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Retirement Income
& Risk Planning 2023:

Looking Beyond Today

Produced by:

Wealth Management IQ

A division of WealthManagement.com

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Contents

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Introduction

Given last year's higher inflation, the worst stock market performance since 2008, and the worst bond market performance ever, it's not surprising that financial professionals in 2023 are being more cautious in formulating their clients' retirement income planning needs and managing their risks. While not drastically changing course, financial professionals are being attentive to client concerns about greater longevity amid the unusual turbulence. That is the broad overview of results from this year's in-depth study of advisors and retirement income and risk planning conducted recently by WealthManagement IQ sponsored by Allianz Life Insurance Company of North America.

This white paper will present highlights of that research, discuss their implications, and offer suggestions regarding the ways in which advisors can address the retirement income and planning needs of clients as another unsettled year unfolds.

Survey Highlights

- While advisors ranked investment management as their most frequently provided service to clients followed by retirement income planning, the services where they expect to see the most growth over the next two years are retirement income planning, financial plan development, risk management and estate planning — in that order. Those four services and their rankings are unchanged from last year.
- The median average initial withdrawal rate remains unchanged at 4% (a rate recommended by 38% of respondents in 2022 and 2023), but the percentage of advisors recommending an initial 5% withdrawal rate dropped to 18% from 23%, and the percentage of advisors recommending an initial withdrawal rate below 3% jumped to 13% from 2%. Clearly, advisors are reconfiguring plans based on market performance and confidence levels.
- Risk management continues to be advisors' top strategic planning priority, followed by holistic financial planning; the percentage of advisors rating those priorities as "very important," however, fell slightly from 2022.
- Most advisors continue to believe their clients are prepared for retirement, although to a slightly less optimistic degree than last year.
- Longevity is seen as the greatest risk to retirement income plans, up from fourth place in 2022.
- The second-greatest risk to retirement income plans is perceived to be long-term care (up from third place) followed by inflation, which had been the perceived as the greatest risk in 2022.
- Advisors continue to report a lukewarm level of client interest in annuity products, but the percentage of advisors who increased their use of fixed annuities and fixed index annuities approximately doubled.

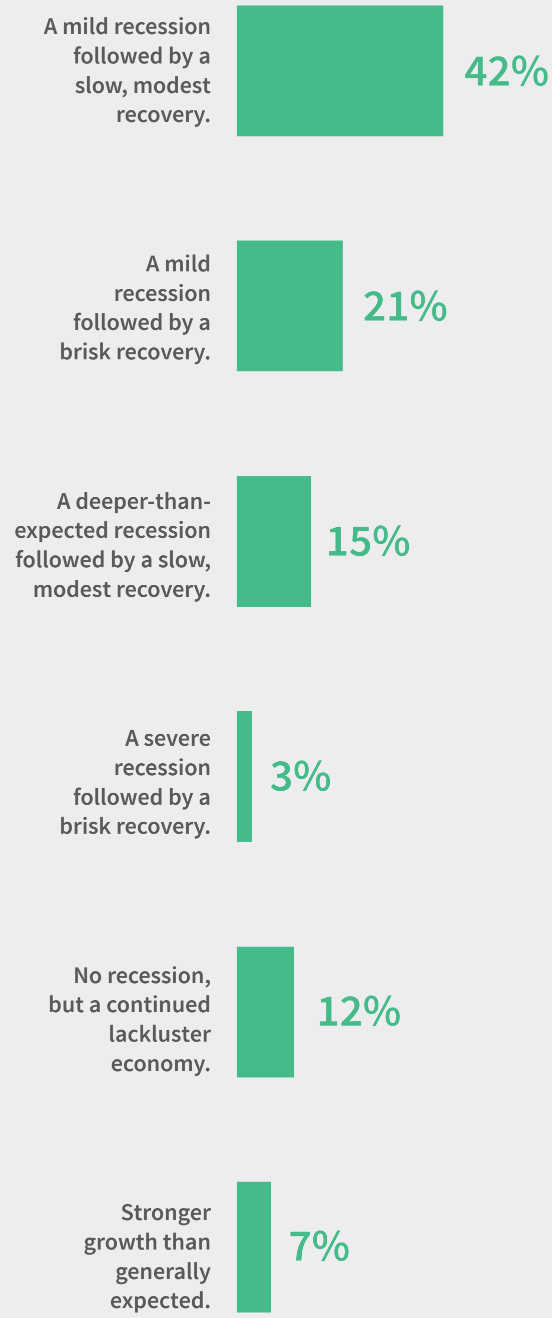
Guarded Optimism About Markets and the Economy

This year, in light of 2022's dramatic moves in markets and the economy, advisors were asked to offer their views on those areas over the next two years, in addition to describing their views on managing retirement income and associated risks.

