

AUSTIN FINANCIAL PLANNERS' CONFERENCE - 2019

The Power of Commission-Free Guaranteed Income

“Guaranteed income can significantly simplify the incredibly complex retirement income decision process and ensures a retiree always has some minimum level of lifetime income. Most retirees would be better off with more guaranteed income.”

- David Blanchett, Advisor Perspectives May 20, 2019





1 Why Guaranteed Income is Important to Clients

2 Options for Implementing Commission-Free, Guaranteed Income Solutions

Single Premium Immediate Annuities

Fixed Indexed Annuities

Variable Annuities



Why Guaranteed Income is Important to Clients



Economic benefits of guaranteed income include:

- Potential for increased retirement spending
- Ability to invest more in equities
- Protection against long periods of market downturns
- Potential improvements in the financial plan
 - Increased Monte Carlo score
 - Decreased shortfall

Designed to deliver retirement income last a lifetime Monte Carlo Simulations-Projected Returns

Retirement Foundation ADV Annuity

Annuity represented by Retirement Foundation ADV

Simple Portfolios
US Equities & Bonds



62% success¹ 63% success¹ 65% success¹ 66% success¹ 68% success¹

Model Portfolios²
Traditional Portfolio incl. Insurance component
(Retirement Foundation ADV – Option 2 [Increasing Income])



92% success¹ 80% success¹ 71% success¹ 69% success¹ 69% success¹

Five holistic portfolios offered along the risk/return spectrum for lifetime income...



Allocation to Equity and Fixed Income includes a broad spectrum of asset classes, including:

- Global Bonds
- Corporate Bonds
- International
- Alternatives
- Large Cap
- Small Cap



Psychological benefits of guaranteed income include:

- Peace of mind
- Gives clients a “license to spend” their money
- Increased levels of happiness



What thought leaders have to say:

- ▶ **Moshe Milevsky:** “There have literally been thousands of academic papers written on the value of annuities.”
- ▶ **Michael Finke:** “Increase in guaranteed income results in higher life satisfaction even among those who have more than enough wealth in retirement.”
- ▶ **Harold Evansky:** “The annuity is the single most important investment vehicle in the next 10 years.”
- ▶ **Wade Pfau:** “Annuities offer sound spending support while also fortifying a larger legacy.”



“Ideally, I can envisage an advisor sitting down with a client and saying, “We talked about doing a 4% withdrawal for retirement income. Here’s what would happen. And if you bought an annuity, here’s what would happen.”

- Bill Sharpe, Nobel Prize Winner





Options for Implementing Commission-Free Guaranteed Income Solutions



Understanding Guaranteed Income Options Research





SINGLE PREMIUM IMMEDIATE ANNUITIES





Single Premium Immediate Annuity (SPIA)

- An annuity arrangement under which premiums are paid in one single premium
- Income payments commence between one month to a year after purchase
- Can be designed to generate either monthly, quarterly or annual income
- Often can add “period certain” distributions



- **As an asset manager, SPIAs are inflexible**
 - Irreversible allocation of funds
- **Clients often are afraid of “losing” to the insurance carrier**
- **Advisor compensation concerns**



Hypothetical Client Scenario

Client Age: 70 years
Initial Contribution: \$300,000

Commission-Free SPIA generates 6% increase in monthly payments, resulting in significantly increased payments over time:

Commissioned SPIA
Monthly Income Payment: \$1,681

Commission-Free SPIA
Monthly Income Payment: \$1,777

By Year	Additional Income Generated with Commission-Free SPIA	
1	\$	1,164.6
5	\$	5,823.0
10	\$	11,646.0
20	\$	23,292.0



Hypothetical Client Scenario

Client: Male: 65
Account Balance: \$200,000
Horizon: Age 95 (30 yrs.)
Comparison: SPIA vs. Fixed Income Portfolio
Fixed Income Performance: 2.38% (5-YR.Treasury)
SPIA Payout: 6.63%

- FI allocation at current rates is depleted at age 82.
- FI generates 42% less income over planning horizon.
- In rising rate scenario, 31% less income is generated and assets are depleted at age 85.

	SPIA	Fixed Income Portfolio	Fixed Income Portfolio (+.25% for 10 yrs.)
Annual Payout	\$13,250	\$13,250	\$13,250
Total Payout	\$397,500	\$230,115	\$275,519
Age Assets Depleted	N/A	82	85
Shortfall	\$0	(\$167,385)	(\$121,981)

Maximum Guaranteed income with very limited flexibility.

Single Premium Immediate Annuities: DPL's View

[These measures are created within the context of insurance products.]



