



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

The Annuity Landscape

At more than \$2.5 trillion in size¹, it's no surprise that nearly half of investors own an annuity, and even more are interested in the idea of guaranteed lifetime income².

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 tax 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 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%.

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 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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