THE TURNING POINT:

A NEW INTEREST RATE ERA CALLS FOR A CHANGE IN RETIREMENT PLANNING STRATEGIES

EXECUTIVE SUMMARY

The COVID-19 pandemic has ushered in unprecedented low interest rates and a challenging new investment climate. Triple-A rated 10-year corporate bonds are now paying 1.58%[1] and 10-year U.S. Treasury Bonds are now paying 0.74% interest.[2] For historical context, 10-year Treasuries were paying 8.21% interest in 1990.[3]

Many people rely on fixed income investments for safety, diversification, and portfolio balance against too much investment risk. With yields at current lows, a traditional allocation to fixed income investments in a portfolio (i.e., 60% stock/40% bonds) may mean that investors' portfolios could be exposed to more risk and even more disappointing performance.

But what are investors' choices? The pandemic has kindled recession and economic uncertainty, making many investors reluctant to allocate a higher proportion of their assets into equities. This is likely true of pre-retirees and retirees who have justifiably higher concerns about large and possible long-lasting economic downturns.

Jackson® recently surveyed investors and financial professionals and found that 7 in 10 investors have thought about the implications of low interest rates for their portfolios. Further, few investors are knowledgeable about strategies that allow them to allocate a higher portion of their portfolio to stocks while still helping protect against the impact a market downturn could have on the income they will need in retirement.

The survey also revealed that financial professionals are aware of the low interest rate environment and the challenges of properly allocating investor portfolios today. Fortunately, there is a strategy that fits today's climate. It provides a way for pre-retirees and retirees to invest more in equities (for the potentially higher returns they will

KEY POINTS

IMPACT OF LOW BOND RETURNS

Unprecedented low interest rates make it difficult to use normal allocations to fixed income instruments as protection against excessive investment loss while still attaining adequate portfolio returns.

CALL FOR NEW INVESTMENT STRATEGY

Investing in a high proportion of equities and still retaining market downturn protection may no longer be a key to investment success.

A DIFFERENT APPROACH

Financial products that invest in equities while providing guarantees that can ensure income for life may enable investors to remain invested in the stock market without taking on undue risk.

[1] YCharts Inc, "U.S. Corporate AAA Effective Yield." Rate as of October 13, 2020.
[2] U.S. Department of the Treasury, "Daily Treasury Yield Curve Rates." Rate as of October 13, 2020.
[3] Multpl.com, "10-Year Treasury Rate by Month." Rate as of January 1, 1990.

need to keep up with inflation), while also providing a layer of financial security they desire in retirement. This strategy helps provide portfolio protection against large market drawdowns that occur more often than most investors realize. It does this by guaranteeing income for life,* regardless of how the market or underlying investments perform.

A Turning Point for Pre-Retirees and Retirees

Investors in their pre-retirement and retirement years are facing a significant new problem that threatens their retirement security. However, most investors have not yet thought through the implications of this new development, nor what investment tactics they could use to cope with it.

The new development materialized with amazing speed thanks to the arrival of COVID-19 and the tsunami of global impacts the pandemic set in motion. In an instant, the longest bull market in history was over, the economy tested, and financial uncertainty took center stage for many of us. Stock market volatility increased and reminded us of 2008, when the Fed held interest rates at historic lows to hold our fragile economy together.

The decline in interest rates has been severe. Indeed, some fixed income investments, when factoring for inflation, are providing negative yields.

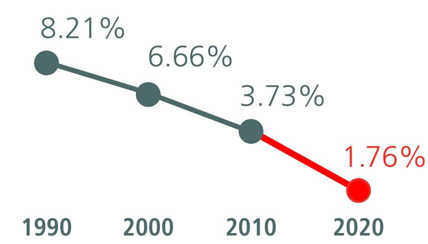
Furthermore, the U.S. Federal Reserve Board, which plays a major role in setting interest rates, made a dramatic announcement on August 27, 2020, which will almost certainly keep rates extremely low into the future. The Fed will not respond to certain risks of inflation by raising interest rates. *The New York Times* called this a "defining moment" in Chairman Jerome Powell's tenure as head of the Federal Reserve Board.[5] Former Federal Reserve Chair Janet Yellin stated, "This really does reflect a decisive recognition that we're in a very different environment."[6]

This is important for two key reasons. First, fixed income investments have played an important role in many investors' portfolios, especially as they get close to and enter retirement. These investments are often used to help protect investors from excessive stock market risk by providing lower correlation to stocks and greater portfolio diversification. Fixed income investments are designed to not lose value if held to maturity, and if sold prior, losses are generally considered to be less than stocks, except in extreme environments when rates are rising quickly.

