

**ADVISOR**  **PERSPECTIVES**



# ANNUITY FOUNDATIONS

## FOR FIDUCIARIES

**A 5-PART SERIES with David Lau, Wade Pfau, David Blanchett, Michael Finke**



SPONSORED BY

**dpl** financial partners



## Session Speakers

# How Annuities Impact Financial Plans and Client Behavior



**David Lau**

DPL Financial Partners  
Founder & CEO



**Wade Pfau**

RICP Program  
Director, Professor of  
Retirement Income  
The American College



**David Blanchett**

Head of Retirement  
Research  
Morningstar  
Investment  
Management LLC



**Michael Finke**

Ph.D., Frank M. Engle  
Distinguished Chair in  
Economic Security  
The American College  
of Financial Services

June 3, 2021

12:30 pm EDT

Session Sponsor



financial partners



# David Lau

Founder and Chief Executive Officer  
DPL Financial Partners

David Lau is widely recognized as an innovator and disruptor in the financial services industry. He is a sought-after speaker, commentator and advisor by financial journalists, insurance carriers, RIA firms, fintech companies and others seeking insights on industry products, trends and best practices. His work has received coverage in The Wall Street Journal, Barron's, CNBC, Wealth Management and other financial media. Currently, David is the CEO of DPL Financial Partners, the industry's leading turnkey insurance management platform, which he founded in 2014 to bring commission-free, value-driven financial services products to the registered investment advisor (RIA) channel. DPL went to market in 2018; in that time, over 1,100 RIA firms have joined DPL to implement insurance and annuity solutions, from leading carriers, into their practices.

Prior to founding DPL, David was Chief Operating Officer of Jefferson National, now Nationwide Advisory Services, a leading innovator of tax-advantaged investing strategies for RIAs and fee-based advisors at broker-dealers. Earlier in his career, David served as chief marketing officer of E\*Trade Bank and its predecessor TeleBank, the nation's first internet bank, where he helped pioneer branchless banking.



# **Annuities for Today's Retirement Realities**



# Economic Benefits of Annuities for Clients

5

- Most efficient means of retirement income generation<sup>1</sup>
- Protect portfolio against market downturns
- Ability to invest more in equities
- Potential improvements in the financial plan
  - Increased Monte Carlo score
  - Decreased income shortfall

<sup>1</sup><https://401kspecialistmag.com/study-by-finke-pfau-shows-annuities-improve-retirement-outcomes/>

- Peace of mind that essential expenses are covered
- Gives clients a “license to spend” their money
- Increased levels of happiness in retirement

**"Annuities create certainty, and that has a value that is often hard to quantify."**

-David Blanchett, Head of Retirement Research,  
Morningstar





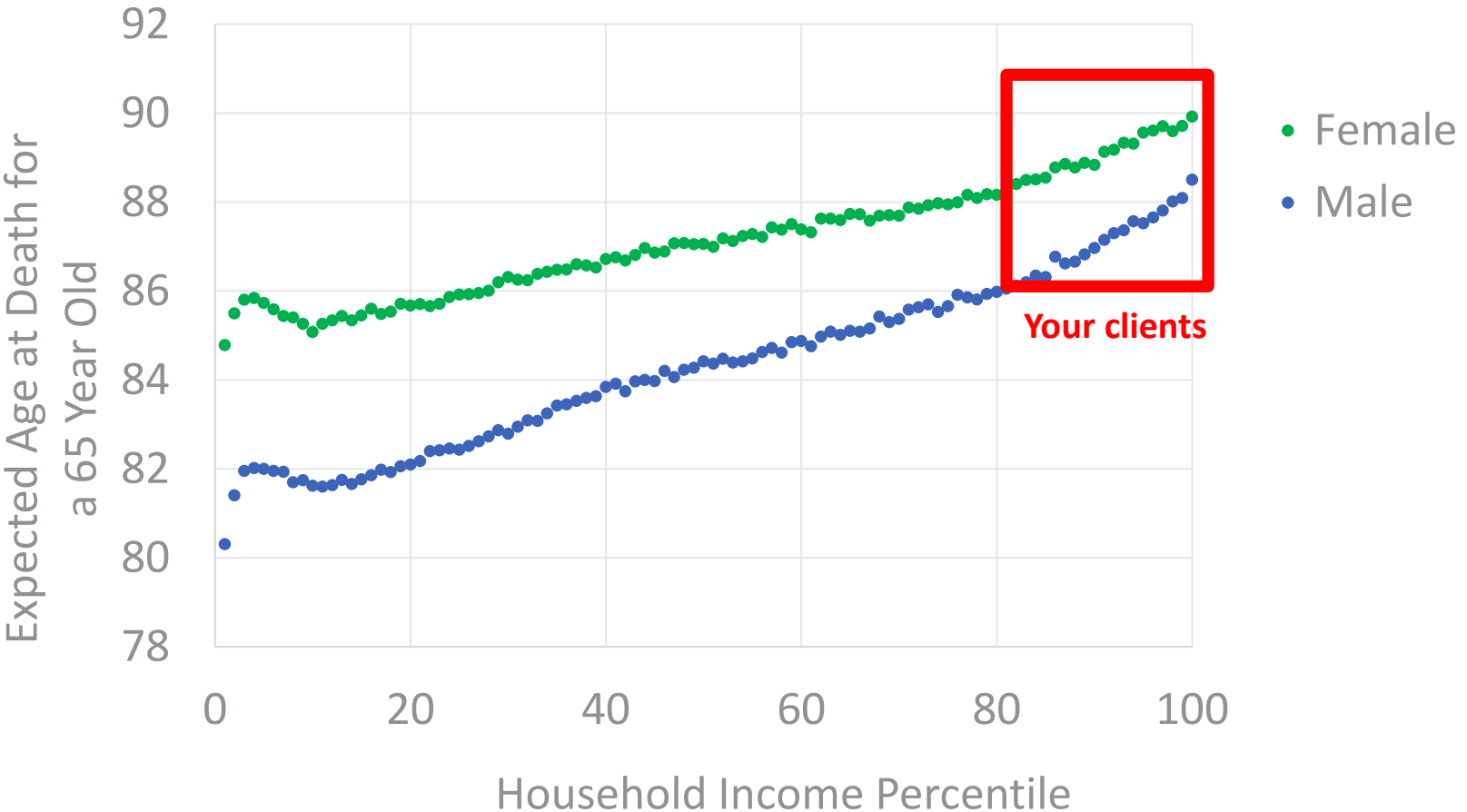
## **David Blanchett, PhD, CFA, CFP® , ChFC® , CLU®**

Head of Retirement Research  
Morningstar Investment Management LLC

David M. Blanchett, PhD, CFA, CFP®, is head of retirement research for Morningstar Investment Management LLC and an adjunct professor at The American College of Financial Services.

At Morningstar, Mr. Blanchett helps develop and maintain methodologies relating to wealth forecasting, general financial planning, automated investment selection, and portfolio assignment for Morningstar Investment Management LLC. Prior to joining Morningstar, he was the director of consulting and investment research for the Retirement Plan Consulting Group at Unified Trust Company. He has published over 100 papers in a variety of industry and academic journals. His research has received best paper awards from the Academy of Financial Services (2017), the CFP Board (2017), the Financial Analysts Journal (2015), the Journal of Financial Planning (2007, 2014, 2015, 2019), and the Retirement Management Journal (2012).

