Utilizing Insurance in a Fee-Only Practice

The new insurance opportunity for fiduciaries

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The Importance of the Opportunity

Introduction

RIA clients want, need, and already own insurance

BUT

Commissioned products are incompatible with the RIA's business models and their fiduciary values

SO

Even though many RIAs (~80%) provide insurance planning, they are unable to deliver products to fulfill their clients' needs

Why Insurance is Important in an RIA Practice

1] Insurance is an enormous marketplace

- At $4T, the annuity market alone is larger than the entire RIA market

2] Insurance provides great benefits to a client's financial plan

- Guaranteed Lifetime Income
- Principal Protection
- Legacy Planning
- Tax Deferral

3] Fiduciaries bring a big picture understanding of the role insurance plays in a wholistic financial plan

- Ensure clients are provided with proper insurance coverages, not expensive policies they don't need

The Insurance World is Changing

- Just as the mutual fund industry was driven by loads 30 years ago, the insurance industry has historically been commission-driven.
- In recent years, insurance carriers have brought to market a wide variety of Commission-Free products.
- The advent of these new products provides an opportunity for fiduciaries to take a fresh look at insurance.

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Three Ways RIAs Can (& Should) Leverage Insurance

Familiar and New Uses (Given Appropriate Pricing)

1] Evaluate Clients' Existing Insurance

- Move beyond evaluation to product improvement

2] Fulfill Financial Plans

- Clients' basic insurance needs usually include:
    - Life insurance
    - Long-Term Care
    - Disability Insurance

3] Utilize Insurance as an Investment

- Realize the benefits of insurance at fair pricing

1] Evaluate Clients' Existing Insurance

- Review clients' insurance policies to determine their value and benefits
- Provide transparency and product understanding to clients
- Deliver alternatives that improve client outcomes
    - Replace existing coverage with lower-cost product alternatives
    - Redeploy existing insurance to more productive alternatives
    - Make adjustments to existing policies to deliver better results

THREE WAYS RIAS CAN LEVERAGE INSURANCE

2] Fulfill Financial Plans

- Identify insurance needs through financial planning software
  - Life
  - Long-Term Care
  - Disability
- Leverage Commission-Free products to meet your clients' goals
  - Add new coverage
  - Fill gaps in existing coverage

3] Utilize Insurance in a Portfolio

- Incorporate insurance to provide important portfolio and planning benefits:
  - Sequence of returns risk mitigation
  - Guaranteed lifetime income
  - Fixed income alternatives
  - Legacy planning
  - Longevity risk
  - Tax deferral
- Insurance is a valuable, integrated portfolio investment when priced appropriately

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Product Comparisons: Commission-Free vs Commissioned

PRODUCT COMPARISONS: COMMISSION-FREE VS. COMMISSIONED

Fixed-Indexed Annuity

Product	Commission-Free		Commissioned	
Purchase Payment	< $250,000	> $250,000	< $250,000	> $250,000
Declared Rate	3.5%	3.6%	1.8%	1.9%
S&P 500 Risk Control Annual Point-to-Point with Par Rate	70%	80%	55%	60%
S&P 500 Annual Point-to-Point with Cap	7.25%	7.40%	4.50%	5.00%
iShares U.S. Real Estate Annual Point-to-Point with Cap	8.75%	9.00%	5.75%	6%
S&P U.S. Retiree Spending Annual Point-to-Point with Par Rate	90%	90%		

Source: Income Protector 7 year and American Custom 10 year rate sheets..

PRODUCT COMPARISONS: COMMISSION-FREE VS. COMMISSIONED

Buffer Annuity – #1

Segment Buffer	Funds	Commission-Free	Commissioned
	3-YEAR SEGMENT		
-10%	S&P 500	40%	26%
-10%	Russell 2000	34%	26%
-10%	MSCI EAFE	47%	27%
-20%	S&P 500	23%	18%
-20%	Russell 2000	23%	18%
	5-YEAR SEGMENT		
-10%	S&P 500	Uncap	74%
-10%	Russell 2000	99%	50%
-10%	MSCI EAFE		Uncap
-20%	S&P 500	74%	42%
-20%	Russell 2000	57%	37%
-30%	S&P 500	47%	32%
-30%	Russell 2000	43%	29%

Source: Structured Capital Strategies 16-ADV and Series B product summaries.