- 10-year U.S. Treasuries, which paid 8.21% interest in 1990, 6.66% in 2000, and 3.73% in 2010, are paying 1.76% in 2020[4] (0.74% as of this writing).
- The interest rate on a AAA-rated 10-year corporate bond is 1.58%.
- The real (after inflation) interest rates on U.S. Treasury Inflation Protected Securities (TIPS) are in negative territory. That means, if you want to own one of these instruments, you will have less value one year after buying than you would have at time of purchase.

INTEREST RATE

ON 10-YEAR U.S. TREASURIES



Source: Multpl.com,"10-Year Treasury Rate By Month." Rates as of January 1990, 2000, 2010, and 2020.

*Guarantees are backed by the claims-paying ability of the issuing insurance company.
[4] Multpl.com, "10-Year Treasury Rate by Month." Rates as of January 1990, 2000, 2010, and 2020.
[5] Jeanna Smialek, The New York Times, "Fed Chair Sets Stage for Longer Periods of Lower Rates," September 16, 2020.
[6] Ibid.

Turning Expert Advice on Its Head

Some experts have suggested investors reduce their allocations in stocks below 50% after age 50 and to continue reducing those allocations as they get closer to and enter retirement. As Dan Kurt wrote in Investopedia, "For years, a commonly cited rule of thumb has helped simplify asset allocation. It states that individuals should hold a percentage of stocks equal to 100 minus their age. So, for a typical 60-year-old, 40% of the portfolio should be equities. The rest would be composed of high-grade bonds, government debt, and other relatively safe assets."[7]

But, we are experiencing a new era, and that advice may be counterproductive. For instance, take the 60-year-old example above. Let's assume this investor's allocation to fixed income was 50% AAA-rated 10-year corporate bonds and 50% 10-year U.S. Treasuries. Let's further assume that the stocks in the portfolio performed well, earning an average annual return of 8% (after all fees and expenses) and inflation remained low at only 2% a year. After one year, the portfolio would have a real return, accounting for inflation rate, of 1.9%.

Another reason we cannot expect the Fed to raise rates is these low rates are occurring in the middle of both a recession and a significant amount of economic uncertainty caused by the pandemic. Many think this is a risky time to increase allocations to equities, even if fixed investments are not performing well. This is especially true for those close to or in retirement. As retirement approaches, there is a risk and concern that the stock market may see significant declines and not recover quickly, and that risk appears higher now than usual for many.

Throughout our lifetimes, key investment goals could generally be achieved through basic investment principles, such as diversification. The fixed part of the portfolio has been an important part of most investors' portfolios, providing stability, protection against investment loss, and, in many cases, a stream of income. This is partly why bond laddering was a sound strategy as a source for retirees' income for many decades.

Today, income from AAA-rated 10-year corporate bonds that pay $1,580 a year on a $100,000 investment is not likely to meet investor needs. It has been estimated that more than 50% of retirees often allocate more than half their portfolio to fixed investments, and in today's rate environment, those retirees are likely feeling the squeeze of diminished income. And, for investors reaching for higher yields

NEED FOR NEW STRATEGY

With fixed income investments hovering at all-time lows and people close to or in retirement expressing concerns about allocating more of their money to these investments, there is a heightened need for a strategy that meets this challenge.

KEY INVESTMENT GOALS

PEOPLE APPROACHING RETIREMENT AND THOSE IN RETIREMENT OFTEN TELL US THEY HAVE FOUR INVESTMENT OBJECTIVES:

- Assurance of enough income to meet their needs for as long as they and their spouses live
- Sufficient investment growth to keep up with inflation and meet their needs
- Protection against a major downturn in the stock market
- Confidence in their investments and a continued feeling of being financially secure

[7] Daniel Kurt, Investopedia, "Stock Allocation Rules," February 9, 2020.

while so many publicly traded companies are struggling for survival from the pandemic, corporate bond default risk is a valid concern.