# Life Expectancy by Household Income



Source: The Health Inequality Project



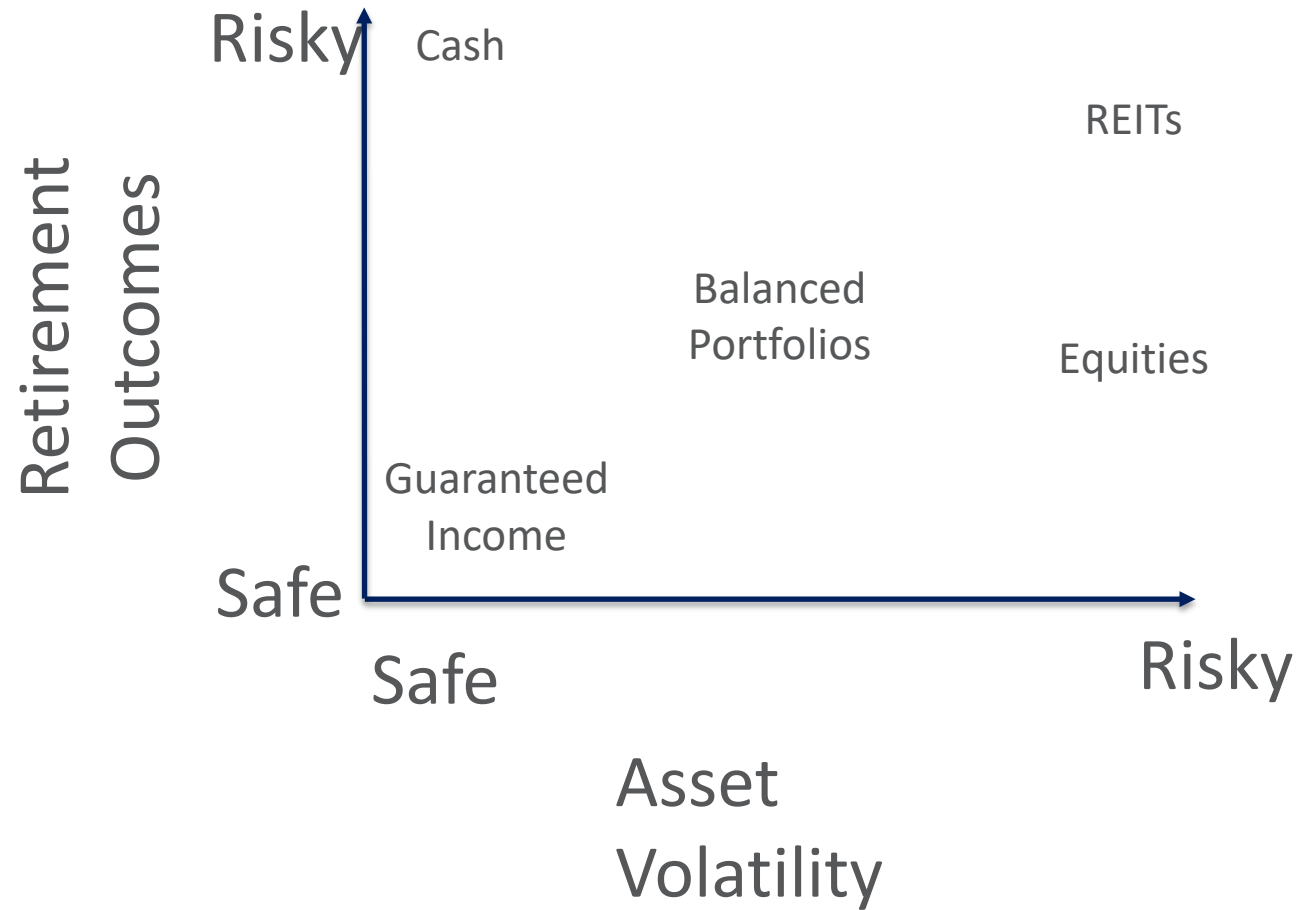
# Managing Household Risks

## Exhibit 10 Risk Management Techniques

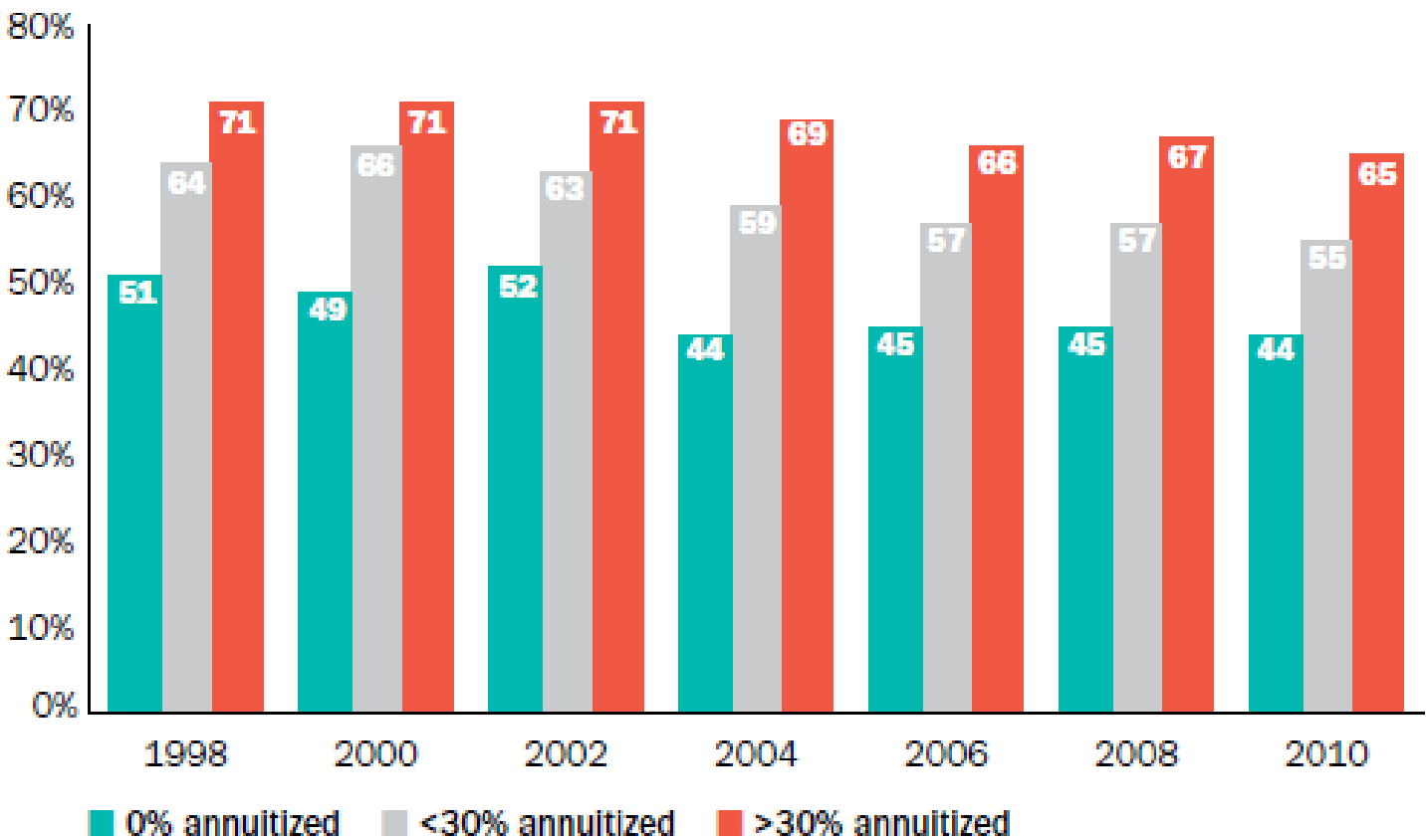
Loss characteristics	High frequency	Low frequency
High severity	Risk avoidance	Risk transfer
Low severity	Risk reduction	Risk retention

Source: Private Wealth Management: Risk Management for Individuals. CFA Curriculum by David Blanchett, David Cordell, Michael Finke and Tom Idzorek.

# Different Dimensions of Risk



# Guaranteed Income and Retirement Satisfaction



Source: Nyce and Quade (2012)

# Financial Statement Consideration

	Asset?	Income Source?
Portfolio	+	+
Guaranteed Income	×	+

# A Better Balance Sheet

**Exhibit 2 Economic (Holistic) Balance Sheet as of 31 December 2014**

Assets		Liabilities	
Financial capital	€4,020,000	Debts	€640,000
Liquid assets		Credit card debt	
Investment assets		Car loan	
Personal property		Home mortgage	
		Home equity loan	
Human capital	€1,400,000	Lifetime consumption needs (present value)	€4,200,000
Pension value	€500,000		
		Bequests	€400,000
Total Assets	€5,920,000	Total Liabilities	€5,240,000
		Net Wealth	€680,000

Source: Private Wealth Management: Risk Management for Individuals. CFA Curriculum by David Blanchett, David Cordell, Michael Finke and Tom Idzorek.

# Quantifying the Value of Guaranteed Income

Diagram illustrating the formula for the value of pension assets ( $P_t$ ) at a specific point in time, based on the current age and the death age ( $D$ ).

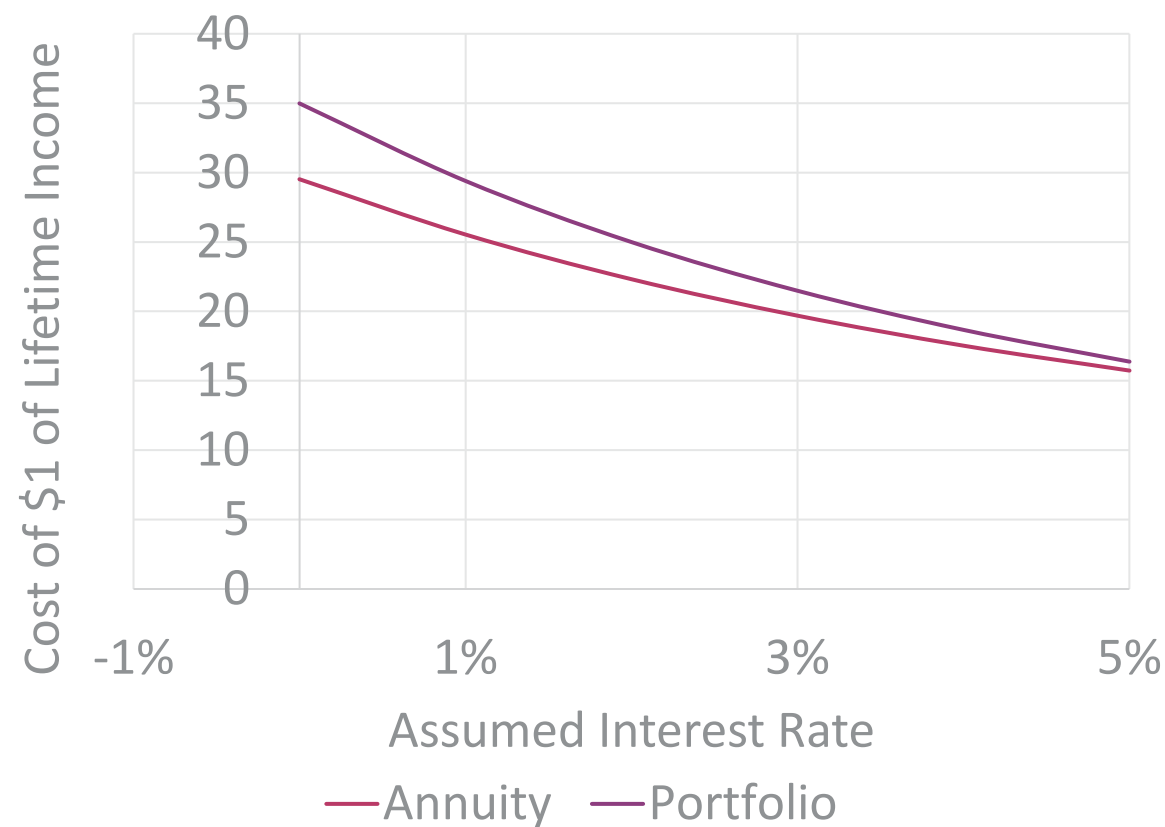
The formula is:

$$P_t = \sum_n^D \frac{q_{D-n} PEN_t (1 + COLA_t)^{D-n}}{(1 + rf_t)^{D-n}}$$

Labels and their corresponding variables in the formula:

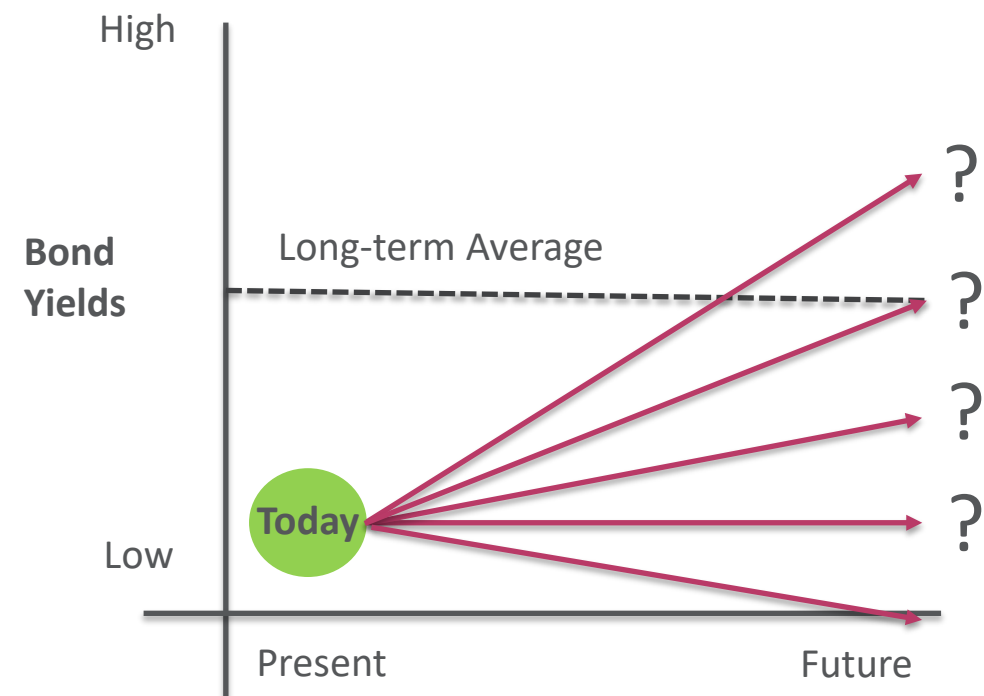
- death age:  $D$
- probability of surviving to future age ( $D-n$ ):  $q_{D-n}$
- pension benefit:  $PEN_t$
- cost of living adjustment:  $COLA_t$
- discount rate:  $rf_t$
- current age:  $n$
- value of pension assets:  $P_t$
- at a specific point in time:  $t$

# Annuities are on Sale... (Relatively Speaking)



Source: Author's Calculations

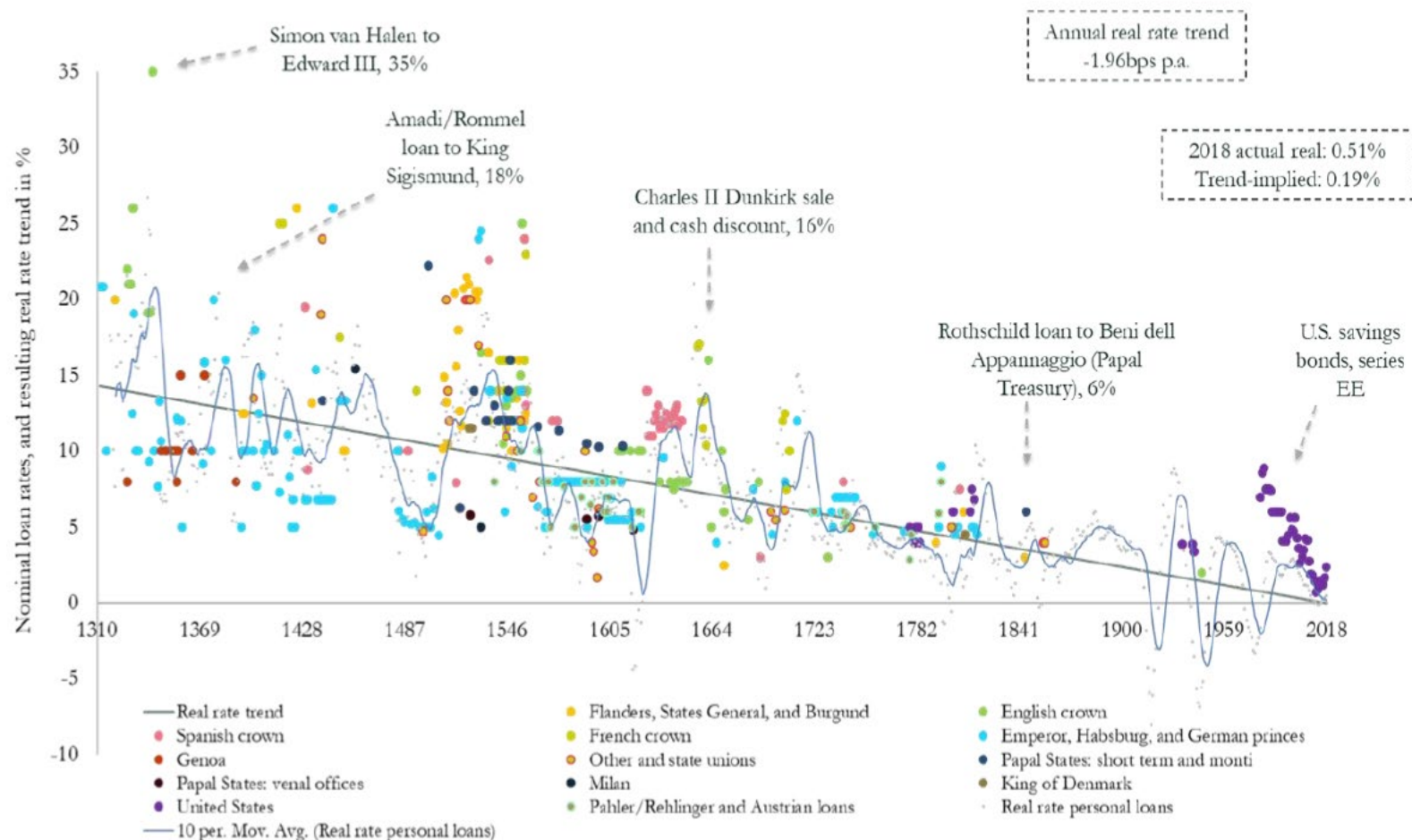
# Where are Interest Rates Headed?



Source: Author's Calculations

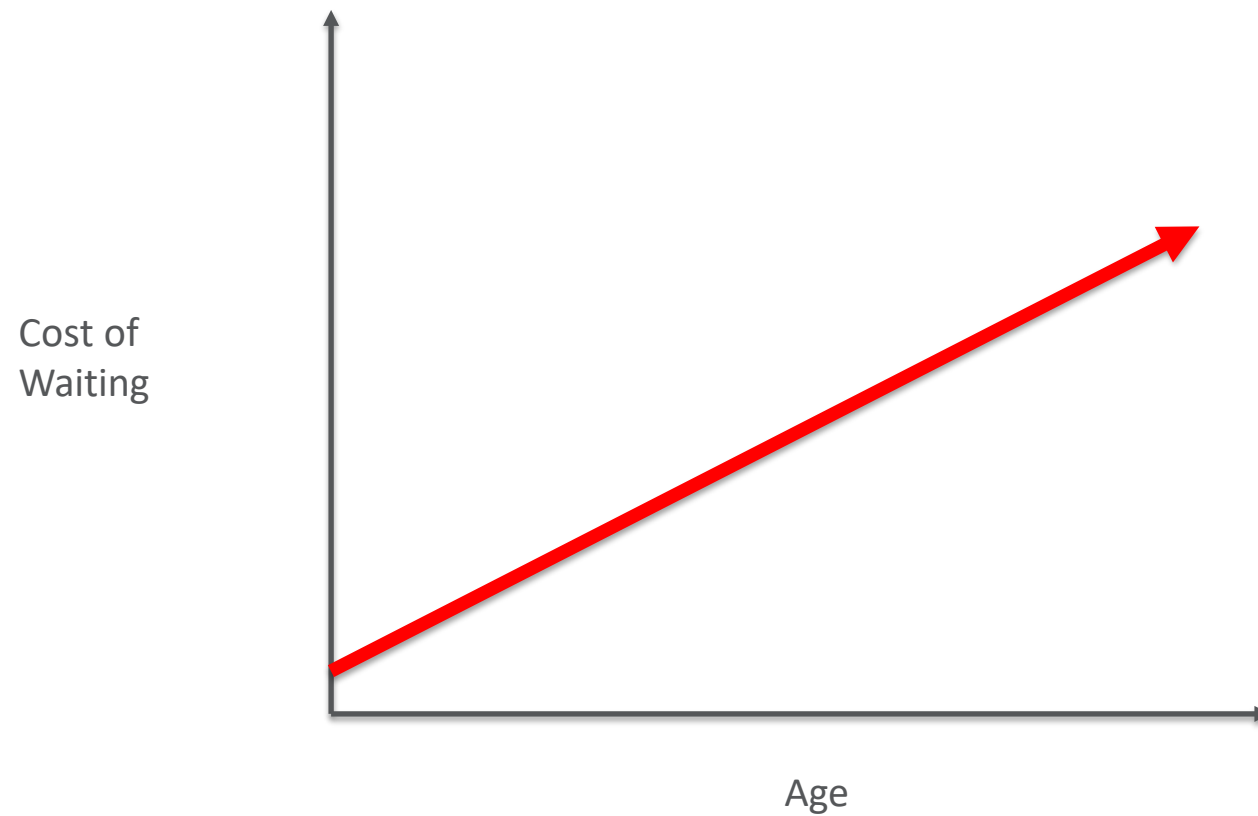


# The Looooooooong Term Trend



Source: <https://www.bankofengland.co.uk/working-paper/2020/eight-centuries-of-global-real-interest-rates-r-g-and-the-suprasecular-decline-1311-2018>