[FIXED INDEXED ANNUITIES]



Fixed Indexed Annuity (FIA)

- A tax deferred insurance product that provides market upside while protecting principal.
- Assets are allocated into indices that are designed to replicate market performance.
- These indices are typically accompanied with cap rates, spreads, or participation rates.
- Many FIA products also contain custom indices that are designed as 60/40 exposure or managed volatility.
- Combined investment allows the carrier to produce a return that mimics the returns of the index while providing absolute principal protection.



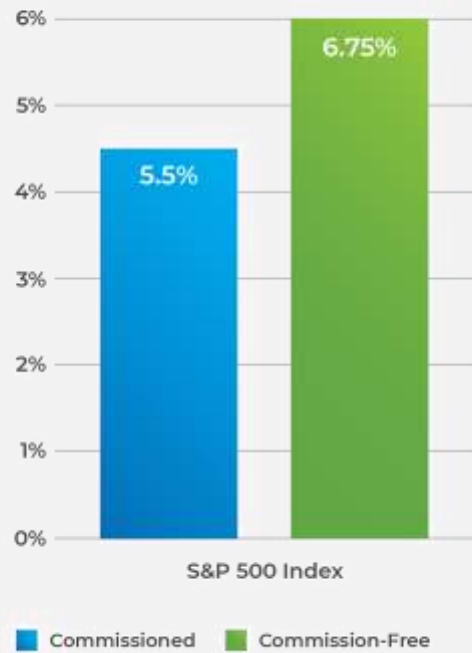
How FIAs Generate Guaranteed Income

- Unlike SPIAs, which generate guaranteed income through annuitization of a product, FIAs are most commonly used to generate income through a rider.
- FIAs generate a stream of income based on:
 - 1) Account value or benefit base
 - 2) Age of the client
 - 3) Payout rate
- The advantage of generating income through a rider rather than annuitization is that the account value remains accessible to the client or their beneficiaries.



- Limited investment options
- Limited ability to change investment options
- Surrender periods
- Limited growth potential resulting from either:
 - 1) Participation rates: client receives a % of the return the index delivers
 - 2) Cap rates: cap client's return within the index
 - 3) Spread fees: fees assessed as an expense ratio equivalent of a fund.

Commissioned vs. Commission-Free Cap Rate Comparison



Commissioned vs. Commission-Free Payout Rate Comparison

Option 1: Predictable Payment Opportunity					
Withdrawal Age	Commission-Free		Commissioned		% change
	Initial Payout %	Annual Increase	Initial Payout %	Annual Increase	
50	4.3	0.25	4	0.25	8%
60	5.3	0.35	5	0.35	6%
70	6.6	0.45	6	0.45	10%
80	8.1	0.55	7	0.55	16%

Option 2: Increasing Payment Opportunity					
Withdrawal Age	Commission-Free		Commissioned		% change
	Initial Payout %	Annual Increase	Initial Payout %	Annual Increase	
50	3.3	0.25	3	0.25	10%
60	4.3	0.35	4	0.35	8%
70	5.6	0.45	5.5	0.45	2%
80	7.1	0.55	6.5	0.55	9%

Source: Comparison between Commissioned and Commission-Free Allianz FIA products.

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FIA Case Study

Client: Male: 55

Goal: \$2,000/mo. retirement income

Income Start: Age 65

Horizon: Age 85 (20 yrs.)

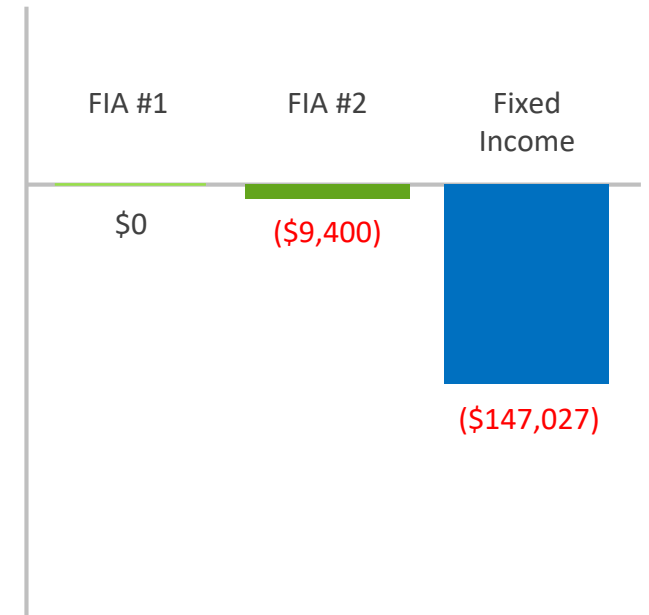
Recommendation: Fund FIA from fixed income portfolio