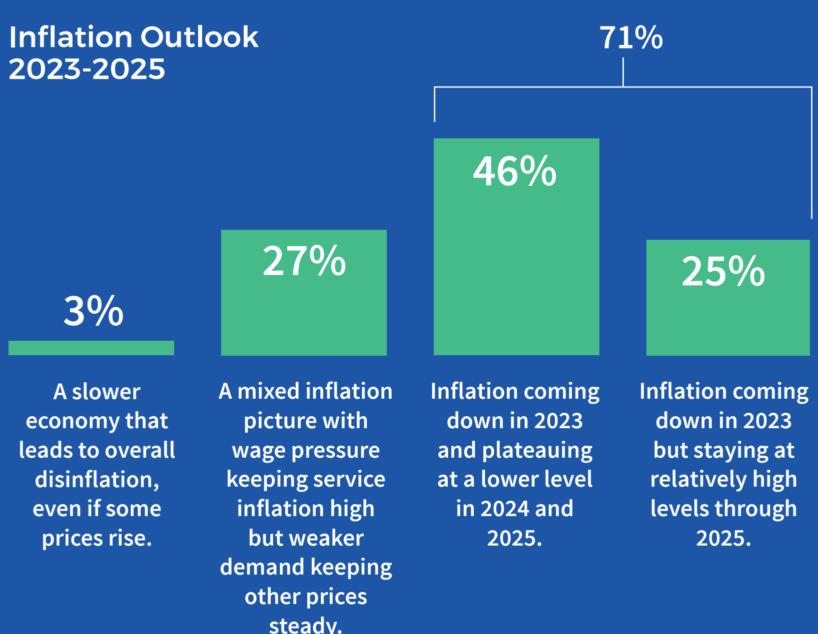
As they look ahead, advisors for the most part are relatively sanguine, with 42% seeing a mild recession on the horizon followed by a slow, modest recovery, and 21% seeing a mild recession followed by a brisk recovery. Only 15% envisioned a deeper-than-expected recession followed by a slow, modest recovery, while just 3% saw a severe recession, which they felt would be followed by a brisk recovery. A sizeable 12% saw no recession ahead, while 7% forecast growth would be stronger than expected.

On the inflation front, 46% of advisors believe it will come down in 2023 and level off over the next two years. Another 25% also see inflation coming down in 2023 but staying at relatively high

Economic Outlook 2023-2025



Inflation Outlook 2023-2025



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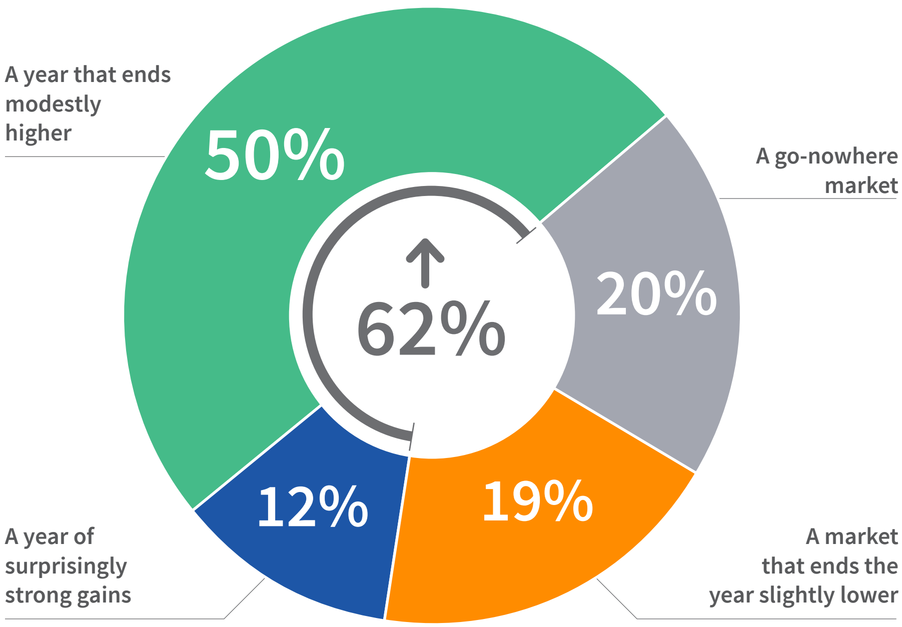
levels through 2025. A similar 27% believe wage pressure will keep service inflation high while weaker demand will keep other prices steady.

Advisors seem just as divided as other financial professionals about a possible Federal Reserve pivot on interest rates. While 43% said they believe the Fed will continue raising rates to whatever level is necessary to break inflation, 40% said the Fed will relent once the economy starts to slow in earnest and unemployment starts to rise.

