



## Discover how to grow your AUM by incorporating Commission-Free annuities into your billing practices.

Many advisors we speak with have questions about how to bill for Commission-Free products. Below are best practice recommendations to help determine how to bill for insurance in a fee-only practice.

### Billing Rationale

The “AUM fee” model that most advisory firms use to bill their clients has evolved over time. When advisors were solely asset managers, an AUM fee was charged for portfolio allocation, which was created by an advisor’s ability to select equities and mutual funds. The introduction of ETFs 15 years ago challenged this orthodoxy. ETFs struggled as a product type until the industry came to the consensus that AUM billing was, in fact, for financial advice in constructing portfolios regardless of whether there was a manager. Prudent product selection was most important. So began the rise of ETFs and index funds.

Today, the services provided by advisory firms have expanded beyond asset management. The AUM fee is now used to cover the costs for advisors to provide a complete breadth of services to clients as part of holistic financial planning, rather than a fee for only asset management.

### BEST PRACTICE:

Similar to the way ETFs can be a prudent portfolio allocation, so can insurance. Firms using Commission-Free insurance in their holistic planning and investment process can bill on these allocations just as they would on any other asset in a portfolio. In fact, not billing on insurance products can create a conflict of interest.

### Billing Approach

An annuity or life product used in a portfolio is an investment and can be billed accordingly.

### BEST PRACTICES:

- If the insurance product has a cash value, it falls under AUM and an advisor can bill for it as part of an AUM fee. Simply combine the account value with the other client assets as part of the AUM fee calculation.
- Financial planners who assess planning fees separately can bill those fees for products bought for insurance coverage (term, LTC, disability), vs. products used as an investment (annuities, permanent life).

### Bill Implementation

While most Commission-Free insurance products allow advisors to bill fees directly out of the product, under certain circumstances, considerations should be made.

### CONSIDERATIONS:

- **Does the annuity have a living benefit?** It’s important to note whether or not deducting an advisory fee from an annuity with a living benefit will impact the benefit base. On some Commission-Free annuities, the fee may have no impact if it’s below a certain annual percentage; on others, it may reduce the benefit base proportionally to the contract value.
- **What are the tax consequences of billing an annuity?** Due to a 2019 IRS ruling, certain carriers’ non-qualified annuities receive the same treatment as their qualified counterparts, provided advisory fees remain under 1.5% of annual contract value. Deduction of an advisor fee will not create a taxable event for the client, nor will it incur a withdrawal penalty for clients under 59.5. DPL Consultants can help identify products that receive this treatment and any additional stipulations around it.



### BEST PRACTICES:

- **If billing from central account:** Insurance policies can be integrated into portfolio management systems so balances can be incorporated with the rest of the portfolio. An insurance carrier is the custodian of these assets and, just like other assets that are held away from the primary custodian, insurance products on DPL's platform are integrated with leading portfolio management systems advisors already use. We assist with these connections during member onboarding processes.
- **If pulling the fee from the product:** Advisors that look to keep performance numbers consistent between accounts or that have only one product relationship with a client, may opt to bill directly from the product. Most carriers DPL works with support direct fee billing and several offer automated billing functionality online.

### Additional Support

At DPL, we have an onboarding process for new member firms designed to educate advisors about the innovative uses and benefits of Commission-Free insurance. During onboarding, we provide our new members with tools to get up and running with insurance quickly, and begin the conversation about insurance and annuities with clients who could benefit from these products.

**To learn more about using Commission-Free annuities and insurance in your practice, call 888.327.0049 to speak to a DPL consultant.**

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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