PRODUCT COMPARISONS: COMMISSION-FREE VS. COMMISSIONED

Buffer Annuity – #2

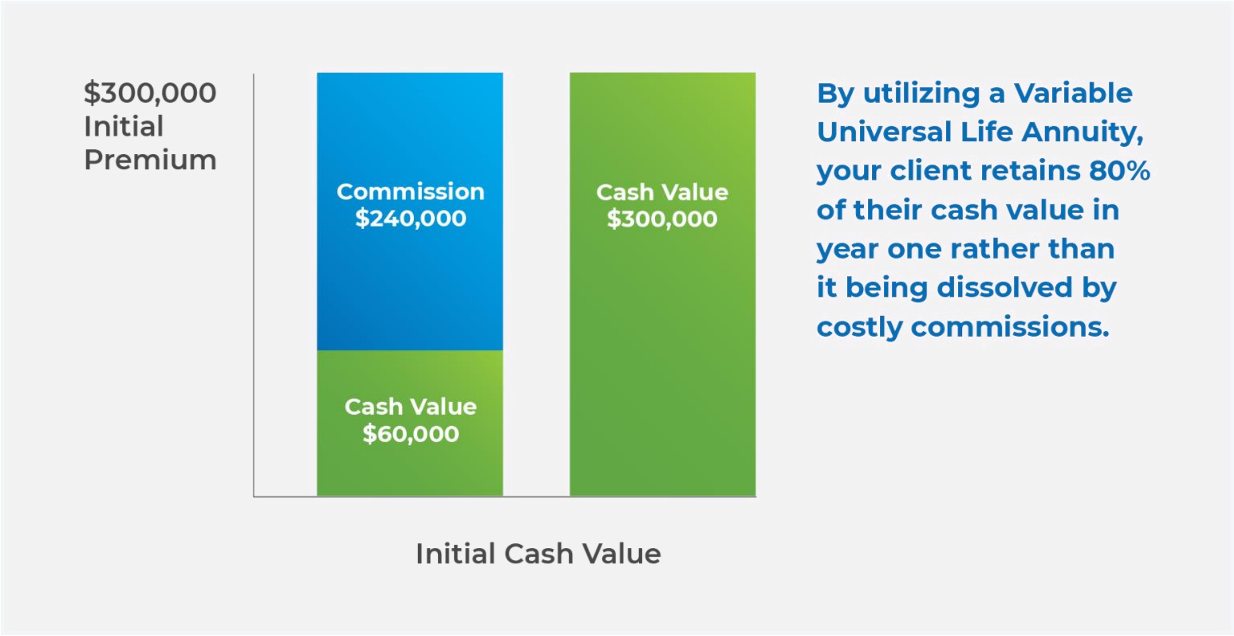
Standard Contract Options	Commission-Free	Commissioned
CONTRACT TYPE	FEE-BASED INDEX-LINED VARIABLE ANNUITY	B-SHARE INDEX-LINKED VARIABLE ANNUITY
Withdrawal Charges	None	6 years: 7%, 7%, 6%, 5%, 4%, 3%
Annual Contract Fee	0.40%	1.20%
Maximum Age at Purchase	90	
Premiums/Deposits	Single premium	
Crediting Method	Annual point-to-point with cap rate	
Index Strategy Term	1-year (floor or buffer applies to entire index term)	
Death Benefit	Return the greater of the contract value, surrender value, or premium less withdrawals	
PROTECTION OPTIONS		
Floor Options	0%. - 2.5%, - 5.0%, -7.5%, -10%	
Buffer	-10%	

Source: Capital Choice™ Advisor and Capital Choice™ product summaries.