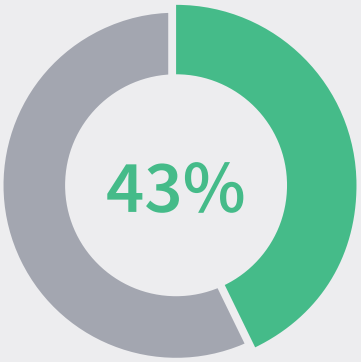
One thing on which 50% of advisors agree, however, is that the stock market will end 2023 modestly higher. In fact, 12% predict 2023 will be a year of surprisingly strong market gains.

Stock Market Outlook 2023-2025

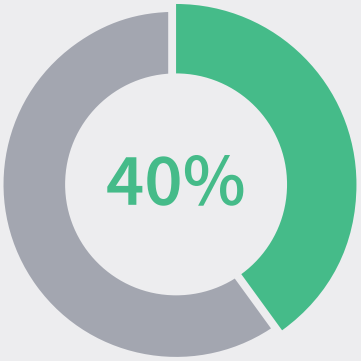


Interest-Rate Outlook 2023-2025

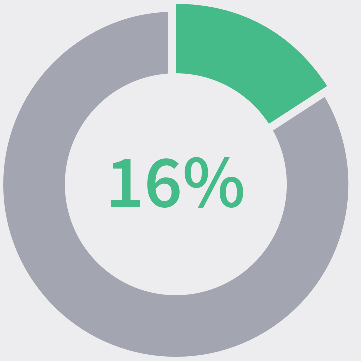
The Fed will continue raising rates to whatever level is necessary to bring inflation down.



The Fed will stop raising rates once the economy shows signs of shrinking.



The Fed will lower rates once the economy slows and unemployment increases.



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More Cautious About Client Withdrawals

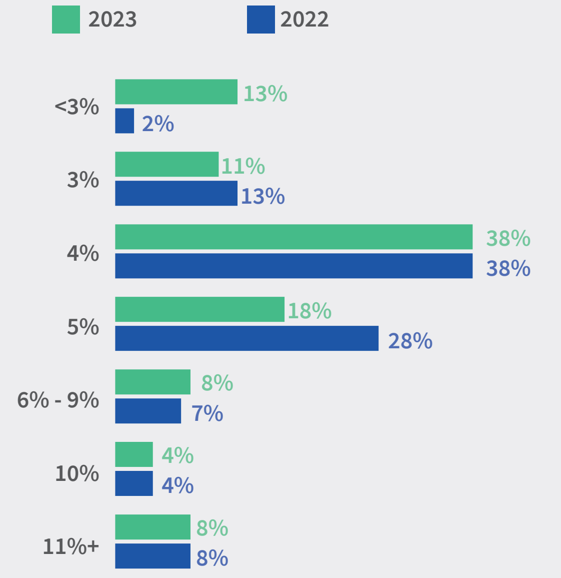
While they are mildly optimistic about economic and market conditions over the medium term, advisors are being more realistic and cautious concerning the current risks their clients face in their retirement income planning.

Perhaps because the planning profession's "4% Rule" for suggested conservative withdrawals of retirement funds has gained such widespread acceptance or perhaps because for many retirees IRS Required Minimum Distributions are the equivalent of a roughly 4% drawdown rate over several years, 4% remained the single most popular rate for initial withdrawals this year.

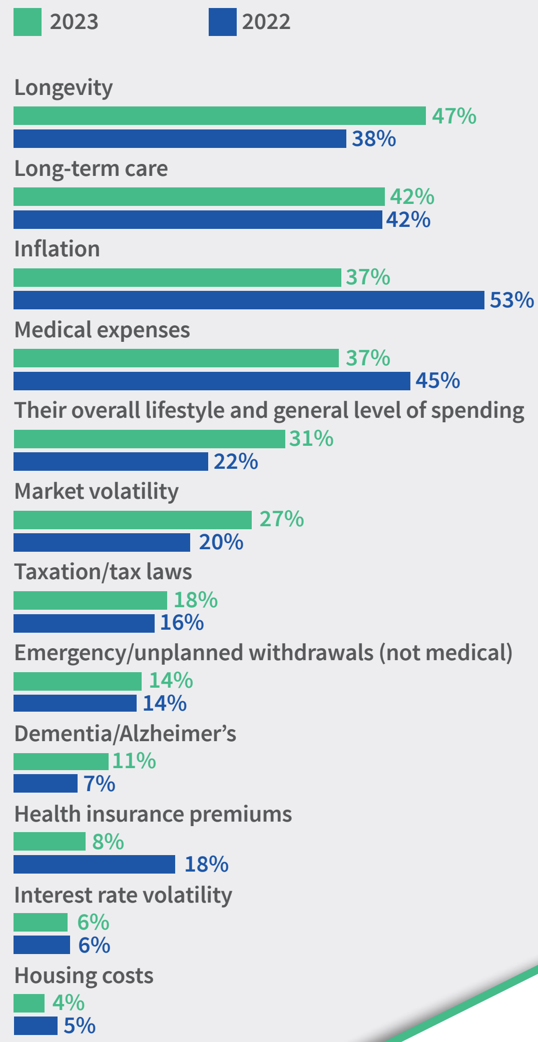
Still, the unsettled market conditions of the past year have led to advisors and their clients becoming more concerned about not drawing down retirement accounts too quickly, which has led to a rethinking of withdrawal rates. In 2022, for example, 28% of respondents used a 5% initial withdrawal rate. This year, advisors recommending that rate plummeted to just 18% of respondents. Perhaps more dramatic, advisors recommending that clients take less than 3% from portfolios catapulted from just 2% of respondents to 13%.