# The Cost of Waiting for Rates to Rise





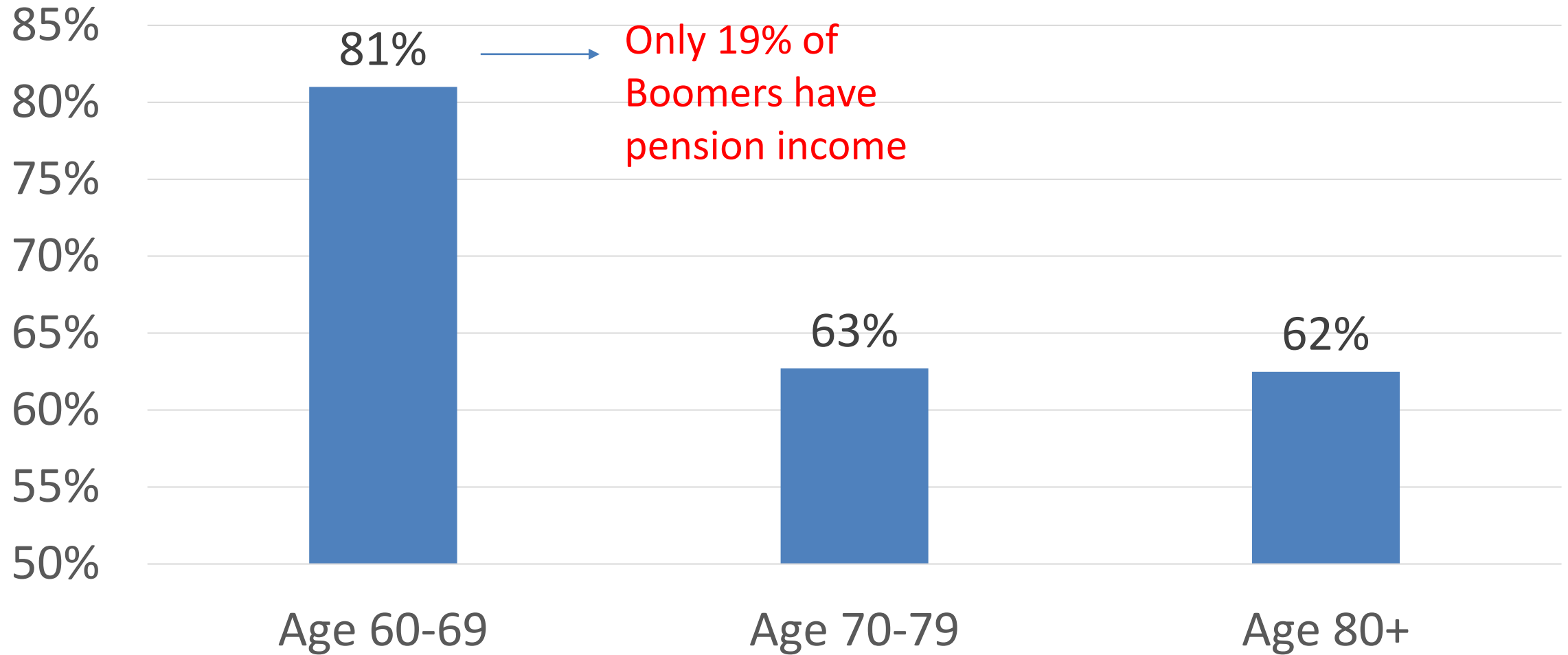
# Michael Finke, Ph.D

Frank M. Engle Distinguished Chair in Economic Security  
The American College of Financial Services

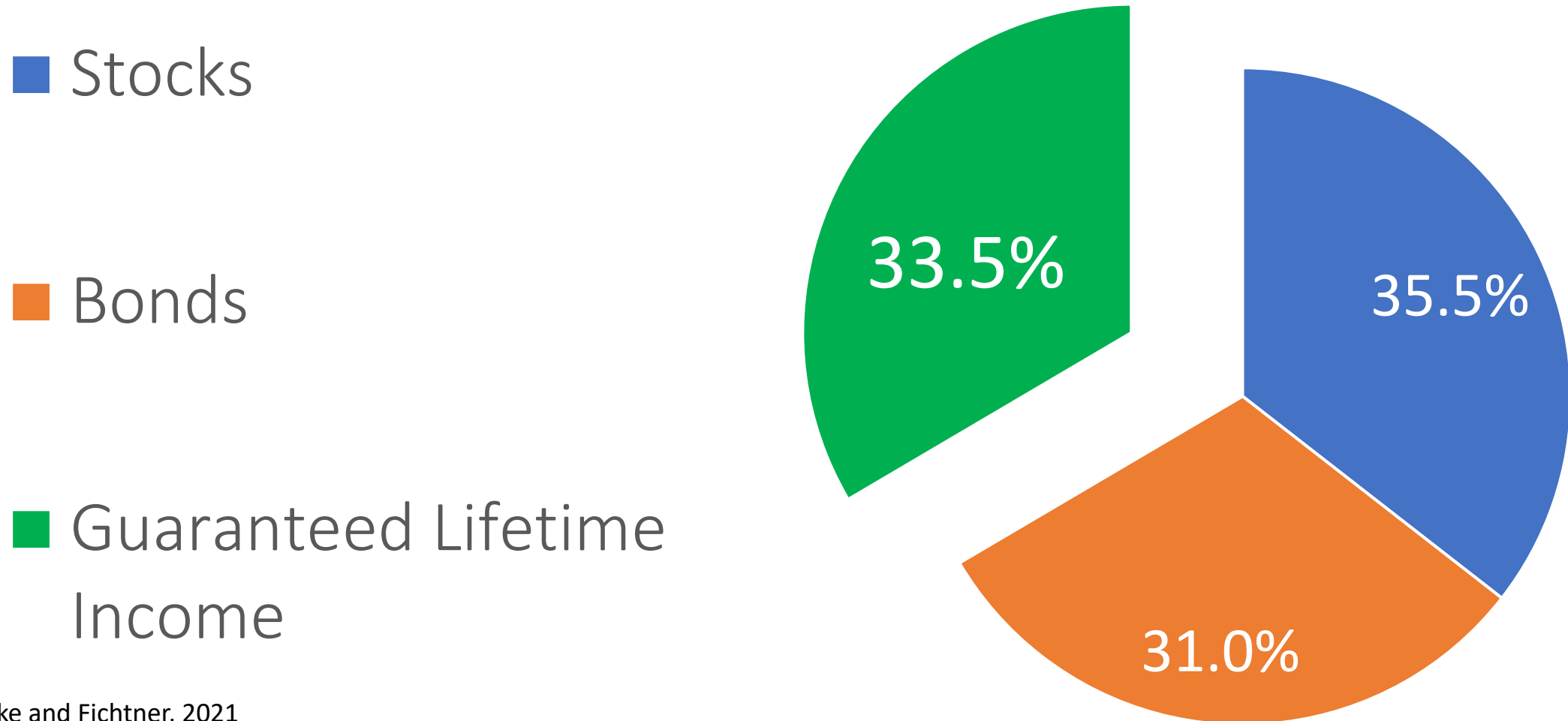
Michael Finke, PhD, is Professor of Wealth Management, Director for the Granum Center for Financial Security, and the Frank M. Engle Distinguished Chair in Economic Security at The American College of Financial Services. He joined The College in June 2016, having served since 2006 as a professor and PhD coordinator in the Department of Personal Financial Planning at Texas Tech University. From 1999 through 2006, he served as the Director of Graduate Studies at the University of Missouri.

Finke is a nationally renowned researcher with a focus on the value of financial advice, financial planning regulation, investments, and individual investor behavior. He was named to the 2012 and 2020 Investment Advisor IA 25 list and the 2013 and 2014 Investment News Power 20. His research conducted with fellow professor Wade Pfau questioning the 4% rule of retirement planning was published in the Journal of Financial Planning and won the 2014 Montgomery-Warschauer award for most influential article. He previously won the award with Thomas Langdon in 2013. He was also selected to present his research on financial literacy and aging at the 2015 MIT Center for Finance and Policy Conference.

# Percentage of Retirees with No Pension Income



At retirement, assume you can choose between risky investments such as stocks that have a higher expected return, safe investments such as bonds, and an instrument that provides **guaranteed lifetime income**. What **percentage of your total retirement savings** would you place in each option?



