# Honorable Mention

By Editorial Staff *Thu, Aug 13, 2020*

*Innovator launches ladder of buffered ETFs; Principal continues to integrate acquired Wells Fargo plans; Employees and employers see HSAs differently: Further; Variable annuities can shine in times like these: Cerulli.*

**Innovator launches ladder of buffered ETFs**

Innovator Capital Management, LLC launched the Innovator Laddered Fund of S&P 500 Power Buffer ETFs (BUFF) on Tuesday, August 11. An "ETF of ETFs," BUFF will invest equally in each of Innovator's 12 monthly S&P 500 Power Buffer ETFs and rebalance semi-annually.

The underlying S&P 500 Power Buffer ETFs each seek to provide a buffer against the first 15% of losses in the S&P 500 and upside performance to a cap over a one-year outcome period; they are part of Innovator's suite of Defined Outcome ETFs.

BUFF will seek to offer investors a managed portfolio (an ETF of ETFs) that will invest equally across all twelve monthly S&P 500 Power Buffer ETFs, providing a ladder of buffered S&P 500 exposures. The twelve underlying buffered S&P 500 exposures each have a different upside cap level and period of time until their annual reset, but share a 15% buffer against losses in the S&P 500 Index over their outcome period.

"Innovator's intention with BUFF is to offer an ETF that can provide investors a managed approach to buffered equity investing that maintains upside growth potential by continuously participating in new upside caps as the underlying ETFs reset monthly—and which can be allocated to at any point during the year," an Innovator release said.

"BUFF will be rebalanced semi-annually, charge 20 basis points and seeks to provide investors with a simplified, efficient solution to buffered equity investing," the release said. "It is anticipated the ETF will provide investors with lower volatility (standard deviation), beta and drawdowns relative to the S&P 500 while capturing a measure of the capital appreciation potential of U.S. domestic large-cap stocks, the largest equity market globally by capitalization and typically the most significant allocation in most diversified portfolios."

As an ETF of ETFs, BUFF is designed to be bought and/or sold without regard for the outcome period associated with the underlying individual ETFs. The strategy, as measured by its index (the Refinitiv Laddered Power Buffer Strategy Index) seeks to provide lower volatility (standard deviation), beta and drawdowns relative to the S&P 500.

While BUFF will invest in Innovator Defined Outcome Buffer ETFs (in an equal weighted portfolio of all twelve monthly issues of the S&P 500 Power Buffer ETFs, which have a 15% buffer against loss in the S&P 500), the fund will not be a Defined Outcome product with an upside cap and downside buffer, nor an outcome period.

BUFF will seek investment results that correspond generally (before fees and expenses) to the price and yield of the Refinitiv Innovator Laddered Power Buffer Strategy Index.

BUFF will generally invest at least 80% of its net assets (including investment borrowings) in securities comprising this Index. The Index has been developed by and is maintained and sponsored by Refinitiv/Thomson Reuters.

As announced in May, to launch BUFF, Innovator will change its existing Innovator Lunt Low Vol/High Beta Tactical ETF (LVHB), including a change to the fund's name, ticker symbol, underlying index, investment objective, management fee and strategy at that time.

In May 2020, the Board of Trustees of the Innovator ETFs Trust II approved a reduction in the annual unitary management fee paid by shareholders to Innovator Capital Management, LLC the Fund's investment adviser, from 0.49% of the Fund's average daily net assets to 0.20% of the Fund's average daily net assets. In addition to the Fund's own fees and expenses, the Fund will pay indirectly a proportional share of the fees and expenses of the underlying ETFs in which it invests, included advisory and administration fees.

Once effective, LVHB will trade its shares under the new ticker symbol "BUFF".

**Principal continues to integrate acquired Wells Fargo plans**

Principal Financial Group this week announced progress toward the integrating the Wells Fargo Institutional Retirement & Trust (IRT) business with Principal's existing retirement plan business, despite challenges posed by COVID-19 and related market disruptions. Principal's July 2019 acquisition of IRT is on track for completion in 2021, the company said.

"The combined organization is already delivering new and enhanced capabilities to Principal and Wells Fargo IRT customers including a digital plan on-boarding experience, the patent-pending Principal Complete Pension Solution, the Principal Milestones financial wellness program," a Principal release said.