In a related finding, this year advisors say that the leading risk to client retirement income plans is longevity, followed by concerns about long-term care, inflation and medical expenses. Given the persistence of inflation after its rise in 2022, when inflation was identified as the leading risk to retirement income plans, it may be surprising that longevity — which was fourth among concerns last year at 38% — sprang to the top as a primary risk, noted by 47% of advisors. It is likely that if clients were withdrawing more funds from retirement accounts that had lost value during 2022 and into 2023 in order to meet rising living expenses due to inflation, advisors became more concerned that longer-living retirees could run out of funds sooner than had been planned. Still, since the last survey, there was no change in the mean (25) or median (26) number of years in retirement that advisors were using in calculating retirement income needs.

Average Initial Withdrawal Rate



Primary Risks to Client Retirement Income Plans



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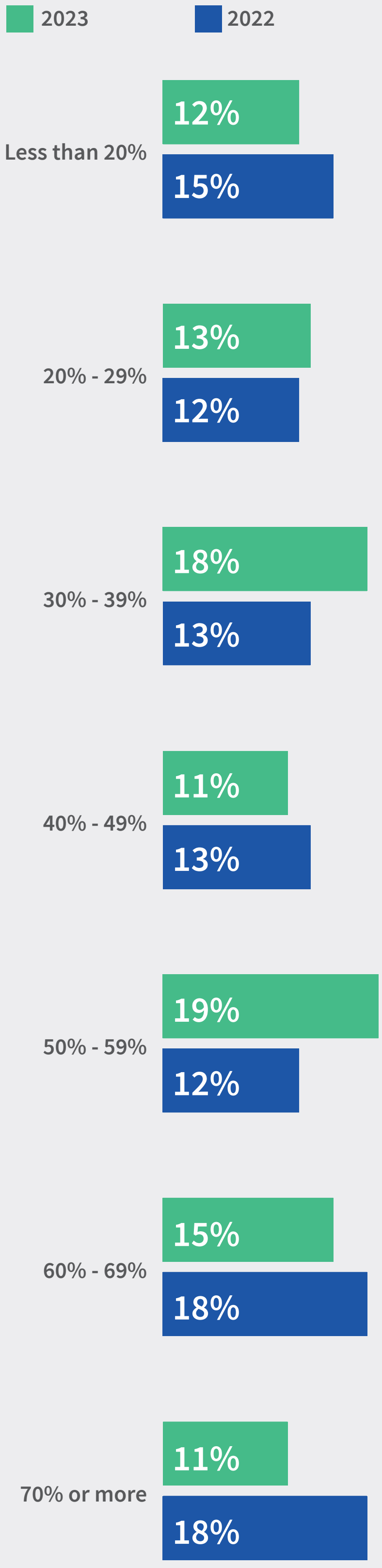
Similarly, respondent and client perceptions of client preparedness for retirement are very well aligned and have remained stable over time. On a scale of one to seven, with one being not at all prepared for retirement and seven being extremely prepared, advisors and clients consistently have rated retirement preparedness at five. While declining by six percentage points from 2022, a majority of advisors — 62% —believe their clients have saved enough or are on track to save enough for retirement, while 58% are of the opinion that their clients believe they have saved and are saving sufficiently for retirement, a decline of five percentage points from 2022. Responses were roughly similar when advisors were asked for their perception and for their view of client perceptions about the likelihood of clients running out of money in retirement; most agreed that their clients would not outlive their savings once retired.

Overall, the proportion of current retirees in respondents' client base has remained at a median of 45% over the last two years.

