INSIGHTS

PACIFIC LIFE

RETIREMENT STRATEGIES GROUP | SEPTEMBER 2024 RETIREMENT PLANNING

# Protection Features in an Annuity Can Help Clients Stay Invested

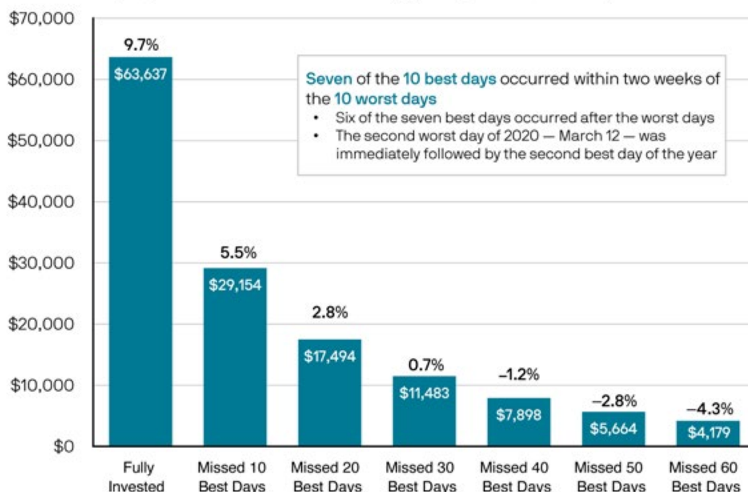
Clients are rightfully concerned about protecting their retirement savings in the crucial years just before retirement. As their financial professional, you can help them limit potential losses stemming from the bad luck of experiencing a down market as retirement approaches.

It goes without saying that clients may struggle with market volatility. Watching retirement savings decline by 10% or more right before retirement can call into question even the sturdiest of retirement-income plans and cause clients to act irrationally. They may want to flee to the presumed safety of fixed income or cash investments. But are clients really safer in those vehicles? When planning for a 20-plus-year retirement, it's important to consider a long-term investment plan and the potential impact on growth if clients are out of the market. As you can see in the following example, getting out of the market—even for a brief time—can cause clients to miss opportunity and upside recovery.

## Impact of Being Out of the Market

**Returns of the S&P 500®**

Performance of a $10,000 investment between January 1, 2004, and December 29, 2023




**Plan to Stay Invested**

Losses hurt more than gains feel good. Market lows can result in emotional decision making.

Taking "control" by selling out of the market after the worst days is likely to result in missing the best days that follow. Investing for the long term in a well-diversified portfolio can result in a better retirement outcome.

Source: J.P. Morgan Asset Management analysis using data from Bloomberg. Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations are shown gross of fees. If fees were included, returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2023.

J.P.Morgan ASSET MANAGEMENT

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## How Can an Annuity Help Tamp Down Fear?

To alleviate trepidation about sticking to the investment plan, you can consider offering an annuity that includes a level of protection against market loss. For example, a registered index-linked annuity links to index performance and may offer protection in two forms:

