

## MEMORANDUM

TO: File No. S7-07-18

FROM: Geeta Dhingra, Division of Trading and Markets

RE: Meeting with Representatives of Lincoln Financial Group

DATE: September 27, 2018

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On Tuesday, September 25, 2018, representatives of the Securities and Exchange Commission (“SEC”) participated in a meeting with representatives of Lincoln Financial Group (“Lincoln”). The SEC representatives were Jennifer Juergens, James McLoughlin, and Iulian Obreja from the Division of Economic and Risk Analysis; Paul Cellupica, Sara Cortes, Parisa Haghshenas, and Gena Lai from the Division of Investment Management; and Bradford Bartels, Roni Bergoffen, Geeta Dhingra, Dan Fisher, Lourdes Gonzalez, and Emily Westerberg Russell from the Division of Trading and Markets. The Lincoln representatives were Carrie Chelko, Paul Chryssikos, Will Fuller, and Abbie Pancoast.

The participants discussed, among other things, the SEC’s proposed Regulation Best Interest. At the meeting, the Lincoln representatives distributed the attached document.



You're In Charge®

LINCOLN FINANCIAL GROUP

A photograph of a man and a woman sitting on a grassy hillside. The man is on the left, wearing a blue jacket and brown pants, looking towards the woman. The woman is on the right, wearing a plaid shirt, smiling and looking towards the man. In the background, there are rolling green hills and mountains under a cloudy sky. A bicycle is lying on the grass to the right.

# Protecting the long-term interest of Main Street investors

Insurance products issued by:

The Lincoln National Life Insurance Company

Lincoln Life & Annuity Company of New York

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To ensure Main Street investors' needs are met, the SEC should finalize Regulation Best Interest establishing a new standard of care for recommendations to all retail customers, with accounts both large and small, that

- Preserves investor choice through access to advice and products, including insurance products
  - Affirms that both commissions and fees can be in a client's best interest, and
  - Serves as a model to facilitate regulatory harmonization
- 

## OUR FOCUS

# The long-term interest of Main Street investors

“Our analysis starts and ends with the long-term interests of the Main Street investor.”

“ . . . [H]ow does what we propose to do affect the long-term interests of Mr. and Ms. 401(k)? Are these investors benefiting from our efforts? Do they have appropriate investment opportunities? Are they well informed? . . .

[W]hat can the Commission do to cultivate markets where Mr. and Ms. 401(k) are able to invest in a better future?”

*Jay Clayton, Chairman of the SEC (July 12, 2017)*

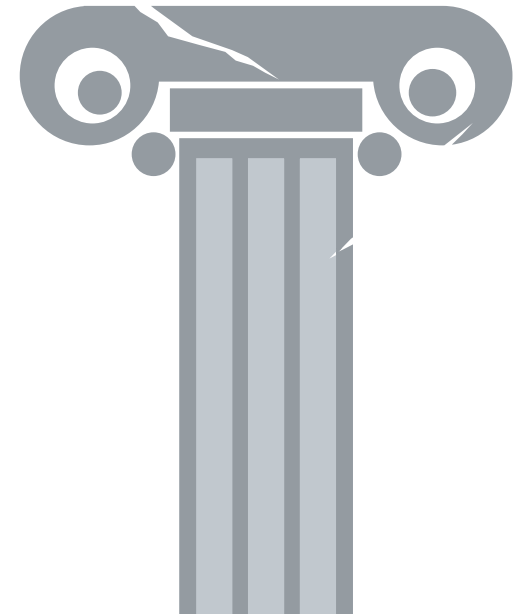
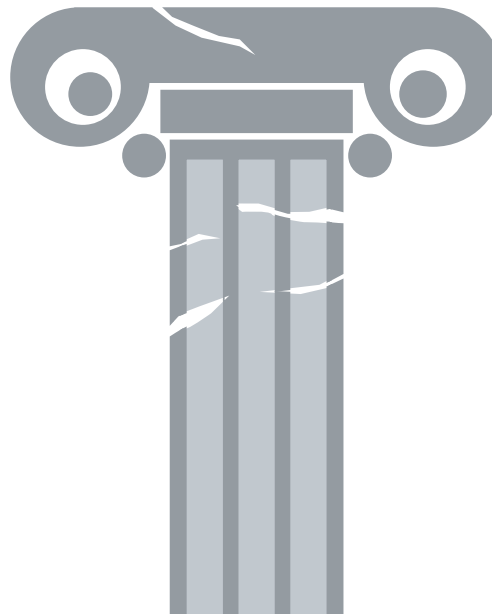
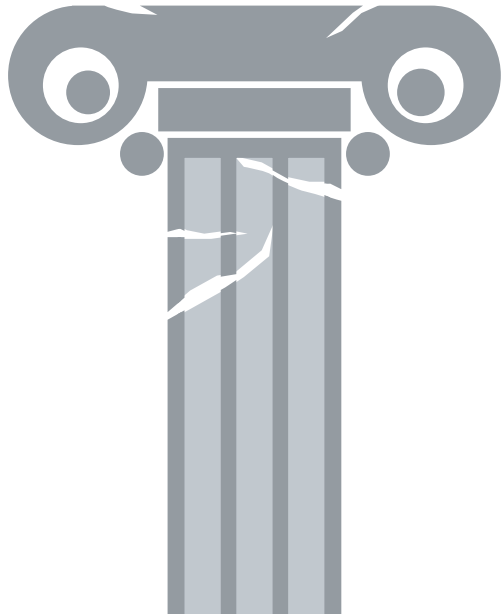
# The foundation for retirement is weakening