Percentage of Client Base Currently Retired

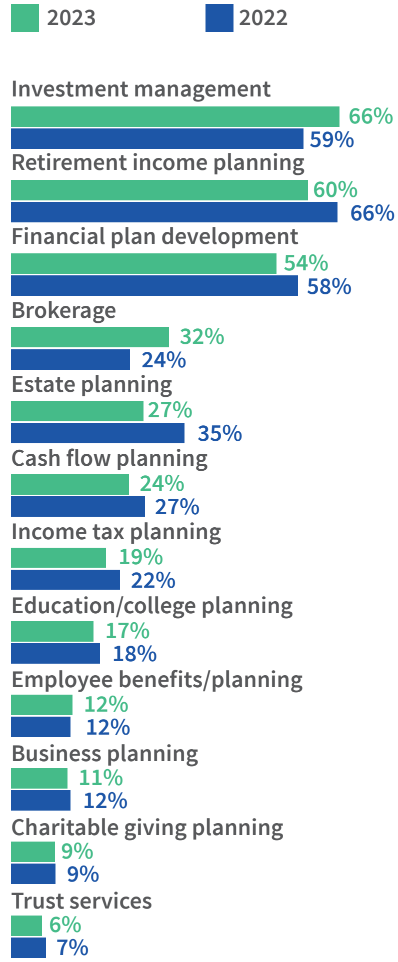


Similar Services, a Somewhat Different Product Mix

Consistency is also seen in the three services advisors most commonly offer to individual clients. The top three in 2023 — investment management, retirement income planning and financial plan development – also led in 2022, but their order changed. In 2022, retirement income planning led the trio, followed by investment management and financial plan development. Along with the new, higher positioning of investment management as a popular service offering, the rise in brokerage as a leading service in 2023, cited by 32% of advisors versus by 24% in 2022, indicates that advisors and clients may be seeking a somewhat more active approach to investing after the dismal stock and bond market performance of 2022.

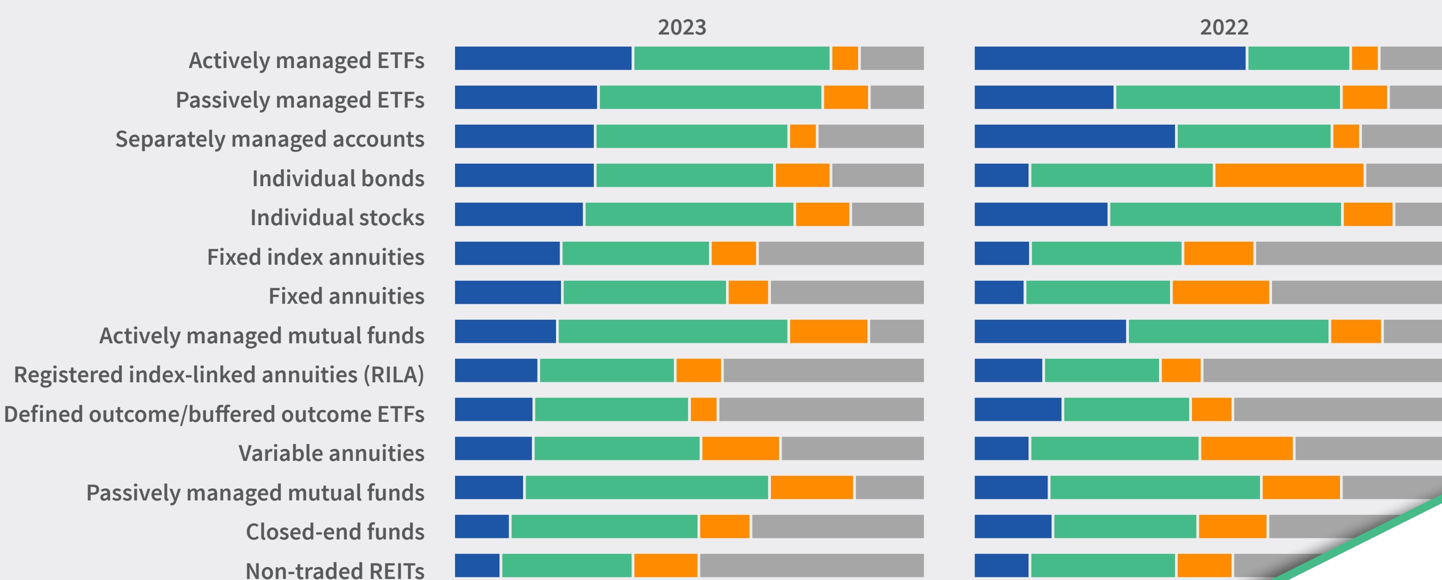
That more active mindset is also reflected in the products advisors are choosing for their clients. While respondent use of select investments products varies over time, in both 2023 and 2022 at least 30% reported increased usage of actively managed ETFs[1], passively managed ETFs and separately managed accounts. Interestingly, the use of fixed index annuities and fixed annuities effectively doubled in 2023, perhaps reflecting the rise in interest rates which made the products more attractive as well as a heightened demand for safety amid the market's turbulence.