PRODUCT COMPARISONS: COMMISSION-FREE VS. COMMISSIONED

Life Insurance

Life insurance is a more complex product with a variety of comparative factors. One of the strongest differences between commissioned and Commission-Free is the client's
cash value.



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Sample Implementations

THE POWER OF REPRICING INSURANCE

SAMPLE IMPLEMENTATIONS

Life Insurance

Secure the same death benefit for
a significantly lower premium.

Fee-Only Life Insurance

Clients opened a life insurance policy to fund a ILIT (Irrevocable Life Insurance Trust), solving for $10M in death benefit

Client Inputs

Age: 55/56

Gender: Male/Female

Health Status: Preferred/Preferred

Funding: 10-pay

Rate of Return: 6%

Commission-based Variable Universal		Fee-based Variable Universal	
Annual Premium	$194,124	Annual Premium	$142,772
Death Benefit	$10M	Death Benefit	$10M
Lapse Age	100	Lapse Age	100

Total Premium Savings: $51,352 * 10 = $513,520

SAMPLE IMPLEMENTATIONS

Guaranteed Universal Life (GUL) Insurance

When comparing GUL Insurance policies, start with the cost of the premium.

Fee-Only GUL Insurance

Consider a pure death benefit policy when the client isn't concerned with a cash
value or utilizing the policy for withdrawals in retirement

Client Inputs

Age: 66
Gender: Female
Health Status: Preferred

Commissioned GUL		Commission-Free GUL	
Annual Premium	$41,850	Annual Premium	$29,803
Death Benefit	$1M	Death Benefit	$1M

Estimated Premium Savings Over 10 years: $12,047 * 10 = $120,470

INSURANCE IN A PORTFOLIO

SAMPLE IMPLEMENTATIONS

Annuities

Fee-Only 1035 Annuity Exchange

Client owned policy with $300,000 Cash Value

- Issued by carrier who was aggressively buying back policies
- Switched to no-load variable annuity; institutional funds, no mark-up, no 12-B1's
- Locked in ~$8,500/year fee saving for client, who also received ~$80,000 increase in cash value due to buyback offer

Current Contract

Total Expense Ratio	3.40%
Hypothetical Annuity Value	$321,375
Base Insurance Expenses	$5,303
Sub-Account Expenses	$3,214
Optional Benefit Expenses	$2,41
Estimated Annual Fees	$10,926