Americans could once plan a retirement by relying on a stable three-pillared foundation comprising Social Security, company pensions, and personal savings. But this foundation is weakening and faces an uncertain future.

Social Security is being strained by longer life spans and rising costs.

Employer pensions in the private sector are disappearing.

Americans are expected to self-fund a large part of their retirement.



# Today's retirement reality is being challenged

**76 million baby boomers**

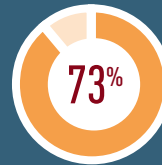
are entering retirement  
at a rate of

**10,000 a day.**<sup>1</sup>



**A 65-year-old married couple has**<sup>2</sup>

A 73% chance that  
one will live to age 90



A 47% chance that  
one will live to age 95



**About 1/2**

of working-age households  
are at risk of being unable  
to maintain their standard of  
living in retirement.<sup>3</sup>



**Only 15%**  
of Americans have  
a pension today.<sup>4</sup>

For all other U.S. retirement  
savers, an individual annuity  
is their only chance to access  
guaranteed retirement income.



<sup>1</sup> 2018 IRI Retirement Factbook, Insured Retirement Institute.

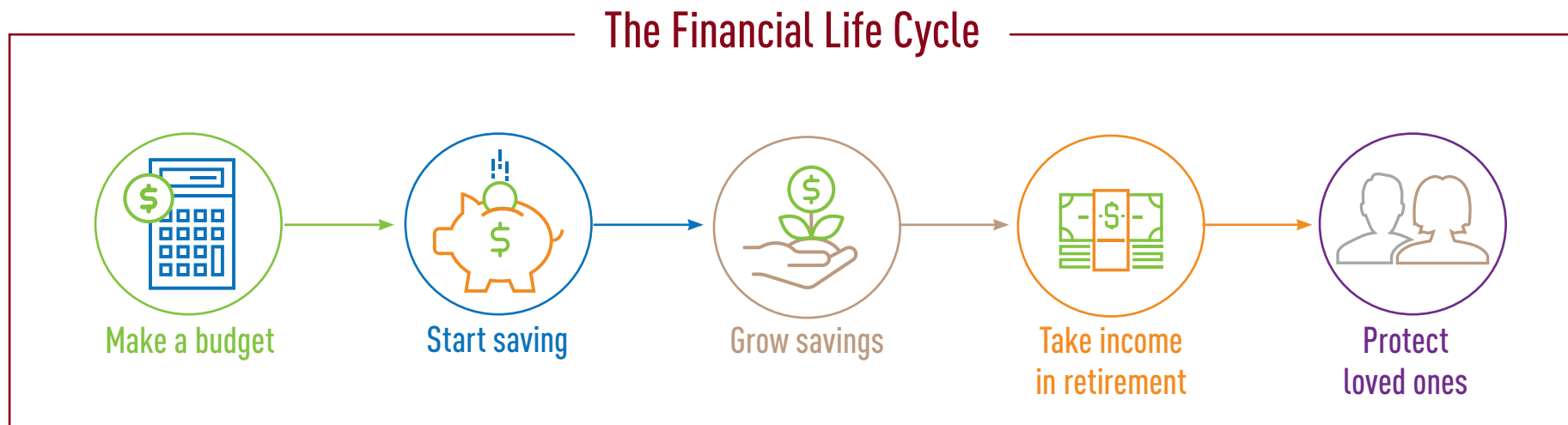
<sup>2</sup> Society of Actuaries Longevity Illustrator, based on 2010 Social Security mortality tables applied to the MP-2015 SOA rates.