# Helping Clients Understand Tradeoffs

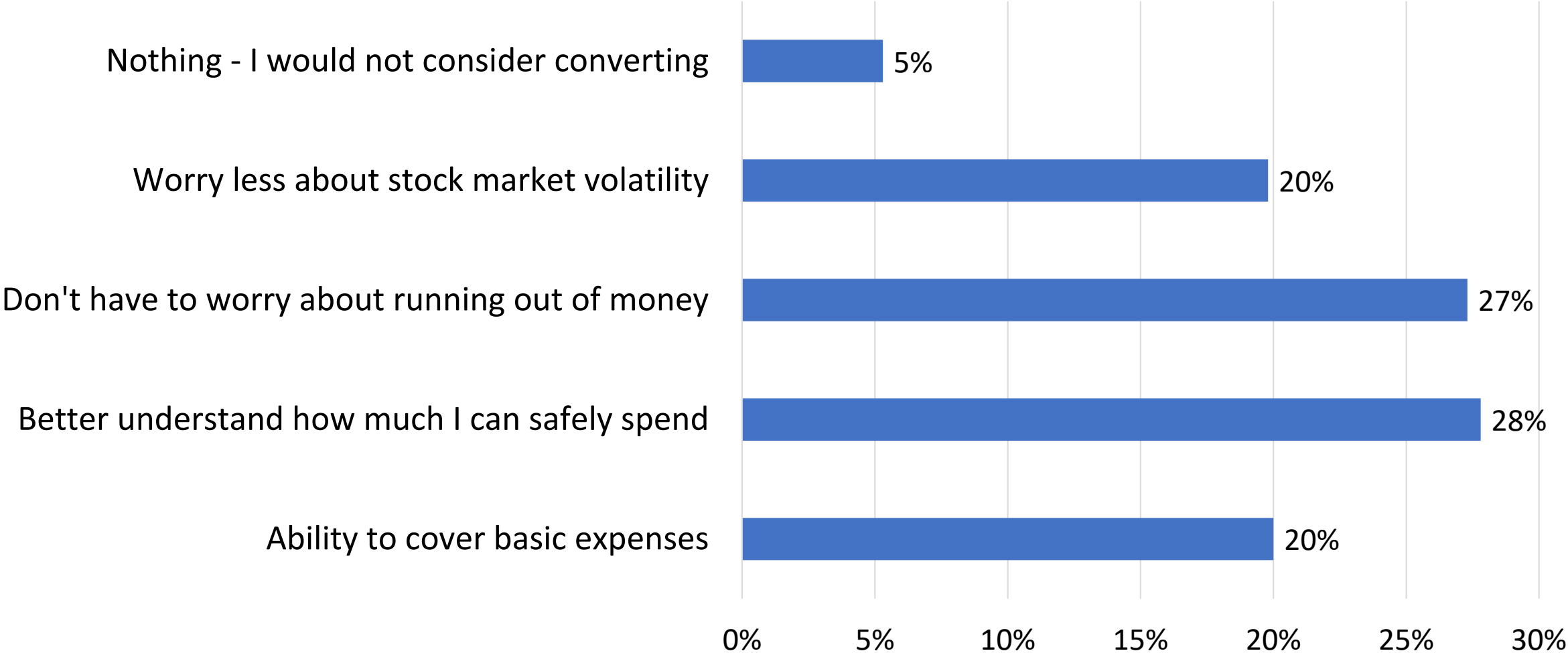
The table below shows how much you can safely spend to various ages if the \$200,000 earns 3% interest. The failure rate is the probability that you will outlive the \$200,000 of savings by spending this amount.

AGE	FAILURE RATE	BOND INCOME	Guaranteed Lifetime Income
85	63%	\$12,596	\$11,171
90	41%	\$10,862	
95	19%	\$9,709	
100	5%	\$8,894	
105	1%	\$8,294	

# Understanding Value of Lifetime Income

- “It would give me **peace of mind** that I would have money coming in each year. I fear if I had control I would **overspend** that money and **run out sooner** than I wanted to”
- “It would be nice to have a **guaranteed** income for retirement with a **set amount** to receive each month or year”
- “Because it is **guaranteed** no matter how long I live. I would rather have this **security**”

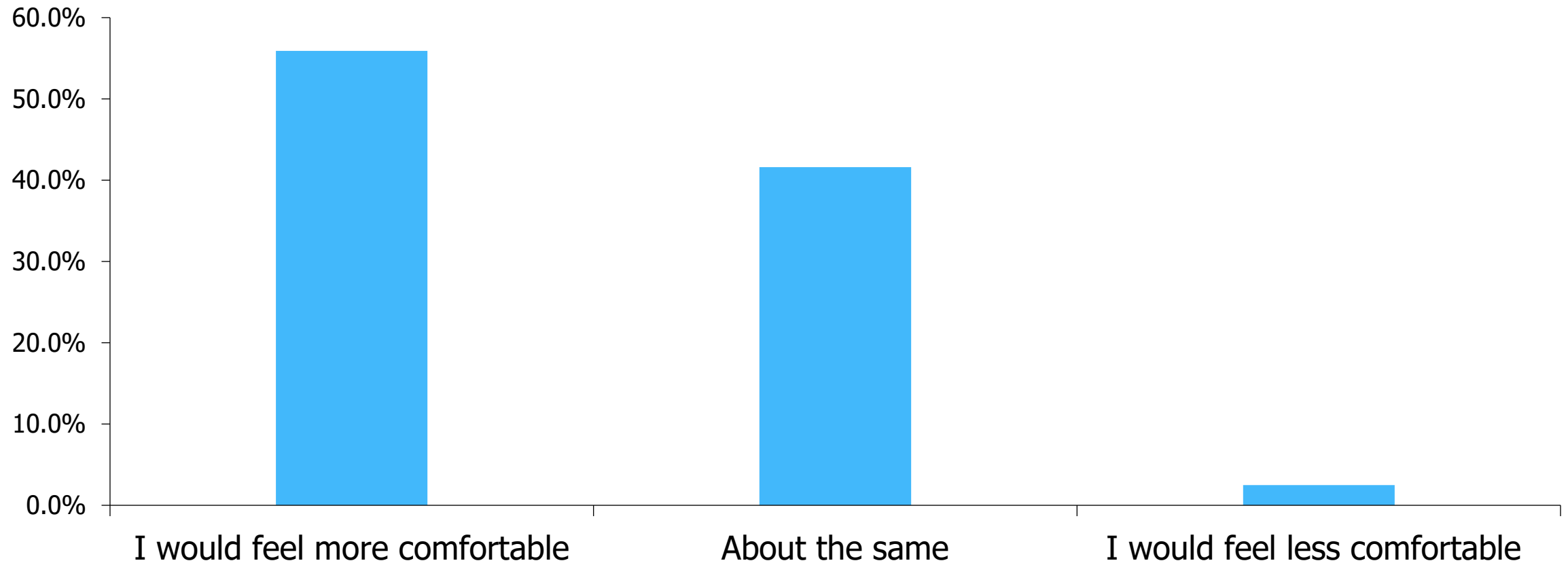
If you were offered the option to convert part of your current retirement savings to guaranteed lifetime income, **what aspect of converting a portion of your retirement savings into guaranteed lifetime income appeals to you the most?**



