Help optimize your clients' financial plans by evaluating their existing annuity holdings for repurposing opportunities.

The Annuity Landscape

At nearly $2 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.

For the last 20 years, the advent of investment-only variable annuities (IOVAs) has given advisors an option for repurposing legacy assets. As the first of the insurance products available without commissions, IOVAs quickly became the go-to solution for fiduciaries bringing annuities under their management. The problem? Advisors would often be forced to forfeit any living benefits that still worked within a client's financial plan—until now.

A New Approach

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

Repurposing for Guaranteed Income

There are two key inefficiencies with systematic withdrawals from an annuity: they're not guaranteed, and they receive the last-in first-out (LIFO) treatment. Clients intent on using taxable gains in their IOVAs for income may want to consider an exchange to a tax-efficient distribution vehicle. An annuity with a guaranteed living benefit provides 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.

Repurposing to Lock in a Death Benefit

Many commissioned annuities come standard with a death benefit, while most IOVAs offer them as their only optional benefit. Standard Return of Premium death benefits are set with the initial premium, which means as the account value grows, the death benefit does not. Moving those assets to a new annuity product resets the death benefit, essentially "locking in gains" and eliminating the gap between the accumulated value and protection level. 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".

Repurposing for a Fixed Income Alternative

With interest rates at historic lows, maintaining reliable and efficient fixed income levels is becoming increasingly difficult. Using a fixed indexed annuity as a bond replacement can deliver a higher interest rate without the risk of principal loss from yield changes. Fixed Indexed Annuities (FIAs) offer the ability to track equity market performance, whereas Multi-year Guaranteed Annuities provide a fixed rate for a defined period, allowing clients to customize 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%.

Repurposing to Minimize Tax Liabilities

Because annuities do not receive a step-up in basis, any tax liability is passed from the original owner to their beneficiaries. To minimize tax burdens, consider unwinding current annuity holdings for income and designating more tax-efficient assets for legacy purposes. Immediate annuities provide an exclusion ratio on withdrawals, which avoids the traditional LIFO treatment. This more favorable tax treatment allows a client to withdraw less money to maintain desired income levels, helping their assets last longer in retirement.

Conclusion

Commission-Free annuities allow 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 when reviewing their annuity holdings, advisors can determine if repurposing may fit within their client's financial plans, reducing expenses while increasing advisory AUM.

Consider repurposing existing annuities when your client needs:

Secure Retirement Income

Fixed Income Alternatives

Tax-Efficient Legacy Options

Evaluate your clients' annuities today. Your dedicated DPL consultant can help you get started.

[1] Insured Retirement Institute, 2019; https://www.myirionline.org/newsroom/newsroom-detail-view/iri-issues-second-quarter-2019-annuity-sales-report.
[2] Insured Retirement Institute (IRI), "The Language of Retirement 2017: Advisor and Consumer Attitudes Toward Income in Retirement."

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DPL20-009