There is another choice for pre-retirees and retirees that can allow for higher allocations to stocks with the potential for higher returns, while also protecting the income generated from those investments in the event of a market downturn.

This paper describes the problem in more detail—the current views of financial professionals and investors on the strategies currently available (based on surveys recently conducted by Jackson) and the investment strategy that will help pre-retirees cope well with the low interest rate environment and assist in ensuring their retirement income.

Investor Concerns and Viewpoints and Financial Professional Assessments

To gain insights on the concerns and understandings of investors, Jackson conducted a survey of 172 investors ages 40 to 74 with investable assets of $100,000 to $2 million. We also surveyed 177 financial professionals. The surveys were conducted from August 4 through August 14, 2020.

Our survey of financial professionals asked if they were optimistic or pessimistic about retirement planning. Most (72%) say they are optimistic, and there are two probable reasons for this:

- Financial professionals feel their planning services are in greater demand as more people realize the importance of planning for financial security. Specifically, there is a heightened need for retirement planning and rethinking investment strategies.
- Low interest rates have not escaped the attention of investors or financial professionals. Seven in ten investors have considered the implications of these rates on their portfolios and almost nine in ten financial professionals have considered the implications of these interest rates on their clients' portfolios.

What specifically do investors worry about when they think about low interest rates?

Three points come up most often:

- Low returns dampening overall portfolio growth
- The risk of running out of money
- Inability to meet financial goals

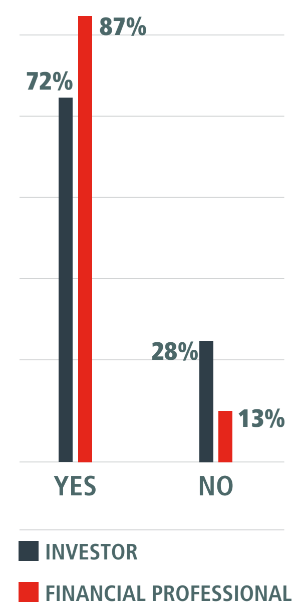
When asked about the impact of the pandemic, nine in ten financial professionals report that the pandemic has disrupted their

THREE CHOICES

UNDER THESE CIRCUMSTANCES, INVESTORS HAVE OFTEN CONSIDERED THREE CHOICES:

- Learn to live on less in retirement
- Work longer and put off retirement
- Take on more investment risk; but this means risking the loss of a significant portion of assets if there is a major economic decline. (Historically, the stock market, on average, has lost at least 20% of its value every six years.)

CONSIDERATION OF THE IMPLICATIONS OF LOW INTEREST RATES ON RETIREMENT PORTFOLIO INVESTMENT STRATEGIES



Source: Jackson Covid-19 Longevity Study, August 4-14, 2020. Survey of 172 investors ages 40 to 74 with investable assets of $100,000 to $2 million and 177 financial professionals.

businesses, and two in five of those financial professionals whose businesses have been disrupted say low interest rates were a cause of the disruption. Also, of the financial professionals who have been disrupted, half say market volatility has been a disrupter.

If low interest rates are a significant problem, what are the options? Our research indicates many investors have not thought the issue through and do not have a good understanding of strategies that can help them.

Nearly half of investors (48%) have at least a general understanding of a strategy that has worked well in previous eras: the traditional stock/bond split. Many investors, over a lengthy period, have sought to adjust their investments between stocks and bonds to meet their tolerance-to-investment risk. Many are 60/40 stock/bond investors; others with lower risk tolerance are 50/50 investors or allocate an even lower proportion of their assets in stocks. But this approach does not work as well when interest rates are extremely low.

Furthermore, many investors have little awareness of alternative strategies for protecting against investment risk that do not involve high use of fixed income investments. For example, our survey found only a quarter of investors understand longevity-risk hedging, which uses income annuities and life insurance to reach financial goals in retirement without major use of fixed income investments.

