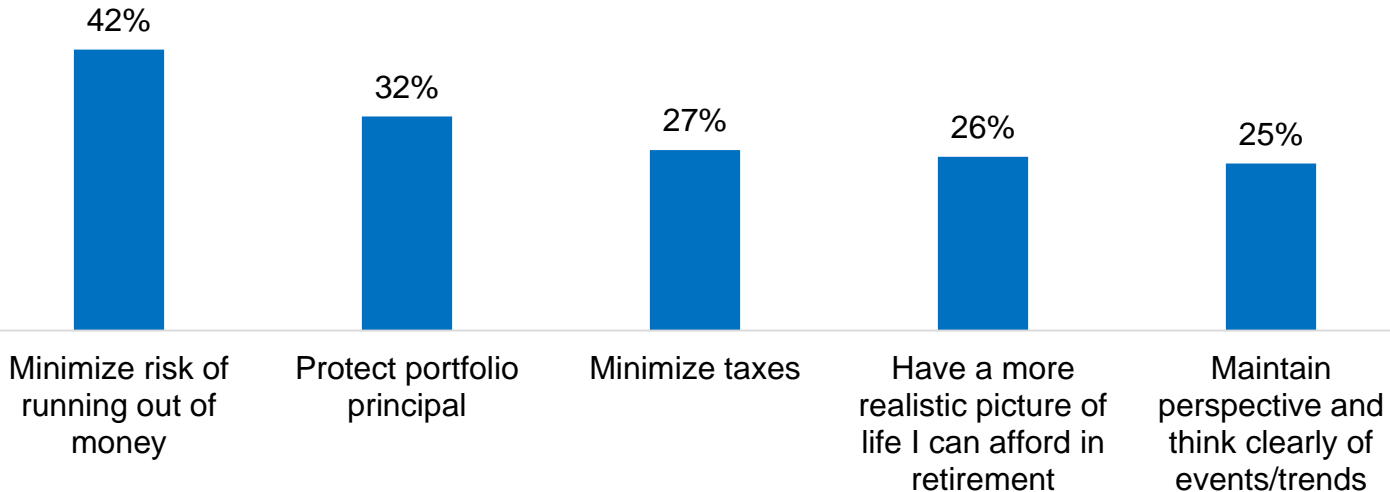
# Pre-retirees feel they need help to prepare for retirement

- ✓ Over **half** of pre-retirees think they'll need moderate or extensive advisor assistance to estimate how long their assets will last in retirement.
- ✓ **Six in ten** pre-retirees say they'll need moderate or extensive advisor assistance to develop a retirement income strategy.

Only 11 percent of workers strongly agree that they are comfortable planning for retirement without the assistance of a financial professional.

# Consumers value the services advisors provide

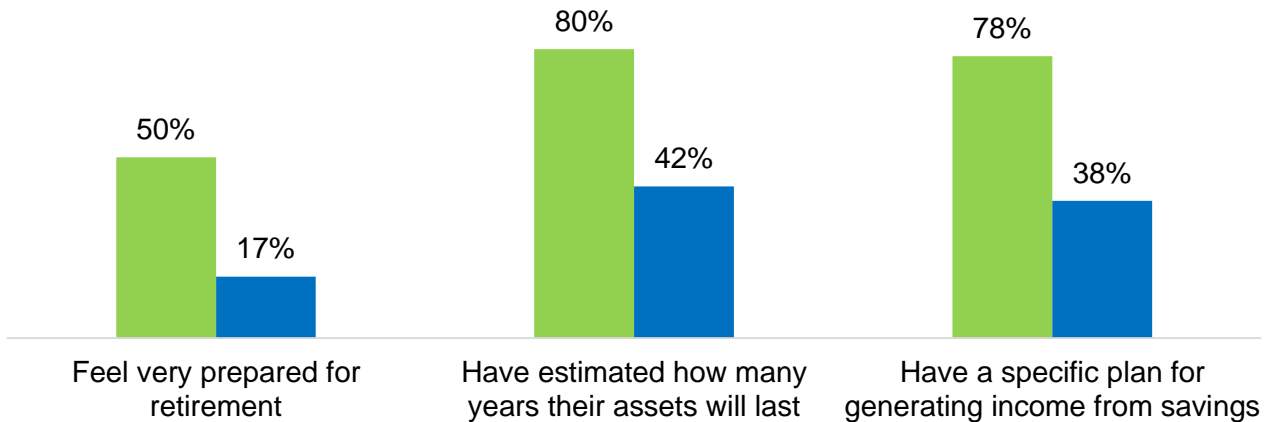
## Most valued services advisors provide



Source: *Dear Advisor...* (2017), LIMRA Secure Retirement Institute, 2017. Maximum of three responses allowed.