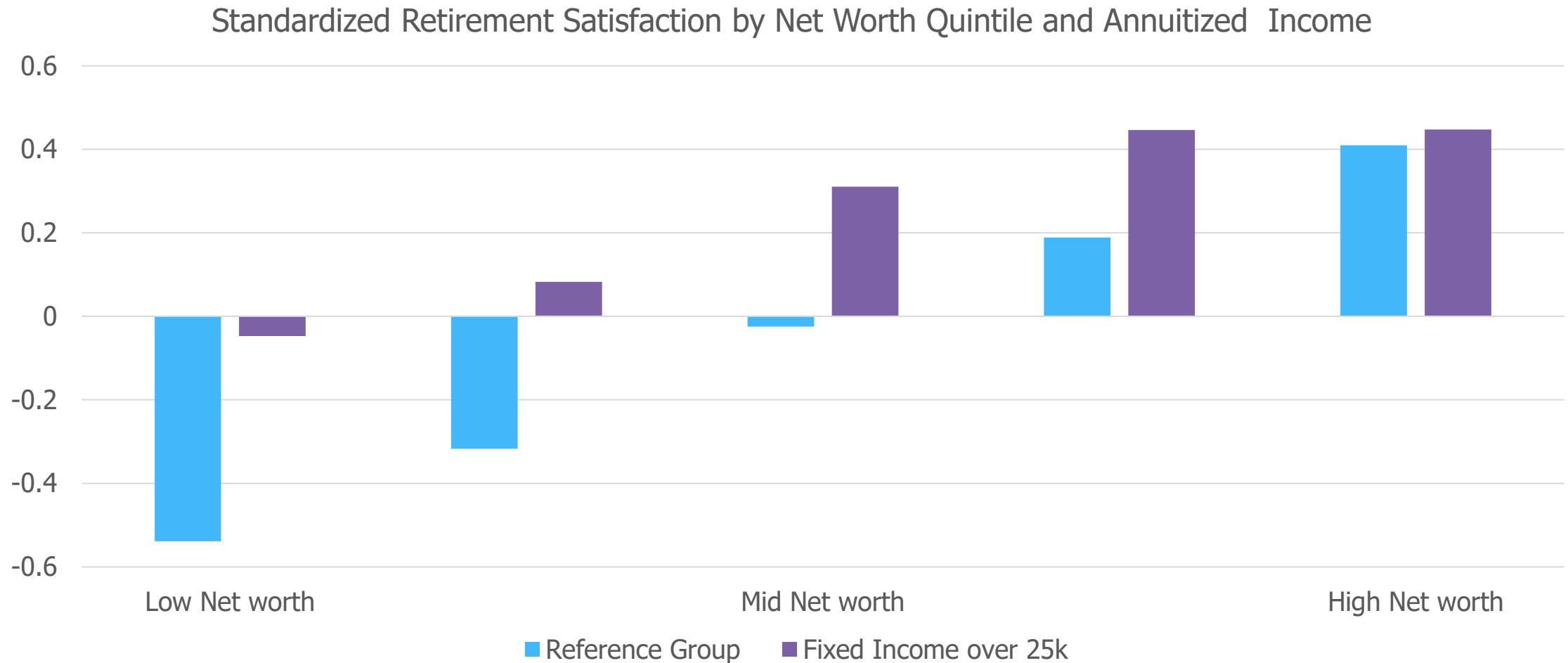


# Spending retirement savings

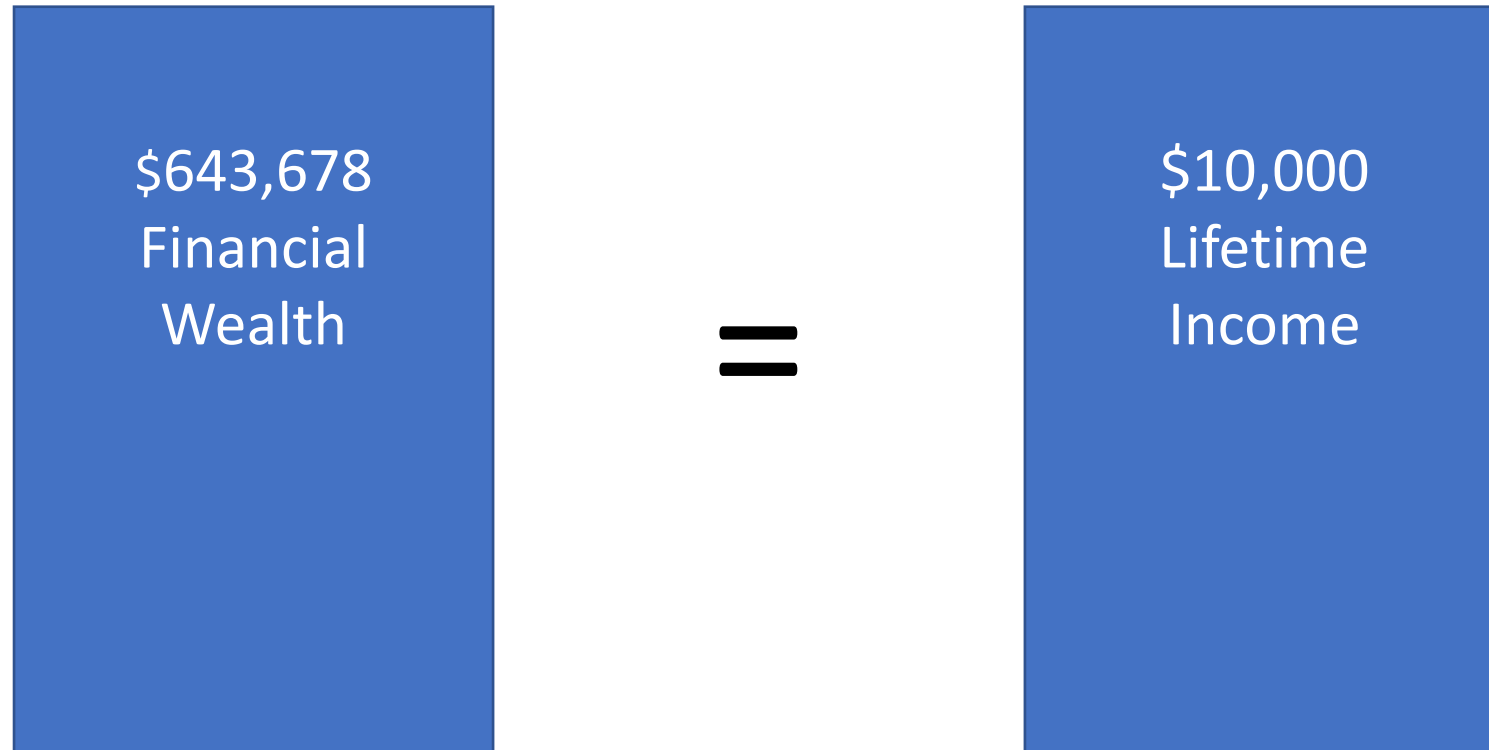
If you have more guaranteed monthly income, how much more comfortable would you feel about spending retirement savings on vacations or other lifestyle expenses?