<sup>3</sup> Alicia H. Munnell, Wenliang Hou, and Geoffrey T. Sanzenbacher, "Do Households Have a Good Sense of Their Retirement Preparedness?" *Center for Retirement Research at Boston College*, Feb. 2017, Number 17-4, available at: [http://crr.bc.edu/wp-content/uploads/2017/02/IB\\_17-4.pdf](http://crr.bc.edu/wp-content/uploads/2017/02/IB_17-4.pdf).

<sup>4</sup> Bureau of Labor Statistics, Employee Benefits Survey, 2016.

# The entire financial life cycle needs to be considered

The financial life cycle of Main Street investors starts with budgeting, savings and accumulation. However, as Main Street investors approach retirement, they need to turn their savings into income to cover their living expenses.



**Main Street investors need advice, not just on how much to save and where to invest the savings, but on how to plan for income to cover their basic needs in retirement and protect loved ones.**

# Are we asking the right questions?

Regulations require the creation of an investment profile. Shouldn't we have an income profile?

## FINRA Rule 2111 investment profile

- What is your investment objective?
- What is your risk tolerance?
- What is your tax status?
- What investments do you currently have?
- What is your investment experience?
- What is your investment time horizon?
- What are your liquidity needs?

## Income profile is also needed

- What is your income objective in retirement?
- What is your time horizon until drawing income?
- What is your risk tolerance for fluctuations or decreases in your income?
- What sources of income will you have, guaranteed and non-guaranteed?
- How long will you need your income to last?
- Do you want or need income for your spouse or partner?

**7** IN **10**

retirees with a formal retirement income plan say their retirement expenses were as they expected.

Source: LIMRA 2018

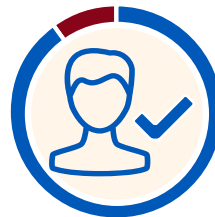
**Regulations should give equal weight to investment and income profiles.**

# Advisors provide access to better outcomes for all savers

Advisors play a vital role in helping Main Street investors successfully navigate financial life cycle risks, allowing them to maintain their lifestyle in retirement and know that they will not outlive their retirement income.



Individuals with a financial advisor are on track to replace




**87%**  
of their current income in retirement



compared to **57%** for those without an advisor.

Source: Empower Institute, 2016 Lifetime Income Score VI: Optimism and Opportunity.