# Having a formal written retirement plan impacts retirement planning behavior

- Retirees and pre-retirees with a formal written retirement plan
- Retirees and pre-retirees with NO formal written retirement plan



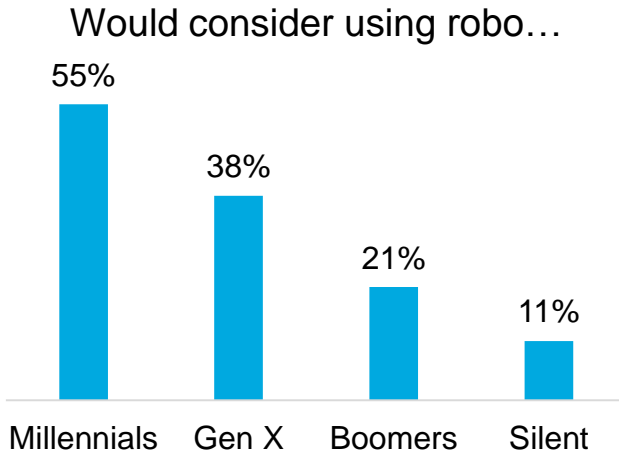
75 percent of all formal retirement income plans are developed using advisors



# **Robo-advice not an effective substitute...**



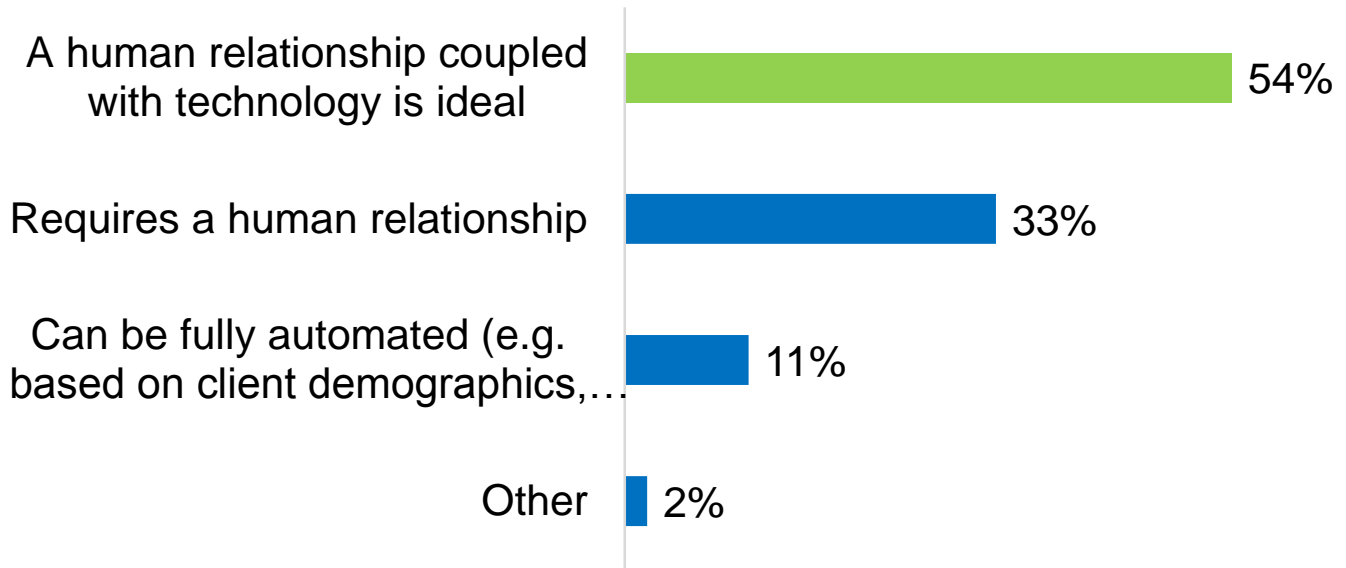
# Few consumers use automated advice platforms



- ✓ Just over a third of U.S. consumers are aware of robo-advice.
- ✓ Less than 1 in 10 consumers use a robo-advice platform.
- ✓ Millennials are most likely to consider using robo advice in the future.

UK study found robo-advice has 'failed to gain traction' in the mass market.