Services Provided Most Frequently to Individual Clients



Changes in Use of Investment Products, Past Year

Increased | Stayed the same | Decreased | NA/Don't use



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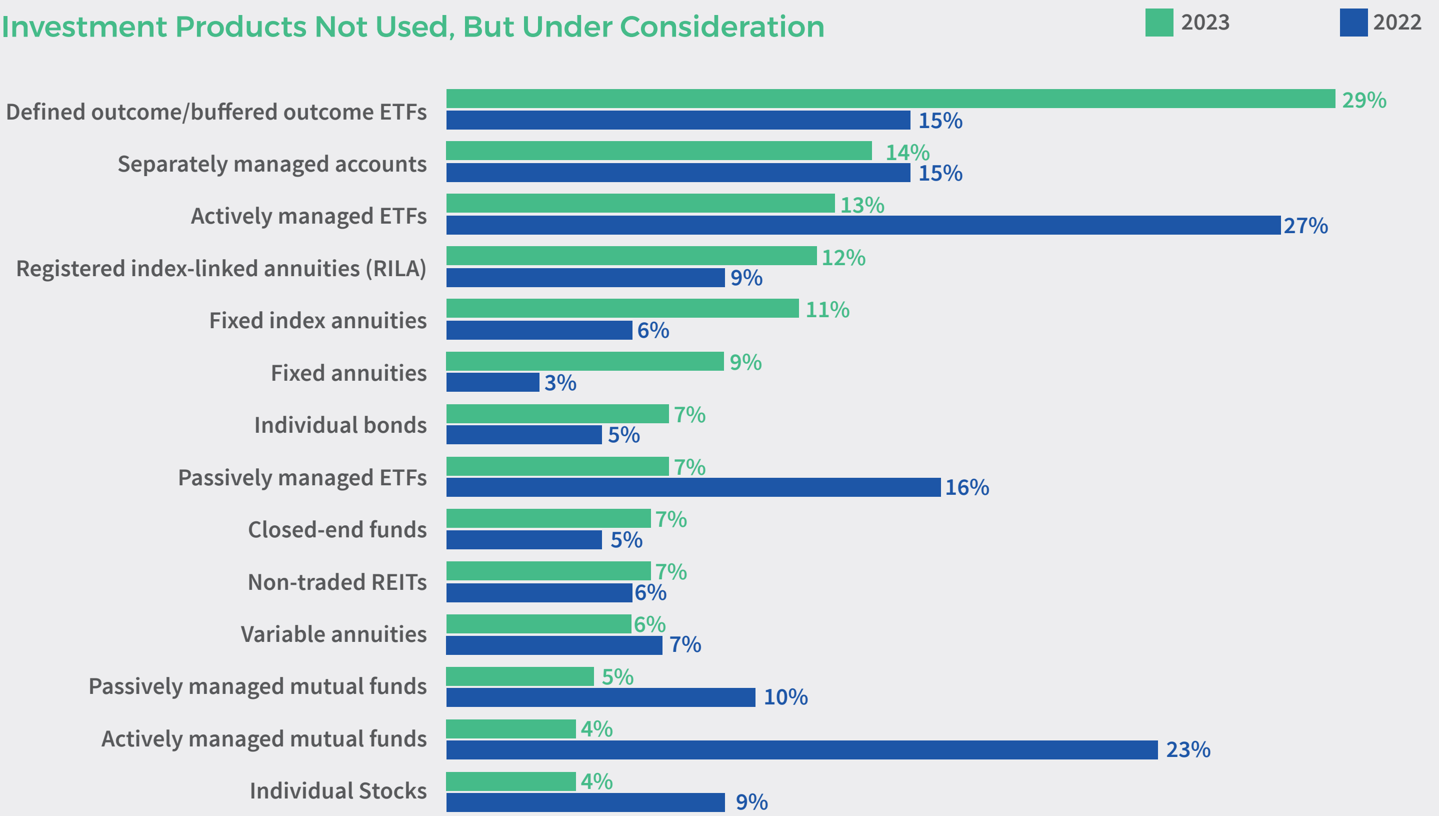
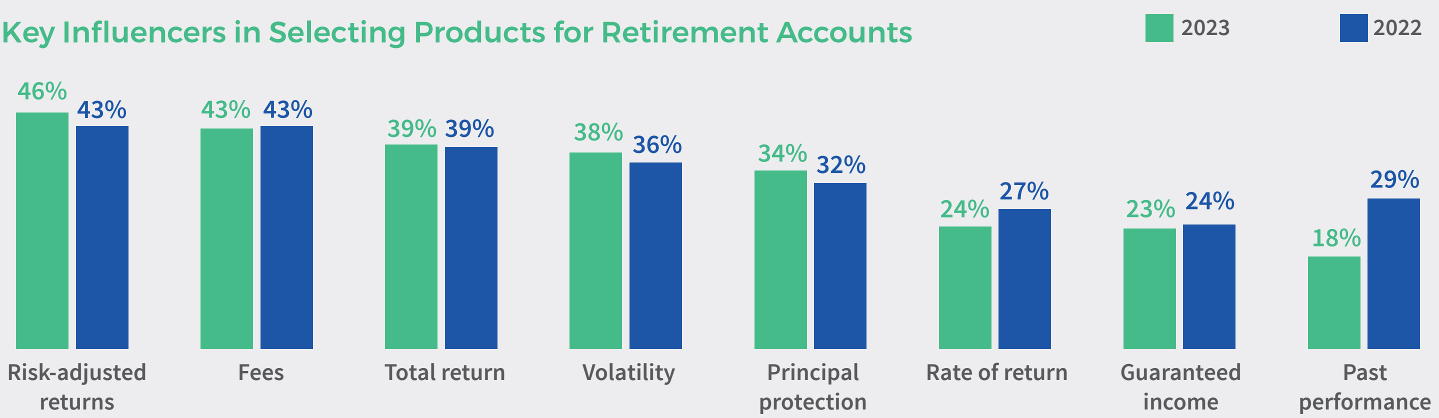
Defined outcome/buffered outcome exchange-traded funds[2] led an array of products that currently are not being used by advisors but are under consideration. This year, 29% of respondents said they would be considering those ETFs, while just 15% were considering them in 2022. Fixed index annuities and fixed annuities also are being more considered for future use than they were in 2022.