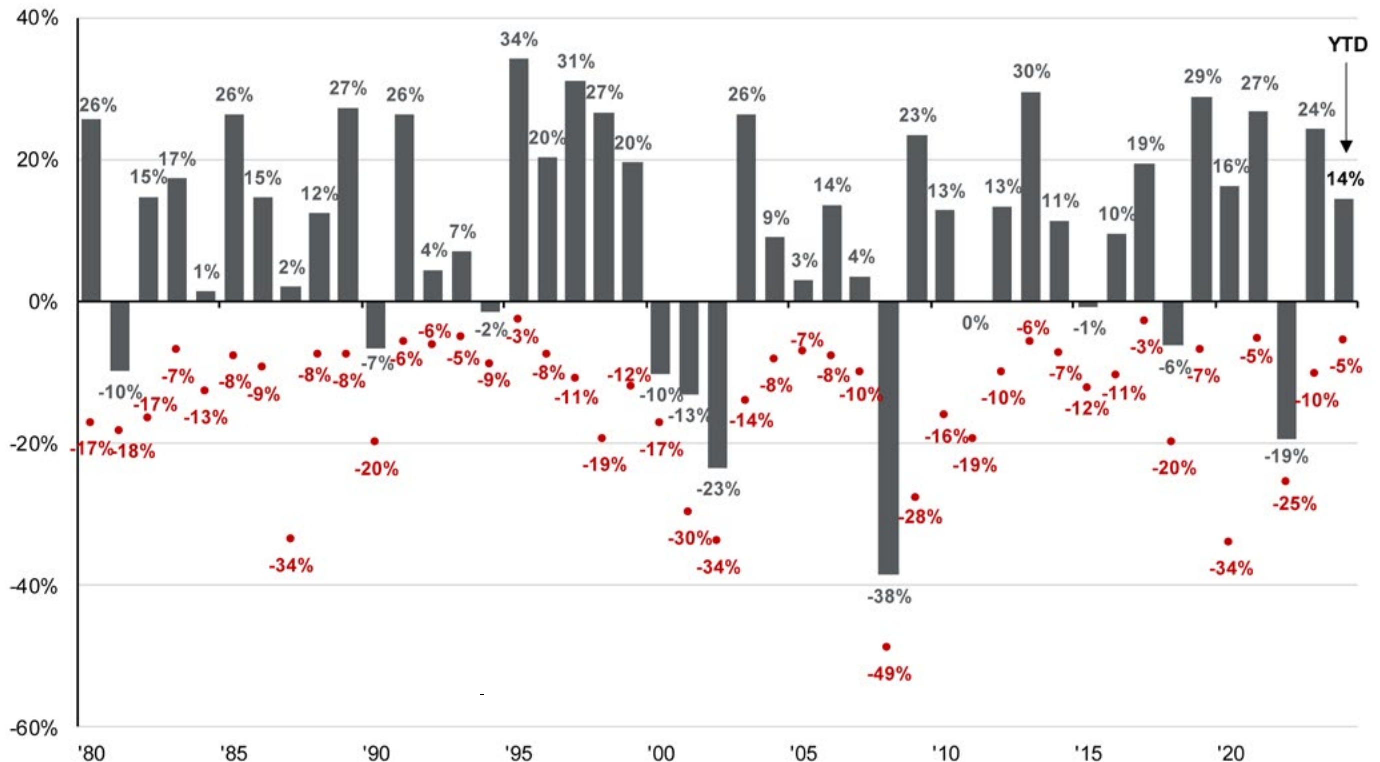
- A **floor**—where the insurance company sets maximum loss level is set. Let's say the floor is –10%. In that case, a –25% index return results in a maximum –10% loss. But a –9% return is a –9% loss because the return is less than the maximum.
- A **buffer**—where the insurance company will absorb initial losses that are within the buffer. Clients would, however, realize any loss that exceeds the buffer. So, with the same –25% return and a 10% buffer, the client would realize a –15% loss. But if the index returned –9% (within the buffer), the client's account value would receive 0% credited and no loss.

In exchange for the protection of the buffer or floor, these annuities will employ growth mechanisms that may not deliver fully on market performance but will capture a portion of it. For example, a method for crediting interest may use a cap (maximum growth) or participation rate (percentage of performance).

## Up-Market Years Are Generally More Common Than Down-Market Years

In addition to offering your clients a product with a level of protection against loss to lessen a "flee-to-safety" mentality, you may want to show them that, over time, there have been more positive than negative years in the market. And though past performance is no guarantee of future results, staying true to their goals can help them benefit from market rallies. By purchasing an annuity that includes a measure of protection against those negative years, the impact to income may be lessened.

## Annual Returns and Intra-Year Declines




Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2023, over which time period the average annual return was 10.3%.
*Guide to the Markets – U.S.* Data are as of June 30, 2024.

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## Market Protection Could Help Clients Stay Invested for the Long Term

The goal is to give clients the confidence to stay invested during those crucial years as they near retirement, so they have the fortitude to stick to their long-term plans. If the market is in a downswing, an annuity with a floor and/or buffer can help protect a portion of their accumulated savings and may allow them to feel better about staying on track.

### ACTIONS YOU CAN TAKE RIGHT NOW

- **Identify clients who have expressed concerns about market volatility and have a desire to mitigate risk in their portfolios.**
- **Review the floor and buffer strategies that may help alleviate those concerns.**
- **Determine which annuity product might work and which protection options may be appropriate.**

## Additional Resources and Links

Retirement Strategies Blog

Income Planning

Market Insights

**For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.**

**Annuities.PacificLife.com**

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