# Majority of Americans want to use mix of human advisor/tech for financial guidance





68%

Emerging wealthy and high-net-worth investors  
prefer “hybrid” investment advice  
(a combination of traditional advisory services and low-cost digital tools)

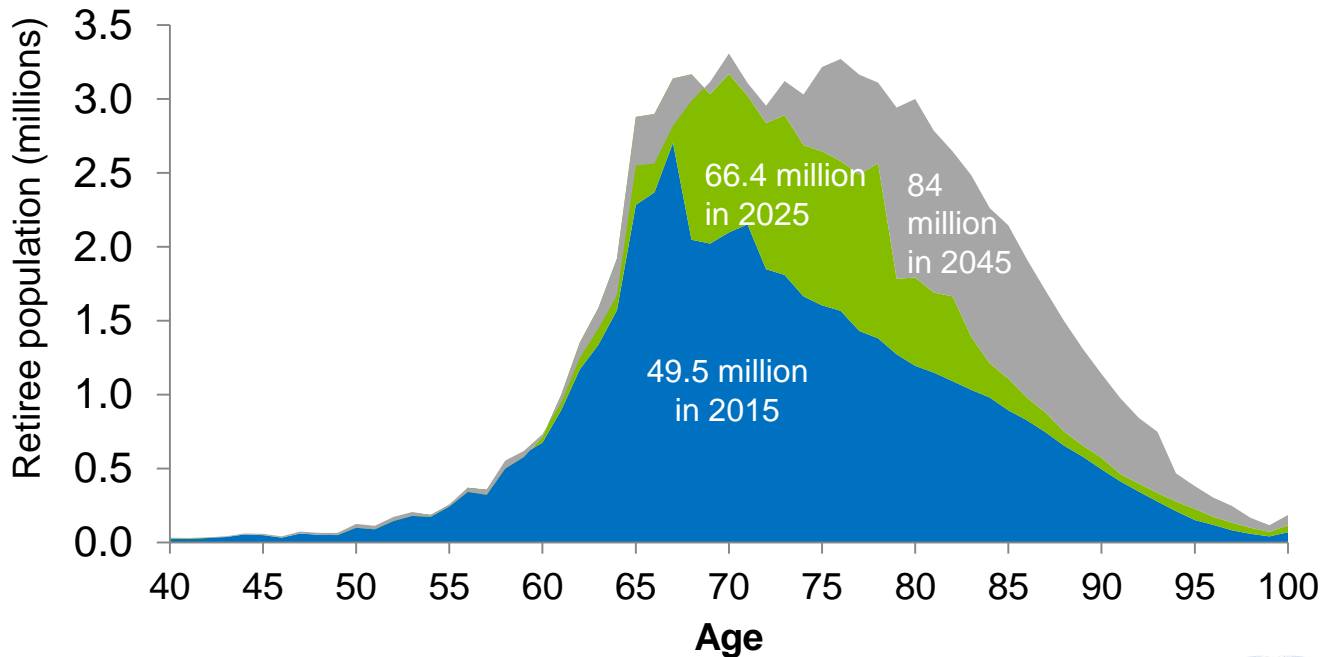
- ✓ More satisfied
- ✓ More likely to seek help