# Lifetime income (pensions & annuities) and retirement satisfaction

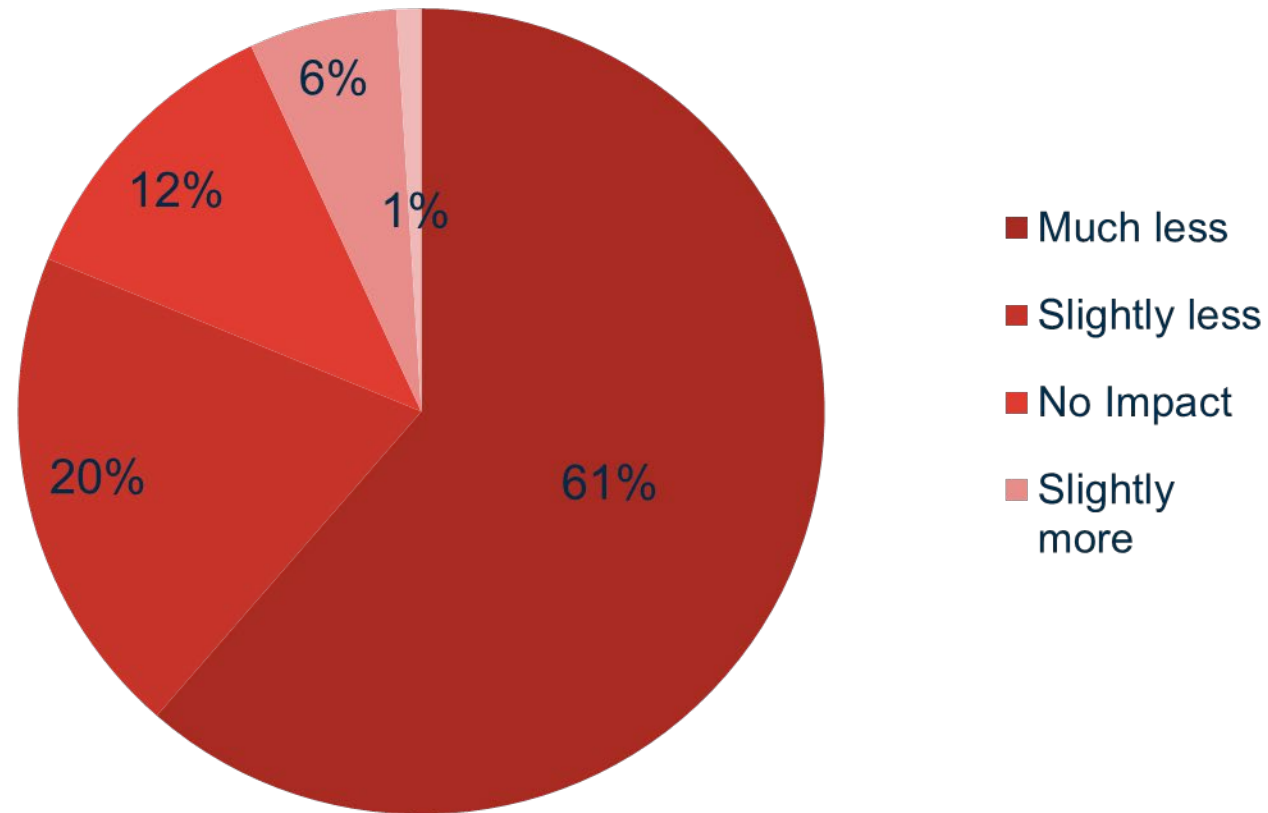


## Equal Life Satisfaction of Invested Wealth and Guaranteed Lifetime Income

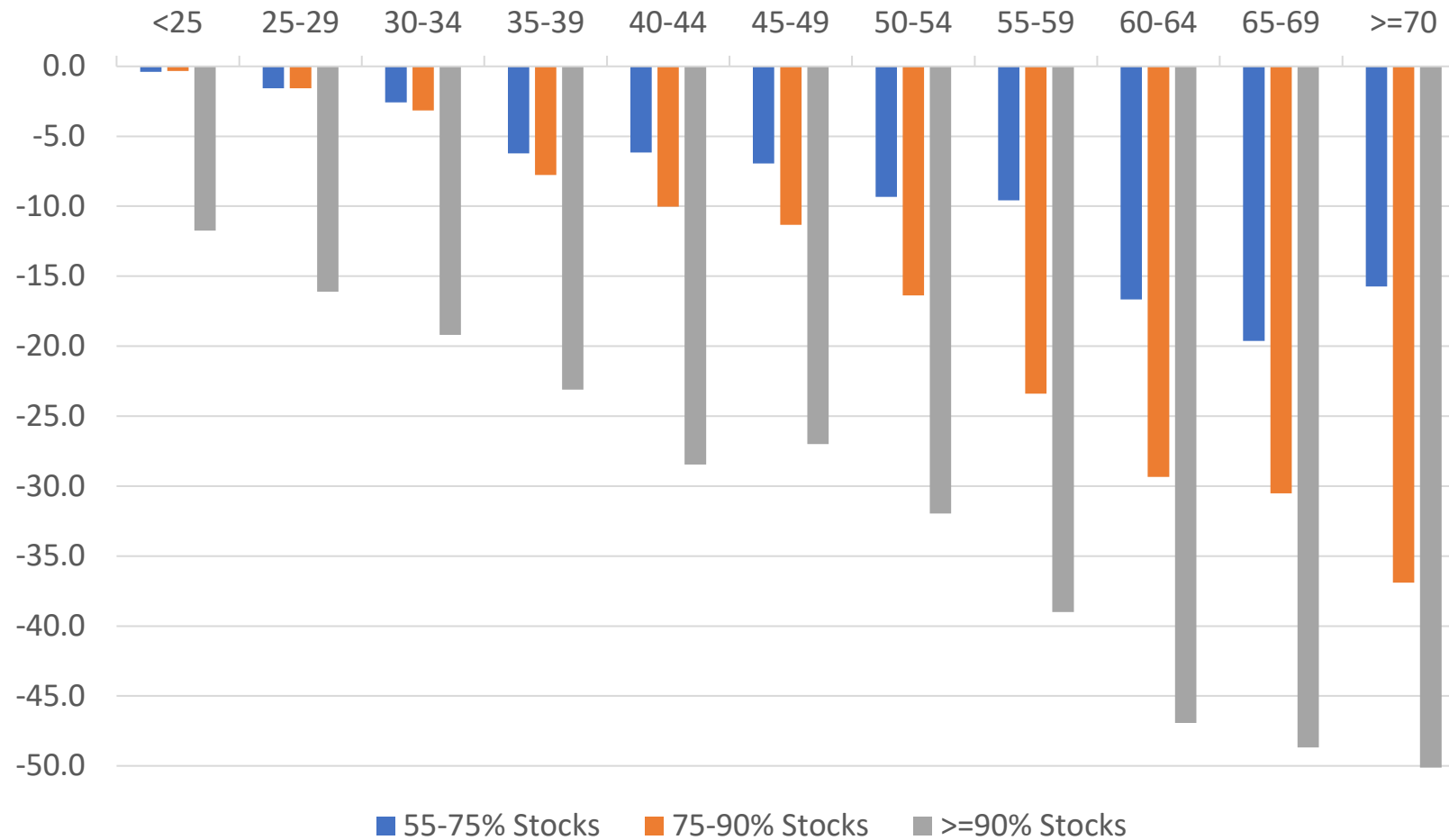


# Loss Aversion with Retirement Investments

**How comfortable would you feel about accepting a loss after retirement compared to before retirement?**

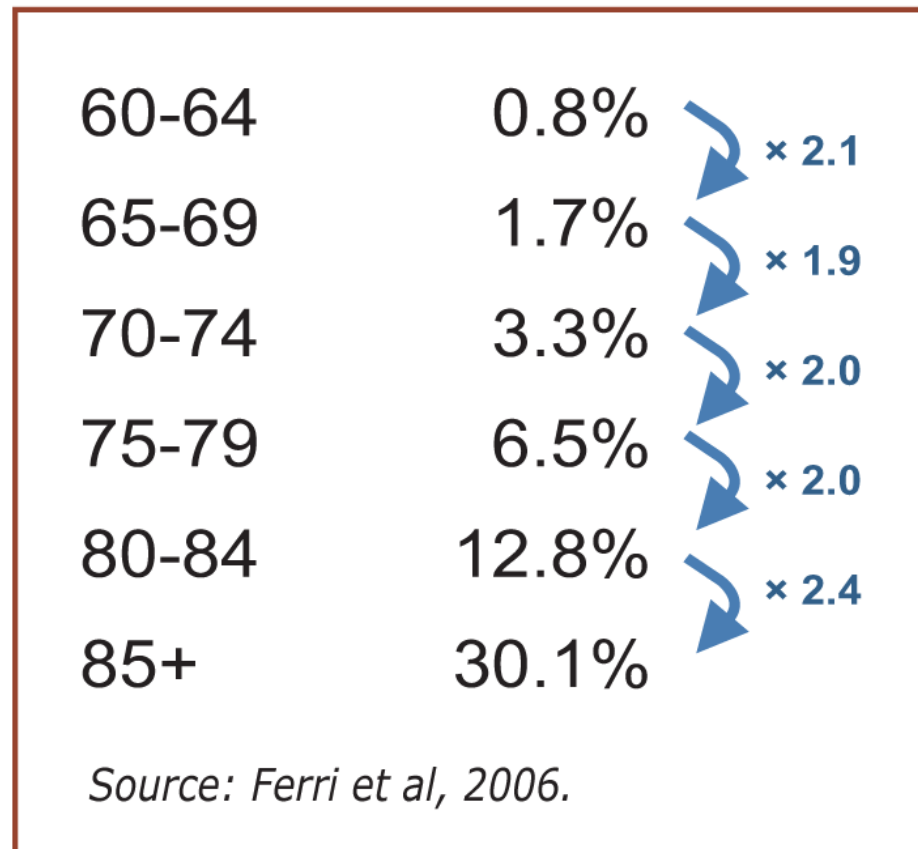


# % Change in Stock Allocation March 2020 DC Participants

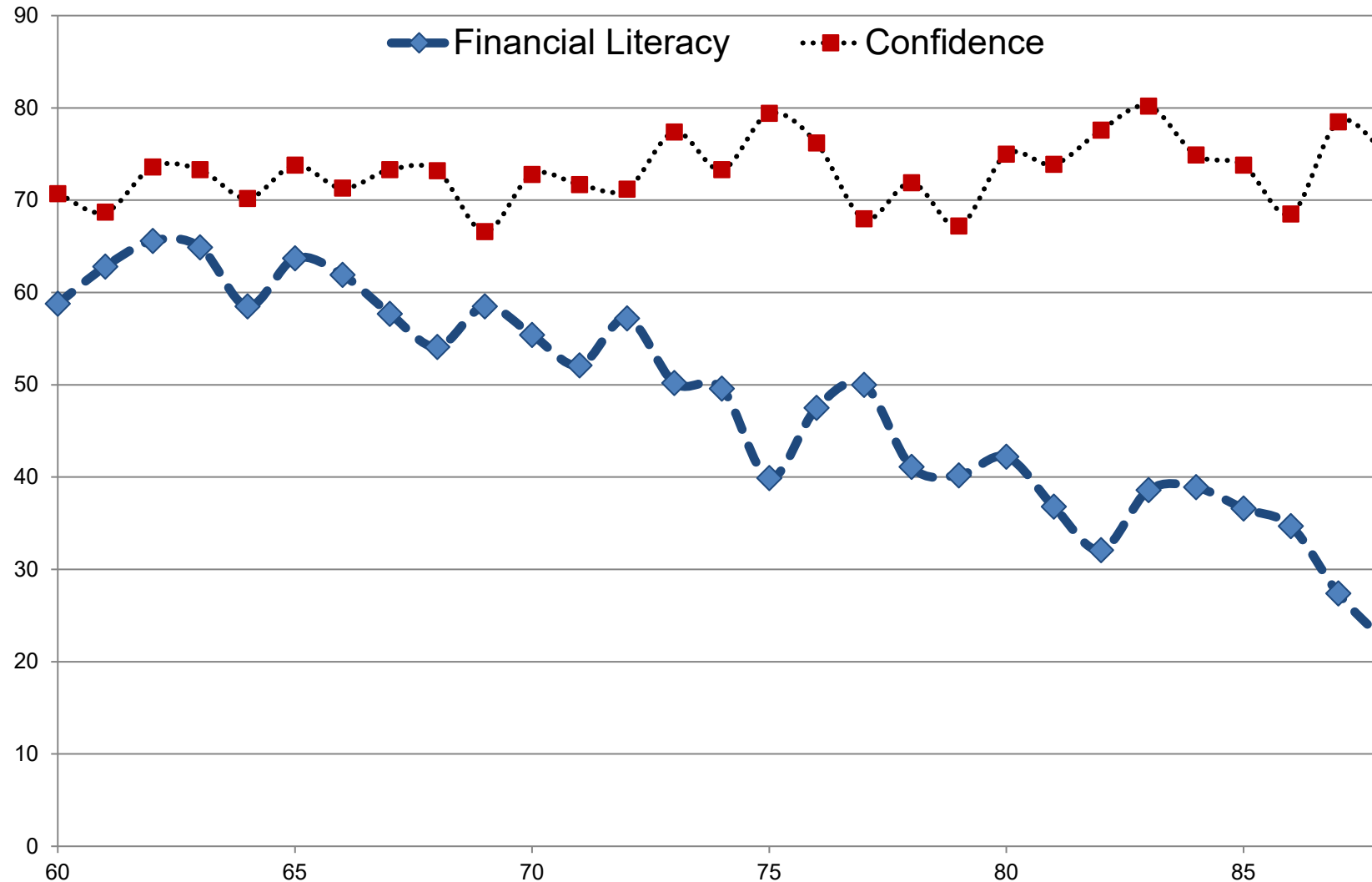


# Benefit of Automating Late Life Income

Figure 2. Prevalence of Dementia in North America



# Financial Literacy and Confidence



Source: Finke, Howe and Huston, 2013



## **Wade Pfau, Ph.D., CFA, RICP®**

**RICP Program Director & Professor of Retirement Income  
The American College**

Wade D. Pfau, Ph.D., CFA, RICP®, is the program director of the Retirement Income Certified Professional designation and a professor of retirement income at The American College of Financial Services in King of Prussia, Pa. As well, he is a principal and director for McLean Asset Management. He holds a doctorate in economics from Princeton University and has published more than 60 peer-reviewed research articles in a wide variety of academic and practitioner journals.

He hosts the Retirement Researcher website, and is a contributor to Forbes, Advisor Perspectives, Journal of Financial Planning, and an expert panelist for the Wall Street Journal. He is the author of the books *Safety-First Retirement Planning: An Integrated Approach for a Worry-Free Retirement*, *How Much Can I Spend in Retirement? A Guide to Investment-Based Retirement Income Strategies*, and *Reverse Mortgages: How to Use Reverse Mortgages to Secure Your Retirement..*



It is still the Wild  
West in terms of  
retirement income  
strategies...





How do retirees  
choose from the  
possibilities?

