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Allianz
Planning more efficiently for longevity:

Addressing the challenges of non-linear returns in retirement

Greg Goin CFP®, CIMA®, CLU®, CRPC®
External Risk Management Consultant
Agenda

- Solving a complex problem
- The rise of an integrated solution
“The nastiest, hardest problem in finance.”

On the challenge of turning savings into retirement spending

William Sharpe
Nobel Laureate
Challenge of turning savings into retirement spending

- Transition risk
- Longevity
- Sequencing / non-linearity of returns
- Butterfly effect
- Asset protection
Simplified individual investment lifecycle

RE vieux and WEALTH
Value of $100,000 after Accumulating 25 Years at Different Rates of Return

<table>
<thead>
<tr>
<th>Average annual return</th>
<th>Value of $100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>$164,804</td>
</tr>
<tr>
<td>4%</td>
<td>$271,377</td>
</tr>
<tr>
<td>6%</td>
<td>$446,497</td>
</tr>
<tr>
<td>8%</td>
<td>$734,018</td>
</tr>
<tr>
<td>10%</td>
<td>$1,205,695</td>
</tr>
</tbody>
</table>

“This hypothetical example is for illustrative purposes only.”

This hypothetical example is for illustrative purposes only.
## Simplified Individual Investment Lifecycle

<table>
<thead>
<tr>
<th>Planned Longevity</th>
<th>% Chance Running Out of Money (living beyond planned)</th>
<th>% Chance of Deploying Too Much for Income (death before planned)</th>
<th>% Chance Planned Longevity is Accurate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 90</td>
<td>42%</td>
<td>54%</td>
<td>4%</td>
</tr>
<tr>
<td>Age 95</td>
<td>24%</td>
<td>72%</td>
<td>4%</td>
</tr>
<tr>
<td>Age 100</td>
<td>12%</td>
<td>86%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Annuity w/ lifetime income benefit</strong></td>
<td><strong>0%</strong></td>
<td><strong>~ 50%</strong></td>
<td><strong>~ 50%</strong></td>
</tr>
</tbody>
</table>

In a recent survey of financial planners, we found that **9 out of 10 plan for income well beyond their clients’ life expectancies.**

Planning for the unknowns of longevity can lead to potential inefficiencies.

**Why are planners so cautious?**

In our study, **2/3** said their clients are very or extremely concerned about outliving their money.

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**Life expectancy used for planning**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 85 years</td>
<td>1%</td>
</tr>
<tr>
<td>85-89 years</td>
<td>9%</td>
</tr>
<tr>
<td>90-94 years</td>
<td>39%</td>
</tr>
<tr>
<td>95-99 years</td>
<td>33%</td>
</tr>
<tr>
<td>100+ years</td>
<td>17%</td>
</tr>
</tbody>
</table>

**Actual life expectancy at age 65**

- Male: 84.0
- Female: 86.5
50/50 portfolio provides more than annuity + stocks

Annuity + stocks provides more than 50/50 portfolio

Risk premium vs. risk pooling investments only vs. partial annuitization for 65-year-old female with $1 million seeking to spend $45,000 through age 100.


This hypothetical example is for illustrative purposes only.
Why consider transferring longevity risk to an insurance company?

- Insurance companies can pool risk and utilize actuarial large number analysis
- This allows for more efficient management of assets for liquidity needs (near-term liabilities) and growth potential (longer-term liabilities)
- By transferring this critical function to an insurance company, you can also gain:
  - More capacity to focus on other assets in the portfolio
  - More time for other tasks in your practice like acquiring new clients and nurturing existing relationships
- In addition to taking on longevity risk, the insurer can also assume market, reinvestment, and default risks
Challenge of turning savings into retirement spending

- Accumulation
- Transition risk
- Decumulation
- Retirement

- Asset protection
- Sequencing / non-linearity of returns
- Butterfly effect
- Longevity
How has the industry responded?

Schwab Announces Launch of Schwab Intelligent Income™ to Modernize How Investors Can Pay Themselves From Their Portfolios

BlackRock introduces iRetire, addressing lifetime questions

IRS Makes Annuities Required Minimum Distributions

DPL Financial Partners, a leading independent firm and first “life of the policy” commission-free insurance network

Allianz Life Partners With SS&C’s Black Diamond Wealth Platform

To better help investment advisors incorporate annuities into clients’ holistic financial plans, including managing retirement risk, Allianz Life Insurance Company of North America (Allianz Life(R)) today announced a strategic partnership with SS&C’s Black Diamond(R) Wealth Platform, an award-winning portfolio management platform for financial professionals.

RIAs Give No-Load Annuities Another Look

Microsoft and BlackRock Announce Retirement Planning Partnership
"Buying an income annuity with a portion of a retiree’s portfolio [...] efficiently reduces the risk of outliving safe investments."

David Blanchett
Head retirement research Morningstar
Ph.D., CFA, CFP®

Michael Finke
Chief Academic Officer of American College
Ph.D., CFP®

The insurance world is poised to enter a new era of product creativity [...] Now the distribution winds are shifting from traditional commission-compensated agents to fiduciary advisors, who are going to be making very different requests.
We aim to test these competing approaches to provide greater clarity about the role of risk pooling (income annuities) and risk premium (stocks) in a retirement income plan. The analysis is based on meeting a prioritized list of spending goals: funding retirement spending, supporting liquidity to cover contingencies or to support further lifestyle enhancements, and providing a legacy to the next generation.

Wade Pfau
Professor of Retirement Income
Ph.D., CFA, RICP

Summary

Solving a complex problem

The rise for an integrated solution
Guarantees are backed by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America and do not apply to the performance of the variable subaccounts, which will fluctuate with market conditions.

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QUESTIONS?

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