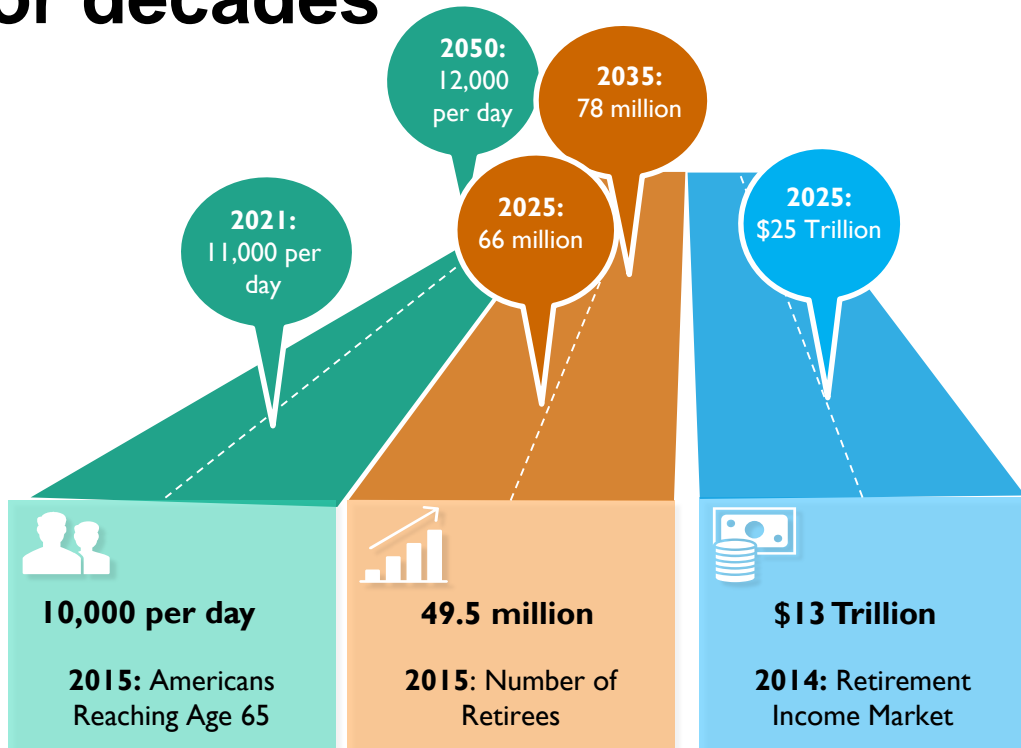
# U.S. Market Landscape

# By 2045, there will be 84 million retirees in the U.S.

## PROJECTED NUMBER OF RETIREES



# U.S. retirement market will grow for decades

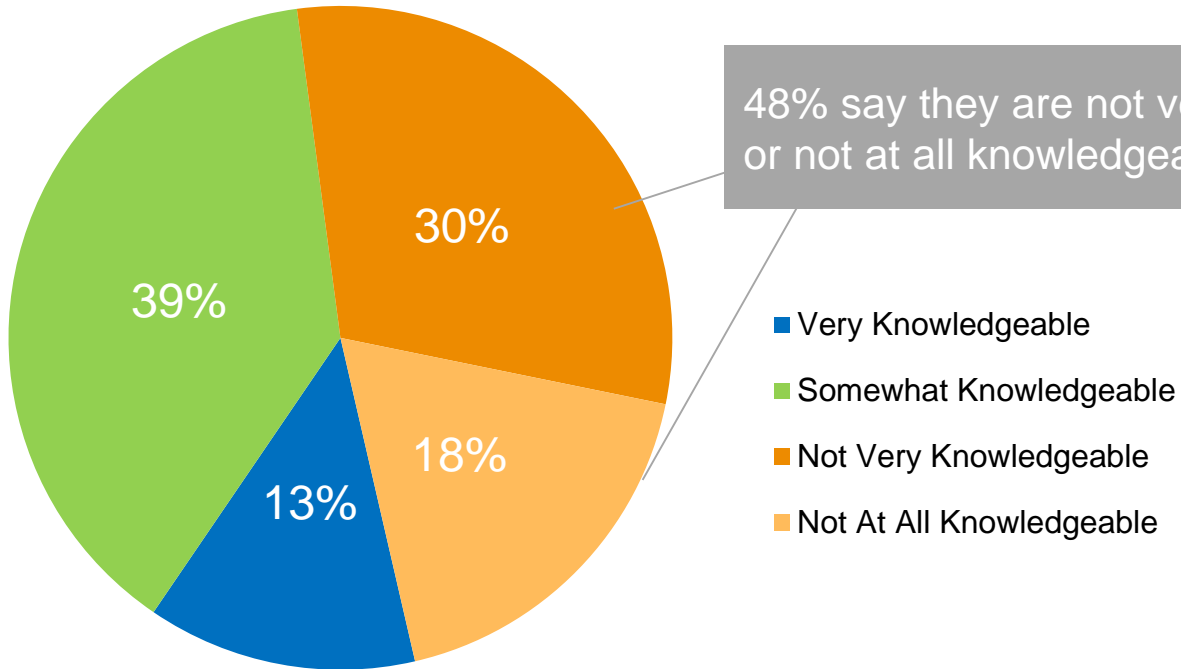


# The need for advice is great



- ✓ 70 percent of pre-retirees don't think they are well-prepared for their retirement
- ✓ 1 in 5 feel not prepared at all

# Nearly half of Americans are not confident in knowledge about investments/financial products







# Desire for lifetime guaranteed income is strong

- ✓ Top concern for Americans is having enough money that will last throughout their retirement.
- ✓ 8.5 million American households\* are interested in investing a portion of their savings to create guaranteed lifetime income for retirement.