This limited understanding also applies to specific financial products that are highly effective in this investment climate. While more than six in ten (63%) of investors have at least a general understanding of dividend-paying stocks, only about half of those (31%) have at least a general understanding of variable annuities with living benefits, the type of product that can guarantee monthly income for life.*

A Case for Variable Annuities

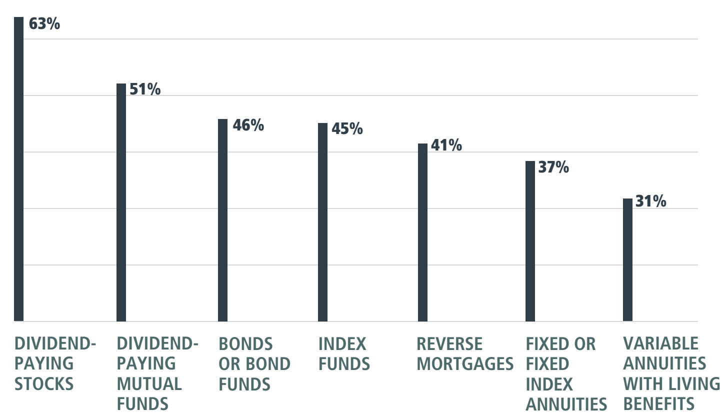
Variable annuities that guarantee lifetime income have been used by many for more than 20 years. But with interest rates currently extremely low, the need for this strategy is heightened; yet, interest among investors is not nearly as strong as it should be. Only one in three (34%) investors say they would be interested in conducting research on a financial product that ensures income for life once the market is stable.

What is an annuity?

An annuity is a long-term, tax-deferred vehicle designed for retirement. Variable annuities involve investment risks and may lose value. Earnings are taxed as ordinary income when distributed. Individuals may be subject to a 10% additional tax for withdrawals before age 59½ unless an exception to the tax is met.

Add-on living benefits are available for an extra charge in addition to the ongoing fees and expenses of the variable annuity and may be subject to conditions and limitations.

INVESTORS' LEVEL OF UNDERSTANDING OF FINANCIAL PRODUCTS



How would you rate your level of understanding of financial products?

Source: Jackson Covid-19 Longevity Study, August 4-14, 2020. Survey of 172 investors ages 40 to 74 with investable assets of $100,000 to $2 million.

* Guarantees are backed by the claims-paying ability of the issuing company.

Financial professionals understand the value of this product at a much higher level, and, in contrast to investors, two-thirds (66%) are extremely or very interested in using this product in their clients' portfolios.

Financial products that guarantee lifetime income are well suited to help pre-retirees and retirees adjust to this low interest rate environment and can help provide the assurance that they can meet their income goals in retirement, no matter how long they live. There is no guarantee that a variable annuity with an add-on living benefit will provide sufficient supplemental retirement income.

Further, strong majorities think products that provide protected monthly income throughout retirement now compare favorably to, or are just as good as, strategies that have been extensively relied upon in the past to provide income in retirement. The principal value of a variable annuity will fluctuate based upon the performance of the underlying investment options, and investors may experience losses if assets are withdrawn for purposes other than retirement.

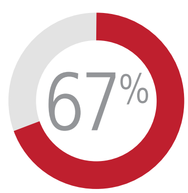
In this environment, a strategy many who are approaching or are in retirement could consider is to reallocate a portion of money previously invested in fixed income investments into a variable annuity that pays guaranteed lifetime income.

For example, conservative investors who had 40% of their money in stocks and 60% in bonds may now adjust their portfolio to 40% in stocks, 30% in a variable annuity, and 30% in bonds. If four-fifths of the variable annuity is in stock mutual funds, that would put the overall amount exposed to equities to 54%, providing higher upside potential than these investors previously had.

LIKELIHOOD OF RESEARCHING PRODUCTS THAT ENSURE PERSONAL/CLIENT INCOME THROUGHOUT LIFE ONCE MARKET STABILIZES

How likely do you think you are to do research after the market stabilizes on what products exist to ensure my income/income of my clients throughout life?