Fixed Income Performance: 3.16% (Corporate Bond ladder)

- Cash value slightly higher in fixed income portfolio
- Fixed income portfolio is depleted after 13.95 years (Ages M:79)
- Fixed income shortfall of \$147,027 will need to be funded from balance of portfolio

	FIA #1 (7 yr. surrender)	FIA #2 (No surrender)	Fixed Income
Fixed Account	3.60%	3.75%	
Payout	9.00%	7.50%	
Rider Cost	1.05%	1.40%	
Initial Balance	\$210,000	\$210,000	\$210,000
10 yr. (Age 65)	\$270,132	\$264,910	\$286,637
20 yr. (Age 75)	\$74,481	\$73,041	\$110,472
Income Generated (age 85)	\$486,237	\$476,837	\$339,211
Shortfall	\$0	(\$9,400)	(\$147,027)

Income Shortfall



Source FIA #1: Output for comparative purposes based on Allianz Retirement Foundation ADV – July 2019.

Source FIA #2: Output for comparative purposes based on Jackson MarketProtector Advisory – July 2019

- Ideal for conservative or moderately conservative clients in their transition or decumulation phase seeking a guaranteed income stream

Fixed Indexed Annuities: DPL's View

[These measures are created within the context of insurance products.]



VARIABLE ANNUITIES



Variable Annuity (VA)

- A tax-deferred insurance contract that provides investment options in the form of funds called variable insurance trusts (VITs).
- VAs offer the ability to annuitize assets into a guaranteed lifetime income stream as the fundamental feature that qualifies a product as an annuity.
- The account value of a variable annuity fluctuates with the value of the investment, as assets are invested in the market.
- VAs are often sold with added features called riders that can provide additional benefits at added cost.
 - Living Benefit Riders
 - Guaranteed lifetime income
 - Death Benefit Riders
 - Guaranteed return of premium
 - Guaranteed GMWB



How VAs Generate Guaranteed Income

- VAs allow for tax-deferred growth, which can give clients the possibility for greater accumulation.
- Like FIAs, VAs generate a stream of income based on:
 - Account value or benefit base
 - Age of the client
 - Payout percentage
- The advantage of generating income through a rider rather than annuitization is that the account value remains accessible to the client or their beneficiaries.



Challenges with VAs

- Complex
- Expensive
- Income generally lower
- Market exposure
- Investment options are often limited when using income riders



Commissioned vs. Commission-Free VA

Commission-Free		Commissioned	
Annuity Value	250,000	Annuity Value	250,000
Estimated Annual Fees	\$ 5,214	Estimated Annual Fees	\$ 7,269
Base Insurance Expenses	\$ 500	Base Insurance Expenses	\$ 2,500
Sub Account Expenses	\$ 2,464	Sub Account Expenses	\$ 2,519
Optional Benefit Expenses	\$ 2,250	Optional Benefit Expenses	\$ 2,250
Estimated Annual Fees	\$ 5,214	Estimated Annual Fees	\$ 7,269

28% reduction in annual fees yields \$2,055 in fee savings annually for clients

Client secures same income benefit but at reduced cost due to removing commissions

Source: Comparison between Commissioned and Commission-Free Great-West VA products.

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- Ideal for clients in accumulation phase seeking guaranteed income stream in retirement

Variable Annuities: DPL's View

[These measures are created within the context of insurance products.]



[CONCLUSION]



Utilizing Guaranteed Income in your Fee-Only Practice

Commission-Free insurance alternatives can help your clients through their various stages of investment prepare for retirement.

Guaranteed Income Option	SPIA	FIA	VA
Investment Phase	Decumulation	Decumulation or Transition	Accumulation
Income Source	Annuitize	Rider or Annuitize	Rider or Annuitize
Payout Performance	Highest Payout	Strong Payout	Medium Payout
Liquidity	Illiquid	Somewhat Liquid	Most Liquid

[THANK YOU]



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Fixed indexed annuities are contracts purchased from a life insurance company that are designed for long-term retirement goals. While the interest rate credited to an indexed account is linked to the performance of an underlying index, premium payments made to a fixed index annuity are never directly invested in the stock market. All guarantees are based on the financial strength and claims-paying ability of the issuing insurance company. The purchase of an annuity within a retirement plan that already provides tax deferral under sections of the Internal Revenue Code results in no additional tax benefits. An annuity should be used to fund a qualified plan based upon the annuity's features other than tax deferral. All annuity features, risks, limitations, and costs should be considered prior to recommending the purchase of an annuity within a tax-qualified retirement plan.

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