Help improve your clients' financial plans by understanding where an annuity can provide specific benefits.

The Annuity Landscape

At more than $2.5 trillion in size[1], it's no surprise that nearly half of investors own an annuity, and even more are interested in the idea of guaranteed lifetime income[2].

Insurance solutions, including annuities, are typically purchased to generate guaranteed lifetime income, tax-deferred growth potential and downside protection against market losses. Historically, high-cost commission-driven products have negated the potential benefits they can provide and were not necessarily sold to clients out of best interest.

In the last two decades, the advent of investment-only variable annuities (IOVAs) has allowed RIAs to leverage the power of tax-deferral for their accumulation-focused clients. Today, as more clients seek the income- and protection-focused benefits annuities can provide, carriers have developed Commission-Free solutions to align with the fiduciary model.

A New Approach

DPL Financial Partners understands the impact annuities can have on both a client's financial plan and how fiduciaries differentiate themselves from their competition. By working with carriers to remove product commissions, DPL is helping RIAs strategically implement annuities to solve for more than just lower cost.

Using Annuities for Guaranteed Income

As pensions and other reliable income sources disappear, clients are faced with either reducing discretionary spending in retirement or assuming additional risk in a total return portfolio to meet income needs. An annuity with a guaranteed income benefit can provide clients a stream of income they cannot outlive, and does so with an exclusion ratio, which reduces the tax liability for income distributions. The guaranteed income rate provided by an annuity is often much higher than the conventional 4% and helps eliminate sequence of returns risk. By using an annuity to address essential expenses, clients gain both a license to spend in retirement and can designate more asset for accumulation or legacy purposes.

Using Annuities to Lock in a Death Benefit

Using an annuity with a death benefit can provide a level of financial protection for your client's beneficiaries. Many annuities come standard with a death benefit, while most IOVAs offer them as their only optional benefit. A standard Return of Premium death benefit ensures that regardless of market performance, a client's beneficiaries are guaranteed to receive a payment equal to the initial premium. Additional death benefits can be considered to provide ongoing quarterly step-ups reflecting increasing contract values, which helps clients protect a potentially larger legacy. If the accumulated contract values decrease, the death benefit remains level so the gain in death benefit is "locked-in".

Using Annuities as a Fixed Income Alternative

With interest rates at historic lows, maintaining reliable and efficient fixed income levels is becoming increasingly difficult. Using a fixed index annuity (FIA) as a bond replacement can deliver a higher interest rate while protecting principal. FIAs performance is based on a selected index, while Multi-Year Guaranteed Annuities provide a fixed rate for a defined period, allowing clients to choose the right annuity products to meet their income needs.

	S&P 500	FIA
Starting Balance	$200,000	$200,000
Year 1 Annual Market Performance: -7%	$186,000	$200,000*
Year 2 Annual Market Performance: +10%	$204,600	$212,000**

This graph is for illustration purposes only and is not intended to represent any specific annuity product.

*FIA does not lose principal due to negative market performance.

**Assumes a 60% participation rate of the S&P 500 with its annual return of 10%.

Using Annuities for Accumulation

The tax-deferred status of annuities makes them an ideal accumulation vehicle for high net worth clients. Designed with low costs in mind, IOVAs provide an additional avenue for growing retirement earnings, without the contribution limitations of traditional retirement accounts, and often with a wider range of investment choices.

For clients nearing retirement but still interested in maximizing growth potential, an annuity with principal protection features can be useful. Registered Index-Linked Annuities (RILAs) provide two protection options—floors and buffers—each with a defined level of protection and upside. A "floor" helps minimize tail risk by absorbing any losses beyond a defined percentage, while a buffer absorbs the first losses of a market dip. With a focus on minimizing the effects of market volatility, RILAs can help clients remain invested and capture upside.

Conclusion

Commission-Free annuities enable advisors to deliver greater value to their clients and grow their business by providing new solutions to address client needs more efficiently. By taking current client needs into account, you can determine where an annuity fits best within your client's financial plan, delivering greater client benefits while increasing advisory AUM.

Consider utilizing annuities when your client needs:

Guaranteed Retirement Income

Fixed Income Alternatives

Tax-Deferred and Protected Accumulation

Evaluate your Commission-Free annuity options today by calling 888.327.0049. Your dedicated DPL Consultant can help you get started.

[1] Investment Company Institute (ICI). "Retirement Assets Total $37.4 Trillion in Third Quarter 2021". December 2021.
[2] Insured Retirement Institute (IRI), "The Language of Retirement 2017: Advisor and Consumer Attitudes Toward Income in Retirement". September 2017.

Before advising a client to purchase or redeem a variable annuity, clients should be advised to consider the investment objectives, risks, fees, charges and expenses of both the legacy variable annuity and the proposed commission-free annuity and the investment options available with both. Clients should always be advised to read the product's prospectus or summary prospectus carefully before making a decision to purchase or exchange a variable annuity.

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.

A decision to purchase a new annuity and discontinue an existing annuity should be carefully considered. Before recommending that your client repurpose their existing annuity, you should be certain both you and your client fully understand the existing annuity product and the proposed annuity product. The cost of producing and issuing the existing annuity has already been paid. If repurposed, your client will be subject to paying these costs again for the proposed annuity product, even though these costs will be lower for a no-commission annuity.

Your client is also entitled to advice from their existing insurance producer or insurance company including information on how the existing annuity is working now and how it may perform in the future based on certain assumptions. Your client may have to pay surrender charges to replace their existing annuity which will decrease the initial cash value of the proposed annuity. Interest rate guarantees should also be carefully compared to ensure that your client is making the best choice for their future.

It is important to determine if there are any tax consequences involved with the exchange. Your client may have a loan against the existing annuity's cash value that, upon surrender of the contract, may be treated as a taxable withdrawal for income tax purposes. This may also result in a 10% tax penalty if your client was younger than age 59 1/2 at the time the loan was taken.

All guarantees are based on the financial strength and claims-paying ability of the issuing insurance company.

DPL Financial Partners does not give tax advice. Clients should be advised to consult with and rely on their own tax advisors prior to repurposing their existing annuities.

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