Estimated demand for guaranteed lifetime income is around \$750 billion (assuming the interested households want to invest 20% of their savings to create lifetime guaranteed income).

\*6.5 million not-retired and 2 million retired



# Access to guaranteed income products will decline

# 29%

Banks and credit unions say they will drop some guaranteed income products, like VA with guaranteed riders, in response to the DOL fiduciary rule.

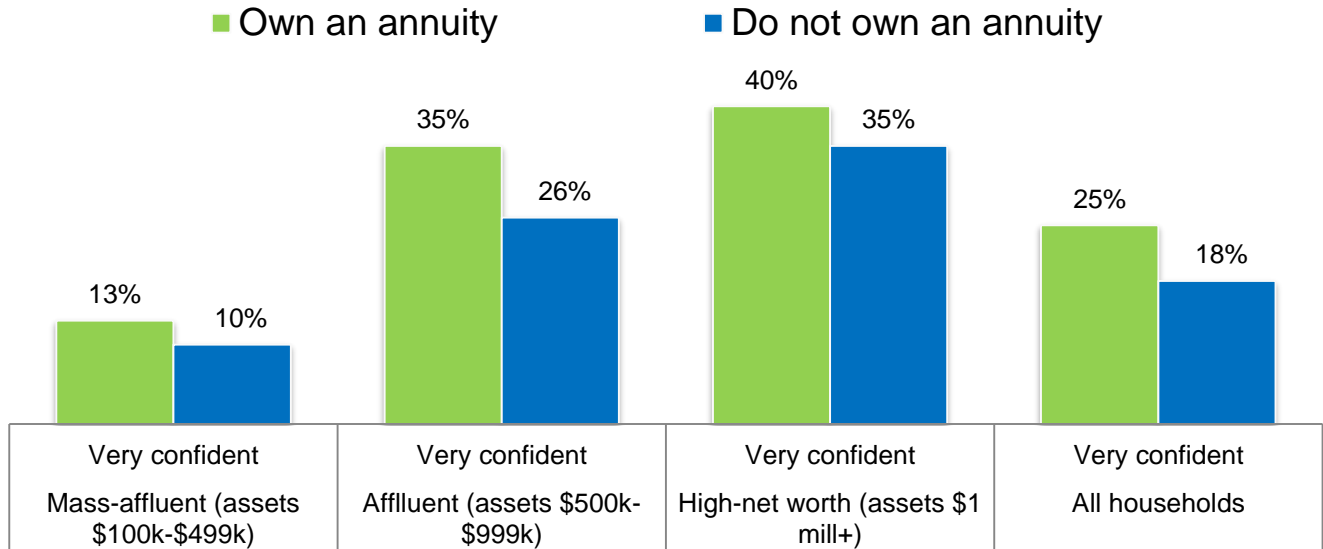


**Annuities are the only financial vehicle that can guarantee lifetime income**

# Annuity owners are more confident

*Very Confident* in the Ability to Live the Retirement Lifestyle They Want

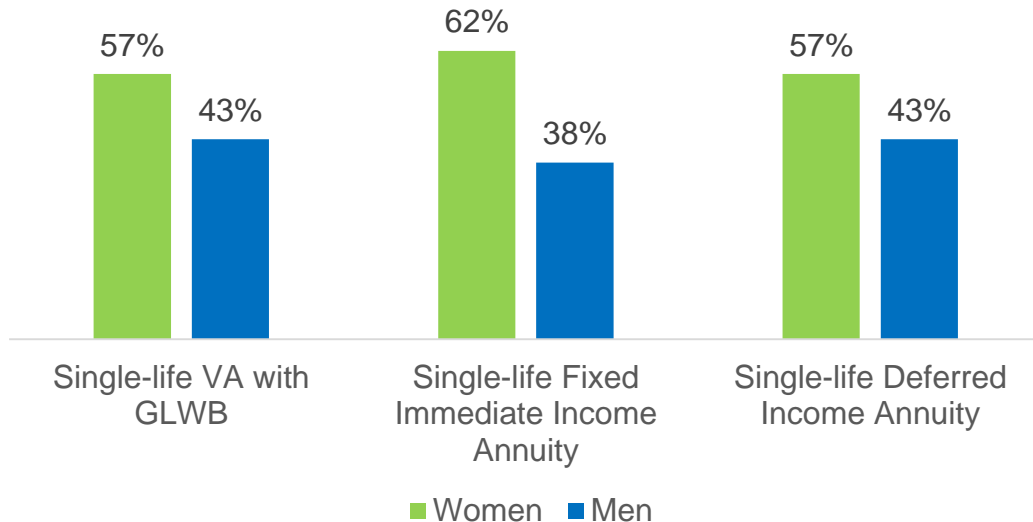
Percentage of Households



Source: *Annuities: Love Them When You Know Them, Hate Them When You Don't*, LIMRA Secure Retirement Institute, 2014.