The new, unified retirement leadership team includes executives from Wells Fargo IRT and Principal. The company has also said it would retain locations in Charlotte, N.C.; Minneapolis/Roseville, MN.; Waco, TX; Winston-Salem, N.C.; and Manila, Philippines.

Last month, Principal secured an office space in downtown Minneapolis for occupation in 2021. Additionally, many Wells Fargo IRT employees have received job offers to transition employment to Principal effective in 2021. Principal, now a top-three recordkeeper as a result of the acquisition, has also appointed a new sales leadership team, innovated its advisor and consultant service model, and expanded its sales force as a part of the company's customer care experience.

Principal will start on-boarding new participants in October through its Principal Real Start auto-enrollment program. More than one-third of current Principal Real Start participants are saving 10% or more and one-in-three are auto-escalating their contributions up to 10%, Principal said.

Principal closed its acquisition of certain assets of the Wells Fargo Institutional Retirement and Trust business (IRT) on July 1, 2019. During the transition period, Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company, will continue to operate and service the IRT business for the benefit of Principal, including providing recordkeeping, trustee, and/or custody services.

**Employees and employers see HSAs differently**

A recent survey on perceptions of health savings accounts (HSAs) by Further, a national health savings administrator, found divergence between employers and employees on how best to use HSAs.

"Employers [are] positioning them as savings tools, while employees rely on them as spending tools," Further said in a release this week. Among the survey findings:

Today, employees depend on employers to provide competitive benefits packages that meet their health care needs. In fact, 70% of consumers said comprehensive benefits are the most important factor, or a very important factor, when accepting a job.

Similarly, employers place high value on HSAs as an employee recruitment and retention tool, with 57% and 50%,2 respectively, citing these as key objectives for offering an HSA.

When asked how HSAs are primarily utilized—as a spending or saving tool—employees and employers disagree. 65% of consumers report leveraging their HSA as a spending resource, with 23% stating they use their account equally for saving and spending.

Yet, over 66% of employers associate HSAs with savings only,2 leaving a gap in how employers are positioning these accounts compared to how employees are leveraging them. “Employees and employers are not speaking the same language when it comes to health savings accounts,” said Matt Marek, CEO of Further, in the release.

Sixty percent of employees reported having a high confidence in how to fully leverage their HSAs. Comparatively, 75% of employers say that employees have a high understanding of their HSAs.

Yet, only 51% of consumers could correctly calculate how much they would have to pay for a hospital stay based on their deductible and copay, suggesting that both employees and employers may have a false level of confidence when it comes to leveraging HSA benefits, Further reported.

**Variable annuities can shine in times like these: Cerulli**

The COVID-19 pandemic, converging with sudden economic uncertainty and global market volatility, present annuity providers with an opportunity to publicize the values of their products’ guarantees, according to a new report from Cerulli Associates.

“While advisors have increasingly shied away from using annuities in their client portfolios over the last decade, current market volatility is prompting them to take a second look,” according to the latest edition of Cerulli Edge—U.S. Asset and Wealth Management Edition.

“Framing annuities as a type of pension or Social Security payout (e.g., defined benefit) could be an effective tactic to explain their attributes to clients,” said Donnie Ethier, director of wealth management at Cerulli, in a release this week. “A pension/guaranteed payout is likely to be attractive to specific types of clients, such as small business owners,” the release said.

Derisking portfolios—a strategy many advisors have undertaken since 2018 to mitigate portfolio risk in response to drastic fluctuations in the equity markets—may accelerate variable annuity (VA) interest from advisors in the wake of the pandemic, Ethier said.

“Insurers are working to build in ‘risk levers’ that will enable the adjustment of benefit elements on the fly, to either enhance them or derisk, as conditions may dictate.” These "risk levers" associated with VAs are a selling point for many advisors, some of whom report to Cerulli that they can adequately explain incorporating a VA to a client by positioning it as downside protection.

The challenge for insurers is whether they can sufficiently address the chief reasons cited by advisors for not using VAs—perception of high fees (79%) and a belief that other retirement income strategies constructed by their advisory practice or their home office are more efficient (37%).

However, affluent households surveyed by Cerulli's Retail Investor practice indicate they will likely seek guaranteed payouts and portfolio diversification in this time of market turbulence, and many annuity designs can provide these benefits.