When assessing investment products for retirement accounts, no single consideration emerged as particularly influential as a selection driver. The most commonly cited drivers over time include risk-adjusted returns, fees, total returns and volatility,

Investment Products Not Used, But Under Consideration



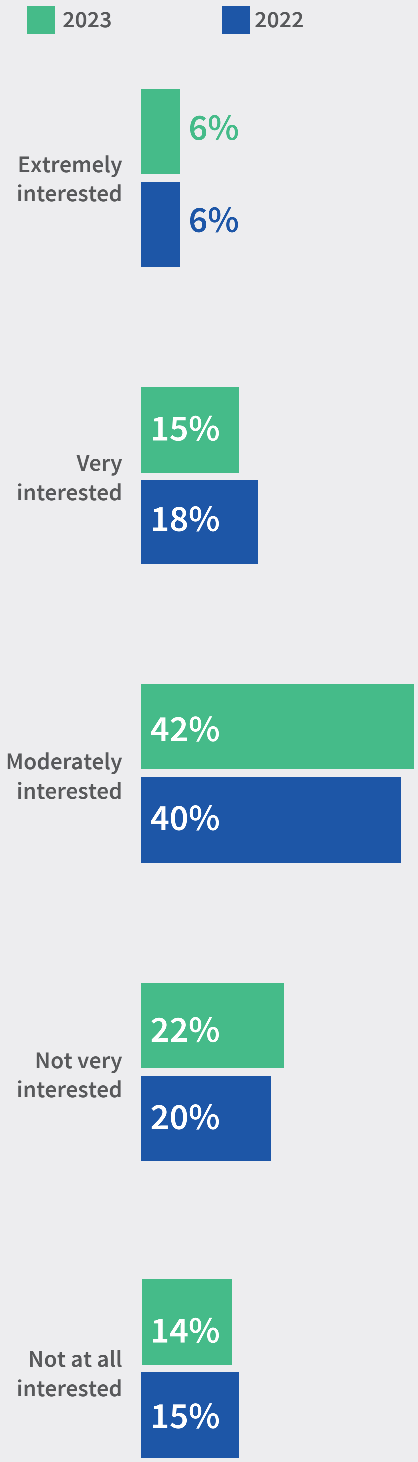
Key Influencers in Selecting Products for Retirement Accounts



Little Change in Views on Annuities[3]

A large percentage of advisors — 42% in 2023, much like the 40% in 2022 — continue to express only moderate interest in annuities. To a slightly lesser degree, they also are only moderately interested in guaranteed lifetime income products. Roughly two-thirds, however, continue to include annuity products in their clients' retirement income plans, and for clients considering an annuity, advisors' suggested mean allocation rose to 35% in 2023 from 28% a year earlier. While variable annuities and fixed-index annuities continue to be the most popular annuity vehicles recommended (by 62% and 57% of respondents, respectively), 45% of respondents have recommended fixed annuities to their clients in 2023 versus 30% who did so in 2022. The benefit of annuities that most resonates with the clients of respondents is that annuities reduce the risk of outliving assets. In 2023, principal protection was more commonly cited as a product benefit, while the assurance of reliable income was more commonly cited in 2022.

Interest in Annuity Products



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Takeaways and suggestions

- If the volatility and disappointing market performance of 2022 persists through 2023, the decline in the average initial withdrawal rate and greater concerns about the impact of greater longevity on portfolio sustainability are likely to continue. If the retirement income able to be safely generated from client investment accounts starts to become constrained, advisors should be prepared with advice and solutions to help clients address the potential income gap they are likely to be facing.
- Given renewed interest in active investment solutions to provide retirement income as well as increasing concerns about longevity, advisors may consider framing annuity discussions differently. Annuities can be explained as a tool to address longevity concerns by providing an income base to cover core retirement expenses while at the same time freeing a client's investment portfolio to be positioned to seek long-term growth.
- Similarly, many clients may welcome thinking about retirement expenses and income in buckets or in an asset-liability matching framework, with expenses in fixed and variable categories, matching to retirement income that comes in a combination of guaranteed and variable forms.
- Because risk management continues to be a service for which advisors see growing demand, they should consider broadening their offering to encompass liability management — that is, insurance — to provide more comprehensive wealth management.
- While client drawdown/withdrawal rates may have become more realistic given the experience of 2022, clients still may need more advice from advisors in understanding controllable retirement income planning factors including spending/withdrawal trade-offs, saving more and the possibility of delaying retirement and/or receiving Social Security benefits.