# Women rely on guaranteed income products

*Women – who face increased longevity risk – own a high percentage of the guaranteed income products*





# VA GLB owners received ~\$15 billion of guaranteed income payments in 2015

**\$8.4 billion:** estimated industry guaranteed income payments for GLWB in 2015

**\$1.1 billion:** estimated industry guaranteed income payments for GMWB in 2015

**\$5.1 billion:** estimated industry guaranteed income payments for GMIB in 2015

# Average Annual Guaranteed Lifetime Income from Annuities - 2015

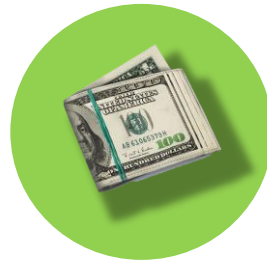
Annuity owners draw \$8,000 – \$11,000 in annual guaranteed lifetime income or withdrawals



**\$10,849**

Per Year

**Deferred Income**



**\$10,342**

Per Year

**Fixed Immediate**



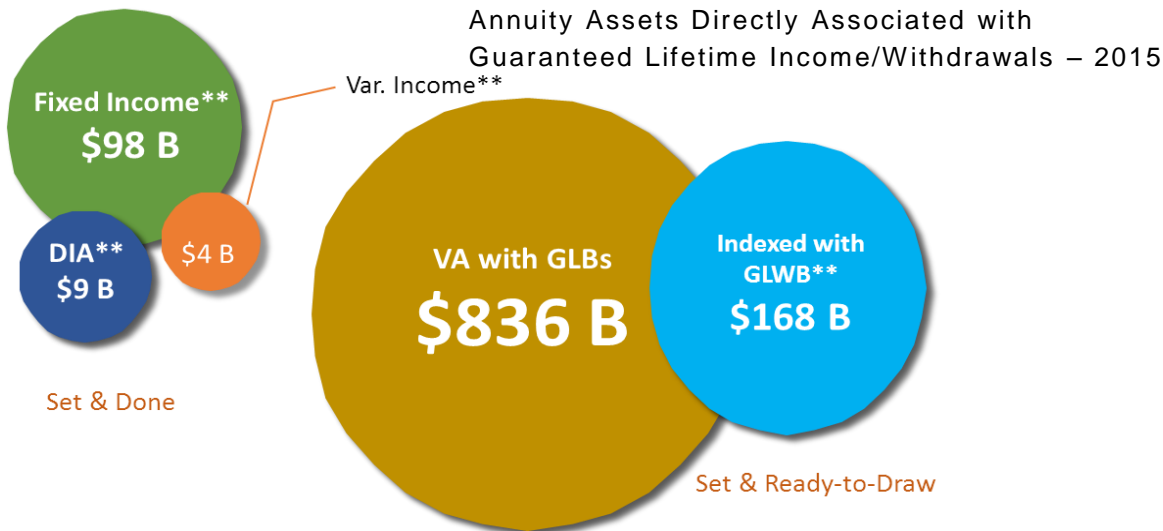
**\$8,346**

Per Year

**VA with GLWB**

Source: *Income Annuity Buyer Study*, and *VA Guaranteed Living Benefits Utilization: 2015 Experience*, LIMRA Secure Retirement Institute, 2016. The income payout amounts are based on 34,530 immediate and 11,497 deferred income annuity contracts issued in 2015. VA GLWB withdrawals are based on 516,540 contracts issued before 2015 and taking only systematic withdrawals in 2015.

# \$1.1 trillion\* invested in annuities for guaranteed lifetime income/withdrawals



\*An important component, already annuitized assets in variable, fixed-rate and indexed annuities, is not reflected due to non-availability of the data.

\*\*Estimates of year-end annuity assets in reserve.





# Annuities offer benefits to family members

- ✓ Insurance companies paid beneficiaries an estimated **\$20 billion in death benefits from VAs in 2012.**
- ✓ That's **\$1.1 billion** or **6 percent** greater than the value of the account balances.

Note: LIMRA Secure Retirement Institute will update this study later this year. Data will be available early 2018



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