Source: Jackson Covid-19 Longevity Study, August 4-14, 2020. Survey of 172 investors ages 40-74 with investable assets of $100,000 to $2 million and 177 financial professionals.



OF FINANCIAL PROFESSIONALS ARE VERY LIKELY TO RECOMMEND A FINANCIAL STRATEGY THAT PROTECTS MONTHLY INCOME FOR LIFE.

AMONG FINANCIAL PROFESSIONALS:

- 65% believe this strategy is better than bond ladders and another 26% feel it is just as good.
- 57% believe this strategy is better than systematic withdrawal, and another 34% feel it is just as good.
- 50% feel it is better than dividend-paying mutual funds, and another 33% feel it is just as good.
- 43% feel it is better than a bucket strategy, and another 38% feel it is just as good.

Source: Jackson Covid-19 Longevity Study, August 4-14, 2020. Survey of 177 financial professionals.

But they would also have a source for more regular income throughout retirement, meaning they would not have to deplete their other accounts to generate that income.

The variable annuity with guaranteed lifetime income means that pre-retirees and retirees may not have to sacrifice financial goals and financial security, even though interest rates are extremely low and the Federal Reserve Board has committed to keeping them that way into the foreseeable future.

WHY IT WORKS

Variable annuities have a much higher likelihood of investment gains over time than bonds because more money is invested in the stock market.

Variable annuities can produce more income per dollar invested than bonds, with the further benefit that income payments are guaranteed for life and, if desired, the life of a spouse.

One More Consideration

There is one more reason to consider incorporating a variable annuity that provides guaranteed lifetime income into a retirement portfolio: the increasing life expectancy retirees are enjoying. Life expectancy for Americans who reach age 65 has increased consistently for more than half a century[7] and especially among those who are considered affluent. Long life can be a great blessing, of course, but it means financial portfolios must be capable of producing sufficient income for extended periods of time. Consider these illustrations:

- If a married couple are both age 65, in average health, and neither is a smoker, there is an 83% chance at least one will be alive at age 85, a 33% chance at least one will be alive at age 95, and an 11% chance one will be alive at age 100.
- However, if both are in excellent health, there is an 89% chance at least one will be alive in 20 years, a 72% chance at least one will be alive in 25 years when they will be age 90, a 45% chance one will be alive in 30 years, and a 19% chance at least one will be alive in 2055, when they will be 100 years old.[8]

LIKELIHOOD THAT AT LEAST ONE PERSON AGE 65 IN A COUPLE WILL LIVE…

	IF BOTH IN AVERAGE HEALTH	IF BOTH IN EXCELLENT HEALTH
To age 90	62%	72%
To age 95	33%	45%
To age 100	11%	19%

Source: American Academy of Actuaries and Society of Actuaries, Actuaries Longevity Illustrator, 2020. Assumes married non-smoker couple both born September 1, 1955.

Pre-retirees and retirees in average to excellent health will often have a long retirement to fund, and that makes a financial product that guarantees income for life especially valuable.

But we have reached a new era. Investment direction must intersect with the current interest rate and investment climate. As the pandemic heralded in this new and challenging era, guaranteed income strategies offered through variable annuities may be a viable option for portfolio protection.

[8] American Academy of Actuaries and Society of Actuaries, Actuaries Longevity Illustrator, 2020. Assumes married non-smoker couple both born September 1, 1955.

Before investing, investors should carefully consider the investment objectives, risks, charges, and expenses of the variable annuity and its underlying investment options. The current contract prospectus and underlying fund prospectuses, which are contained in the same document, provide this and other important information. Please contact your financial professional or the Company to obtain the prospectuses. Please read the prospectuses carefully before investing or sending money.

Guarantees are backed by the claims-paying ability of Jackson National Life Insurance Company and do not apply to the principal amount or investment performance of a variable annuity's separate account or its underlying investments. They are not backed by the broker/dealer from which this annuity contract is purchased, by the insurance agency from which this annuity contract is purchased or any affiliates of those entities, and none makes any representations or guarantees regarding the claims-paying ability of Jackson National Life 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. Individuals may be subject to a 10% additional tax for withdrawals before age 59½ unless an exception to the tax is met.

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