**75%**   
of retirees with formal income plans completed them with advisors.

Source: LIMRA 2018

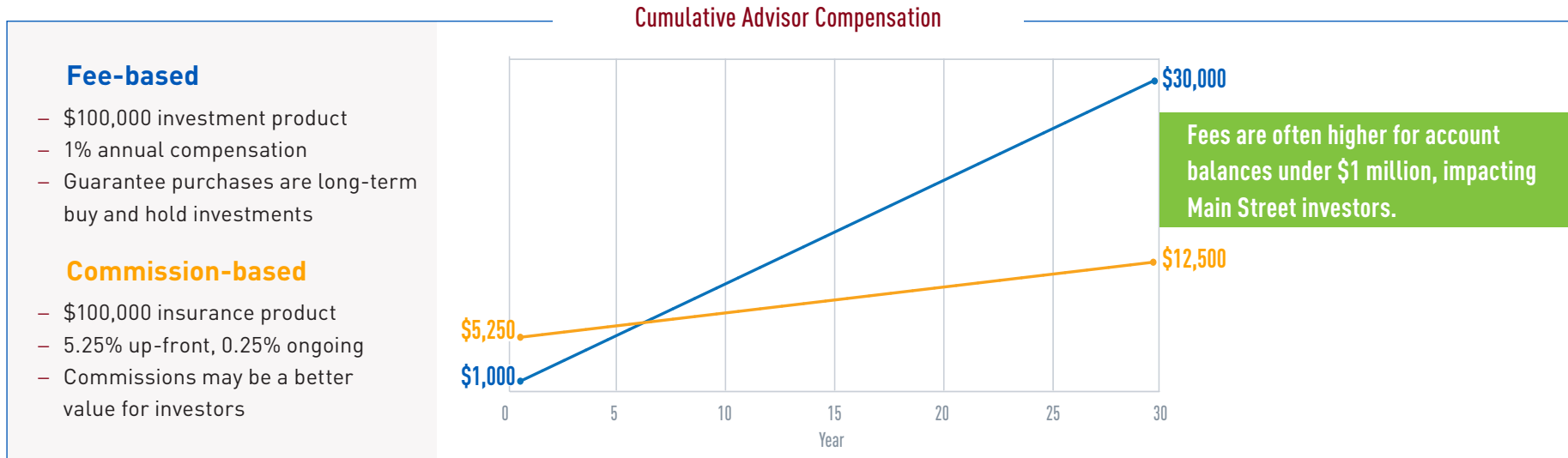
**7** in **10** who own an annuity feel confident that they will **NOT** run out of money by age 90, compared to 57% of retirees without an annuity.

