DPL FINANCIAL PARTNERS

Common RIA Misconceptions about Annuities

1: *"My clients won't run out of money — they don't want or need guaranteed income."*

Annuities are perhaps the only way to mitigate longevity risk, but they are also a more efficient means of generating retirement income. Annuities can quickly outperform fixed income in generating retirement income, and provide payouts long after fixed income portfolios would be depleted. Particularly for "wealthier, healthier" clients who are likely to outlive the general population's life expectancy, annuities should be considered.

2: *"My clients don't want or need annuities."*

The annuity market is a $4T market — showing a clear consumer desire for guaranteed income. The psychological benefits of annuities are well documented, including peace of mind and increased happiness in retirement. Not only can they provide that peace of mind, annuities can also provide a budget for those who tend to overspend or a freedom to enjoy their retirement for those who are afraid spending will cause them to run out of money in later years.

3: *"My fixed income portfolio can outperform an annuity."*

This is a common statement from advisors who have not yet made the comparison to a *no-load* annuity. An annuity is built on the insurance carrier's balance sheet, which resembles a large, scaled bond ladder. So, insurance products will often perform like fixed income investments, but where they shine relative to traditional fixed income portfolios is in the income they can generate. We encourage you to run the numbers.

4: *"Income is generated through annuitization."*

Single premium immediate annuities (SPIAs) generate income through annuitization. For every other annuity — while you *can* annuitize — it is more common for income to be generated through riders. This is important because your clients are not turning over assets to the insurance company to generate income. When income is generated using a rider, cash value remains available until it is depleted through distributions.

5: "All annuities have surrender periods."

Commission-Free annuities more often than not *do not* have a surrender period. If they do have a surrender, it's more analogous to an early withdrawal or early redemption penalty rather than a charge to recoup a commission. For Commission-Free products with surrender periods, the surrender periods are typically shorter, and products have lower fees than their commissioned counterparts.

6: "We haven't looked at annuities because bond yields are low."

Bond yields being low actually makes annuities *more* appealing compared to fixed income. When bond yields are low, the shortfall in retirement income needs to be met through the sale of equities, harming portfolio returns and subjecting the client to sequence of returns risk. Read the article *"Bonds or Annuities? What's the Best Way to Generate Retirement Income?"* to see analysis by academics Wade Pfau, David Blanchett and Michael Finke.

7: "Allocating my client to an annuity means lost revenue to my firm."

While this used to be the case when insurance was commission-based, with fee-based products, insurance can be additive to AUM rather than lost AUM.

3 Benefits of Using Annuities as a Fixed Income Alternative

Benefits to Clients:	Benefits to Firm:
Potentially accumulate more through annuity than fixed income portfolio	Better accumulation through scaled bond ladder of carrier's balance sheet
Get a paycheck for life	Remove administrative burden — let insurance company issue paycheck rather than advisor
Generate more income, for longer, than traditional fixed income	Ensure firm AUM by having carrier take over longevity risk

Ready to run the numbers? Speak with a DPL Consultant to see how your fixed income portfolio compares to a Commission-Free annuity.

Call: 888.327.0049