New Contract

Total Expense Ratio: .65%

Hypothetical Annuity Value: $380,000

Base Insurance Expenses: $1,330

Sub-Account Expenses: $1,140

Optional Benefit Expenses: $-

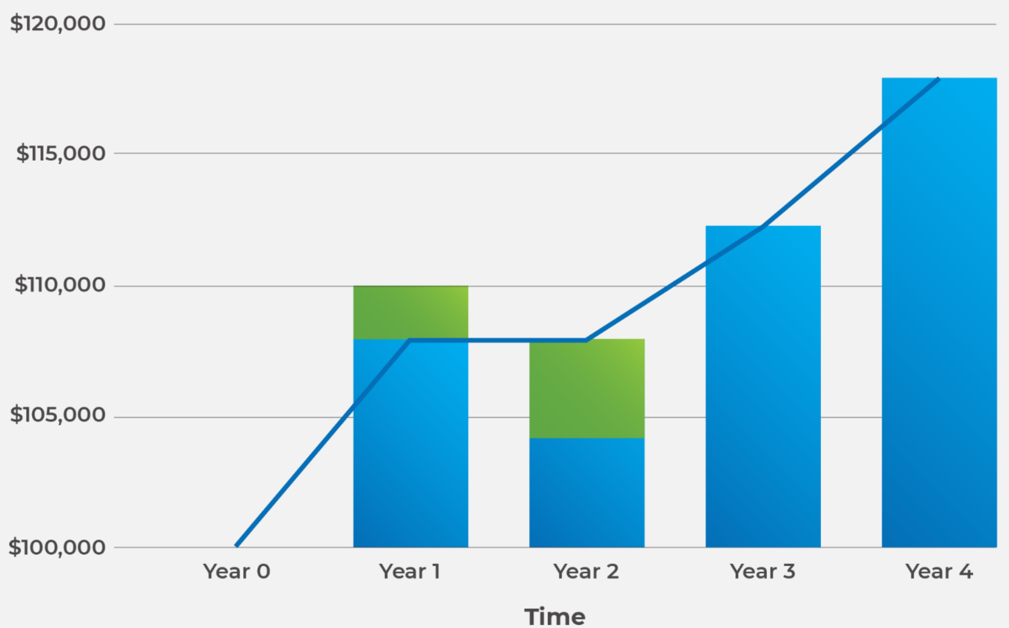
Estimated Annual Fees: $2,470

MITIGATE SEQUENCE OF RETURNS RISK

SAMPLE IMPLEMENTATIONS

Using Annuities to Mitigate Sequence of Returns Risk

Mitigate Sequence of Return Risk with Downside Protection



Index	10%	-3%	4%	5%
Cap	8%	–	–	–

Fixed-Indexed Annuities with complete downside protection can help mitigate sequence of returns risk while providing market exposure.

Client Input

Initial Premium: $100,000

SAMPLE IMPLEMENTATIONS

Using Annuities to Mitigate Sequence of Return Risk

Downside buffer protection or tail risk protection can help de-risk client portfolios while providing market exposure.

Please note that due to spacing constraints, the index names in the chart above may be abbreviated. For full index names, please refer to the Important Terms section here: https://us.axa.com/nonindexed/ios-apps/scs2016/seriesADV/scs-series-adv-fact-card.pdf

GUARANTEED INCOME

Fiduciary Solution to Guaranteed Income

Introduce a Single Premium Immediate Annuity (SPIA) to a standard portfolio to capture guaranteed stream of income.

Commission-Free SPIA

Consider a widowed female who wants to secure an income stream for the next 15 years. Needs at least $25,000/year

Client Inputs

Age: 71
Gender: Female
Investable Assets: $690,000

Fixed Indexed Annuity	
Initial Premium	$200,000
Total 15 Year Payout	$197,100

Single Premium Immediate Annuity	
Initial Premium	$292,000
Total 15 Year Payout	$375,000

Fixed Indexed Annuity as Fixed-Income Replacement

Fixed Indexed Annuity

- Ibbotson and Zebra Capital Management Team ran hypothetical return simulations over 89 years to capture periods of both rising and falling yields.
- Research suggests that when market is good, equity exposure results in higher accumulation, but in risky periods it decreases but with the benefit that return never falls below 0%.

FIA Hypothetical Net Return (1927-2016)

	Large Cap Stocks	Long Term Gov't Bonds	FIA
Annualized Return	9.92%	5.32%	5.81%
Standard Deviation	19.99%	9.97%	10.01%
Minimum Annualized 3-Year Return	-27.00%	-2.32%	0.00%
Maximum Annualized 3-Year Return	30.76%	23.30%	27.56%

Source: 2017 SBBI Yearbook, Roger G. Ibbotson, Duff & Phelps; Zebra Capital; AnnGen Development, LLC

FEE-BILLING
FOR INSURANCE

SAMPLE IMPLEMENTATIONS

Best Practices for Advisor Billing

Fee	AUM Charge	Either Fee or AUM
Term Life	Buffer Annuities	Universal Life
Disability	Fixed Annuities	Single Premium Immediate Annuities
Guaranteed Universal Life	Fixed-Indexed Annuities	
Long-Term Care	Variable Annuities	
Medicare Supplement	Variable Universal Life	

Conclusion

- Insurance can be a valuable and powerful asset to your Fee-Only practice.
  - Important for fiduciaries to be involved in their clients' insurance

- There are three main ways RIAs can utilize insurance in their Fee-Only practice:

  1] Evaluate Clients Existing Insurance

  2] Fulfill Financial Plans

  3] Utilize Insurance in a Portfolio

- Take a fresh look at insurance. Challenge yourself to explore new and powerful benefits available to your clients in low-cost, Commission-Free insurance products.

QUESTIONS?

Join the Revelation.

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