Source: LIMRA 2018

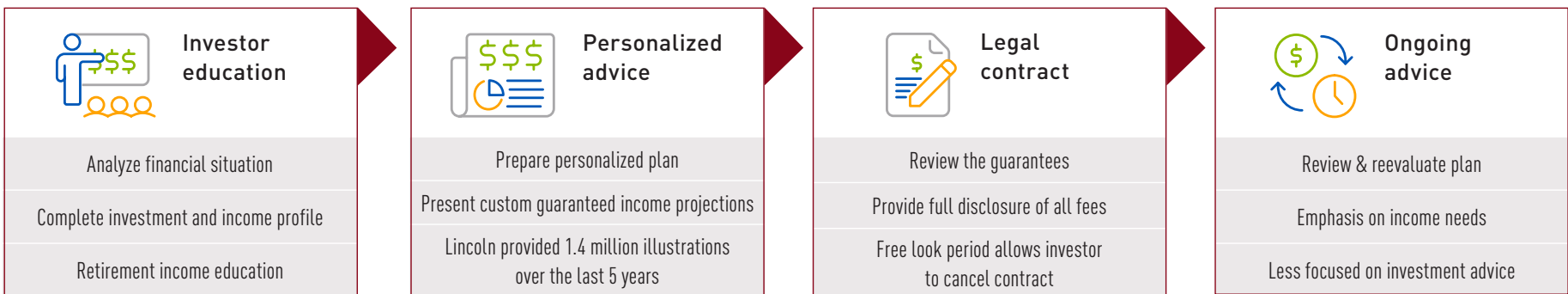


# Investors should be able to choose how they pay for advice

## Commissions often make the most sense for long-term investments



## Commissions align to the cycle of advice for insurance products



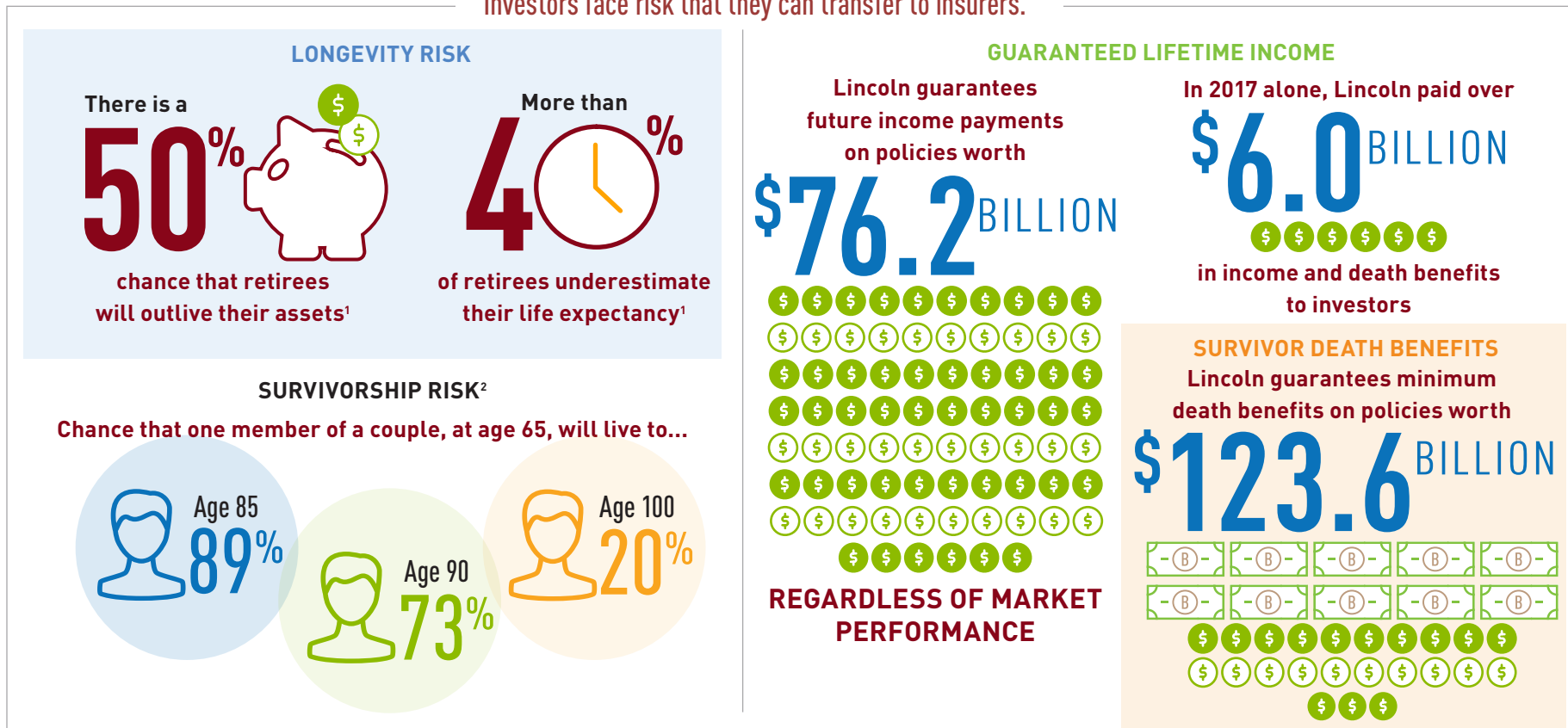
**Regulations should hold commissions and fees to the same process and standard.**

# Investors should be able to choose insurance products

## Insurers play an important role in investors' security

Investors face daunting market, longevity, and survivorship risks in retirement. Insurers help increase their retirement security by assuming a portion of this risk for an affordable cost.

Investors face risk that they can transfer to insurers.



**Regulations should not disadvantage lifetime income products.**

<sup>1</sup>Hearing before U.S. Senate Special Committee on Aging, 111th Congress, "Lifetime Income Options for Retirement," 2010.

<sup>2</sup>Source: Society of Actuaries Longevity Illustrator, based on 2010 Social Security mortality tables applied to the MP-2015 SOA rates.

# How income guarantees benefit investors

83%



of retirement savers who purchase a variable annuity do so with the intent of using the annuity as a source of secured retirement income

Source: The Gallop Organization with Greenwald & Associates, 2013 Survey of Non-qualified Annuity contracts.