About the Survey and its Respondents

Overview:

Methodology, data collection and analysis by Wealth Management IQ on behalf of Allianz. Methodology conforms to accepted marketing research methods, practices and procedures.

Methodology:

Beginning January 27, 2023, WealthManagement.com emailed active users with invitations to participate in an online survey. By February 22, 2023, WealthManagement.com had received 514 completed responses. For the 2022 survey, WealthManagement.com emailed survey-participation invitations to active users beginning February 1, 2022. By February 18, 2022, WealthManagement.com had received 381 completed responses.

To encourage prompt response and increase the response rate overall, email invitations and survey materials were branded with the WealthManagement.com logo to capitalize on user affinity. For both the 2023 and 2021 studies, the first 100 respondents received a $10 Starbucks gift card. All other respondents entered a drawing for one of four $100 Starbucks gift cards.

Survey Respondents:

The samples are comparable over time, yielding similar response results in the areas of firm type, professional roles, assets under management and types of clients served.

Firm Type	2023	2022
Independent registered investment advisory (RIA)	32%	29%
Affiliated with an independent broker-dealer	28%	21%
Dually registered	9%	6%
Hybrid RIA	3%	4%
Wirehouse	6%	4%
Regional brokerage	5%	4%
Insurance company	8%	12%
Bank/credit union, trust company or thrift	5%	6%
Other	3%	13%

Professional Roles	2023	2022
Registered investment adviser representative	50%	31%
Registered representative/securities broker	30%	19%
Financial planner	30%	16%
Insurance agent/broker	22%	8%
Owner or partner/manager at an independent advisory firm	17%	8%
Retirement plan adviser (directly advising defined contribution plans)	10%	2%
Other financial advisory professional (please specify)	5%	6%
Bank/credit union, trust officer	3%	3%
Certified public accountant	3%	2%
None of the above	3%	5%

Total Assets Under Management	2023	2022
Under $1M	5%	10%
$1M - $4.9M	7%	12%
$5M - $9.9M	7%	8%
$10M - $24.9M	11%	12%
$25M - $49.9M	13%	11%
$50M - $99.9M	18%	18%
$100M - $249.9M	15%	14%
$250M - $499.9M	13%	8%
$500M - $999.9M	5%	3%
$1B+	6%	5%

Types of Clients Served	2023	2022
Mass affluent ($300K-$999K in assets)	65%	59%
High net worth ($1M-2.9M in assets)	60%	58%
Mass affluent ($100K-$299K in assets)	47%	49%
High net worth ($3M-$4.9M in assets)	41%	41%
Middle market (Below $100K)	33%	36%
Very-high-net-worth ($5M-$29.9M in assets)	31%	29%
Defined contribution plans	20%	17%
Ultra-high-net-worth ($30M+)	13%	8%
Defined benefit plans	12%	9%
Non-profits (endowments and foundations)	11%	14%
Other	1%	3%

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A commitment to RIAs from an industry leader in risk management

Allianz Life Insurance Company of North America (Allianz) commits dedicated resources and invests in helping independent advisors integrate risk management solutions, including annuities, as part of a comprehensive wealth management practice. Visit www.allianzlife.com/ria to learn more about our offerings or to connect with our dedicated RIA team.

1 An investment in Exchange Traded Product (ETPs), structured as a mutual fund, note, or unit investment trust should be considered as part of an overall program, not a complete investment program. An investment in ETPs involves risks such as: market, non-diversification, price volatility, liquidity, competitive industry pressure, international political and economic developments, possible trading halts, and index tracking error.

2 Investing involves risk including possible loss of principal. Investors may lose their entire investment, regardless of when they purchase shares, and even if they hold shares for an entire Outcome Period. Full extent of Caps and Buffers only apply if held for stated Outcome Period and are not guaranteed. The Cap may increase or decrease and may vary significantly.

3 Annuities can help you meet your long-term retirement goals by offering tax-deferred growth potential, a death benefit during the accumulation phase, and a guaranteed stream of income at retirement. You should carefully consider the features, benefits, limitations, risks, and fees that may be associated with an annuity, as well as the expenses, investment risks, and objectives of the underlying investment options in a variable annuity. Ask your financial professional if an annuity is appropriate for you based on your financial situation and objectives.