## Investor adds lifetime income guarantees to retirement income portfolio



Pays for lifetime income guarantee via a rider charge



Investor transfers longevity, survivorship, and market risks to insurance company

Lincoln's joint life lifetime income cost to investor

1.17%

AVERAGE



Lifetime income guarantees remove the possibility of outliving retirement assets

0% ANNUITY SAVER

50% MUTUAL FUND SAVER

# Case study: DOL regulation

## Perceived bias against insurance products and commissions, and a favorability toward fees

The DOL regulation increased investor confusion by layering on a new standard of care and limited investor choice as to advice and products.

### Investors are losing access to advice and products

The introduction of the DOL regulation resulted in a

**31% DROP** in industry sales of variable annuities

from \$140 billion in 2014 to \$96 billion in 2017.\*

\$140B  
2014



\$96B  
2017

\*Source: LIMRA 2018

### THE CONSEQUENCE:

Reduced investor access to guaranteed lifetime income solutions.

1,800

### ORPHANED ACCOUNTS

In 2Q 2017, Lincoln saw a significant spike in ORPHANED ACCOUNTS, to 1,800, the largest number since the financial crisis of the late 2000s.

95%

firms **REDUCED** investors' access to typical retirement products, including annuities, impacting

**22.8 million** ACCOUNTS

Nearly **50%**

of distribution partners have **REDUCED** their annuity offerings and/or carriers<sup>1</sup>

**53%**

of firms surveyed have **LIMITED investor access to advice** for retirement accounts in response to the DOL rule.



**10.2 million** ACCOUNTS and **\$900 billion** ASSETS

under management were affected.

<sup>1</sup> Study Conducted for SIFMA by Deloitte & Touche LLP: The DOL Fiduciary Rule: A study on how financial institutions have responded and the resulting impacts on retirement investors, August 9, 2017.

# Anna and Don Smith

Anna and Don Smith are a retired bookkeeper and IT professional, both age 65. The Smiths have \$350,000 in retirement savings. They want to maintain \$200,000 in savings that they can access at any time. Their only current source of guaranteed income, Social Security benefits, will provide \$2,570 per month.



## FINRA Rule 2111 investment profile: The Smiths

- What is your investment objective? **Income**
- What is your risk tolerance? **Low**
- What is your tax status? **Retired, low bracket**
- What investments do you currently have? **IRA, cash savings, mutual funds**
- What is your investment experience? **20 years**
- What is your investment time horizon? **Less than 1 year**
- What are your liquidity needs? **Need to have money available for emergencies**

### Income profile: The Smiths

- What is your income objective in retirement? **Reliable income**
- What is your time horizon until drawing income? **Less than 1 year**
- What is your risk tolerance for fluctuations or decreases in your income? **Low**
- What sources of income will you have, guaranteed and non-guaranteed?  
**Social Security and savings**
- How long will you need your income to last? **For life**
- Do you want or need income for your spouse or partner? **Yes**



**The Smiths were asked the right questions.**

# Establishing a harmonized best interest standard of care

“If you have a portfolio with a few stocks, a couple of mutual funds in a 401(k), and an annuity, then your relationship with your investment professional could be subject to regulation by the SEC, FINRA, the Department of Labor, state insurance regulators, state securities regulators, state attorneys general and, if the investment professional is associated with a BD or IA or both that is part of a bank, federal and/or state banking regulators.”

*Jay Clayton, Chairman of the SEC (May 2, 2018).*

**Regulation Best Interest should serve as the template for FINRA and the States.**

# Establishing a harmonized best interest standard of care

## The Commission should finalize Regulation Best Interest as soon as possible

Key considerations should include the following:

1

Compensation should be based on the benefits received and services performed, and commissions and fees should be held to the same standard and process.

2

Any consideration of what's in an investor's "best interest" should include an analysis of the investor's lifetime income needs.

3

This regulation should serve as the template for standard-of-care regulations promulgated by the States and FINRA.



Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

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