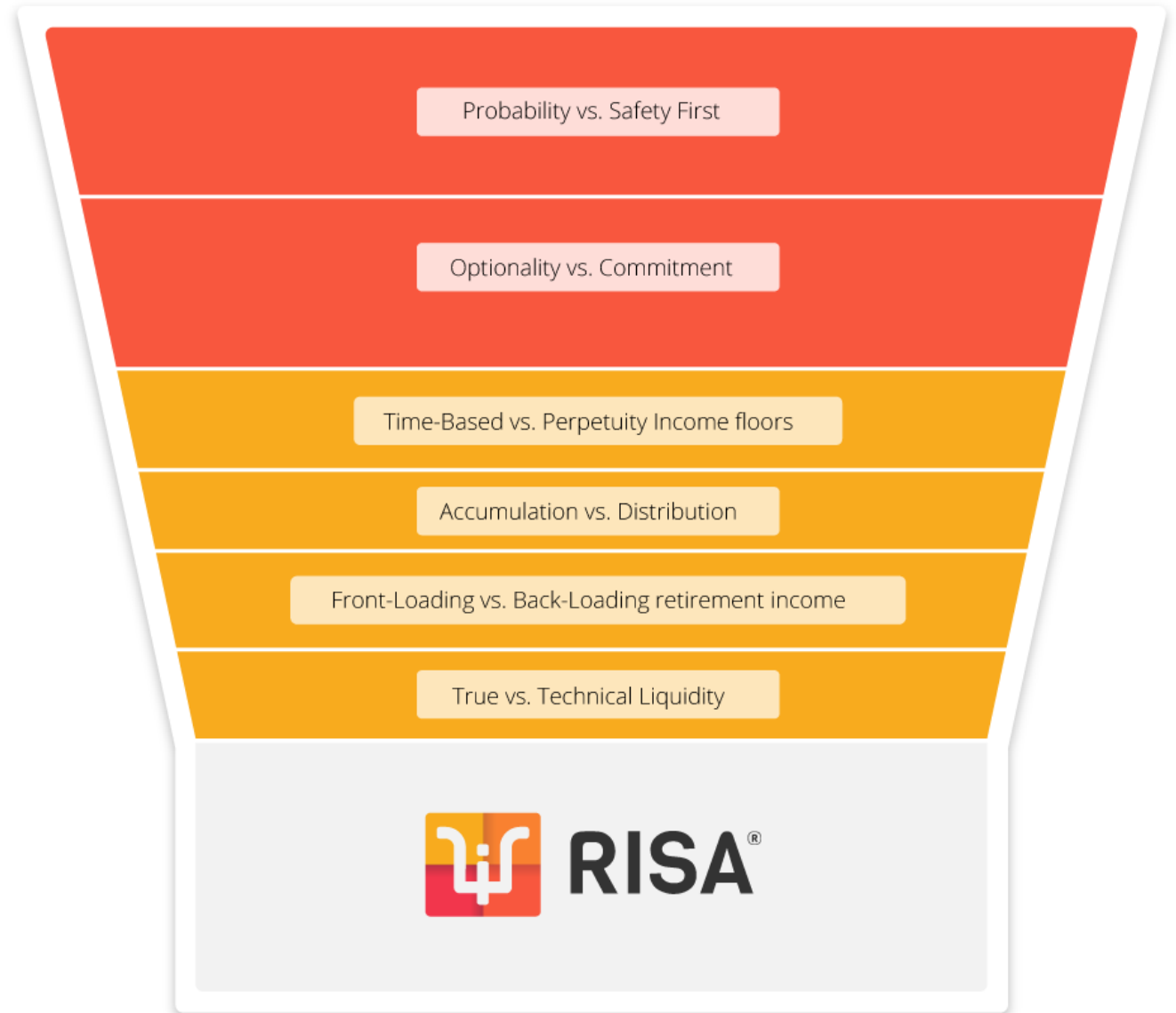
Retirees end up  
filtering strategies  
based the personal  
preferences of  
others



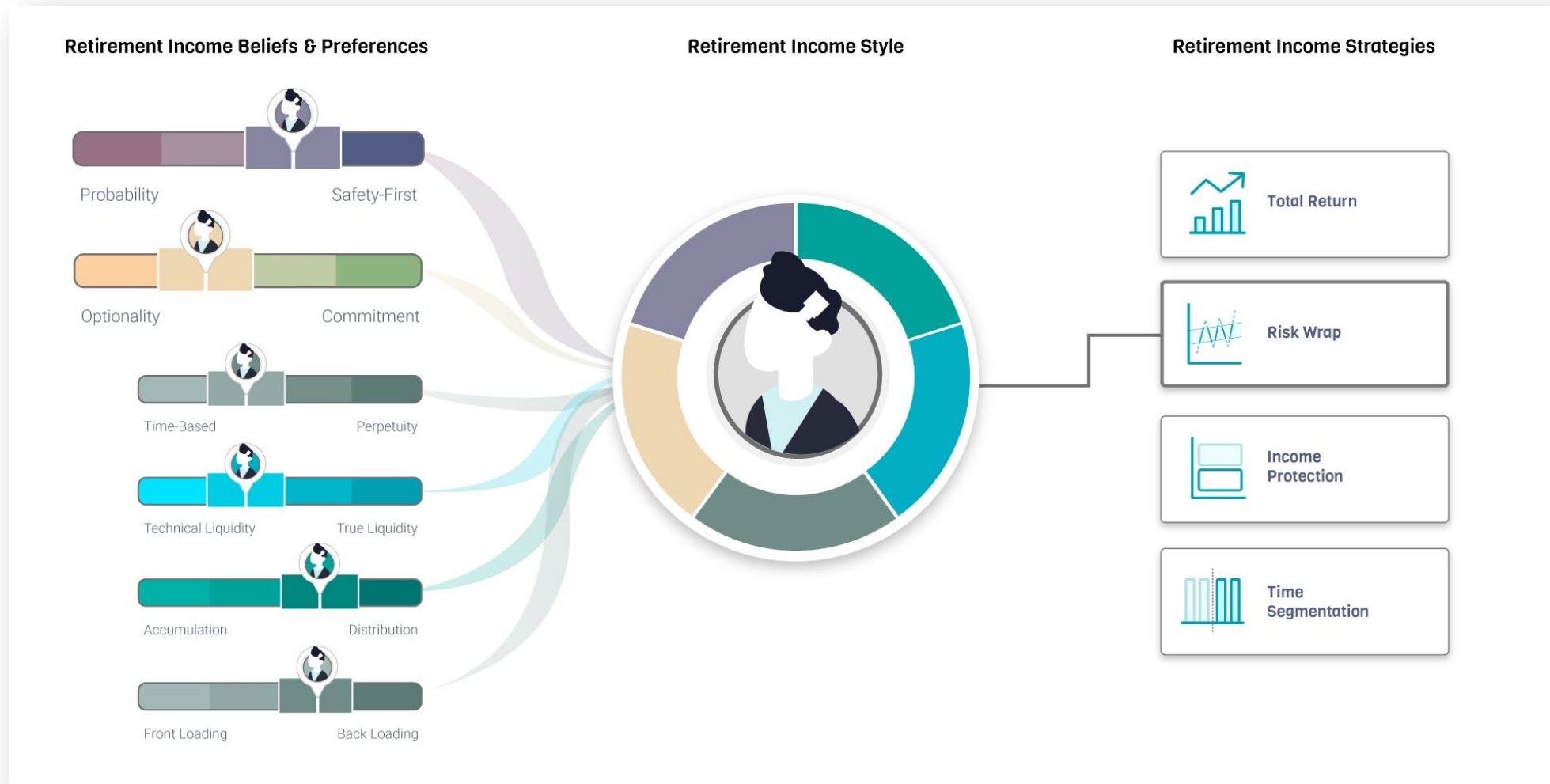
# Retirement Income Factors

**Primary  
RISA® Factors**

**Secondary  
RISA® Factors**



# Your style leads to specific strategies



# How do you like to draw retirement income?

Probability-Based ○○○○○○ Safety-First

Depend on market growth through the **risk premium** for stocks to outperform bonds

Rely on contractually-driven income for safety relative to unknown market outcomes (individual bonds, or **risk pooling** with annuities)

# How much plan optionality do you prefer?

Optionality



Commitment

Prefer **flexibility** to keep options open and take advantage of new opportunities

Prefer to **lock-in** a solution that solves a lifetime income need





# Retirement Income Style Awareness<sup>®</sup> Matrix





# How do you view your reliable income floor?

Time-Based



Perpetual

Prefer to have reliable income segmented to fixed windows of time

Prefer to have reliable income available on a lifetime basis

# How do you view your reserve assets?

True Liquidity



Technical Liquidity

Prefer assets earmarked specifically as reserves that are not matched to other goals

View assets as an overall pot to draw from for different expenses; distinct reserves are not needed

# What is your mindset about retirement investing?

Accumulation



Distribution

Maintain pre-retirement accumulation mindset focused on risk-adjusted returns; emphasize growth over predictable income

Worry less about risk-adjusted returns and more about ensuring your assets can sustainably support spending goals; emphasize predictable income over growth

# How do you balance current & future spending?

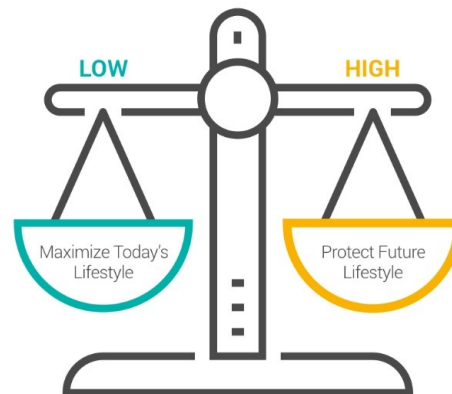
Front-Load



Back-Load

Spend more today  
when you are assured  
of life and health

**Longevity Risk Aversion**

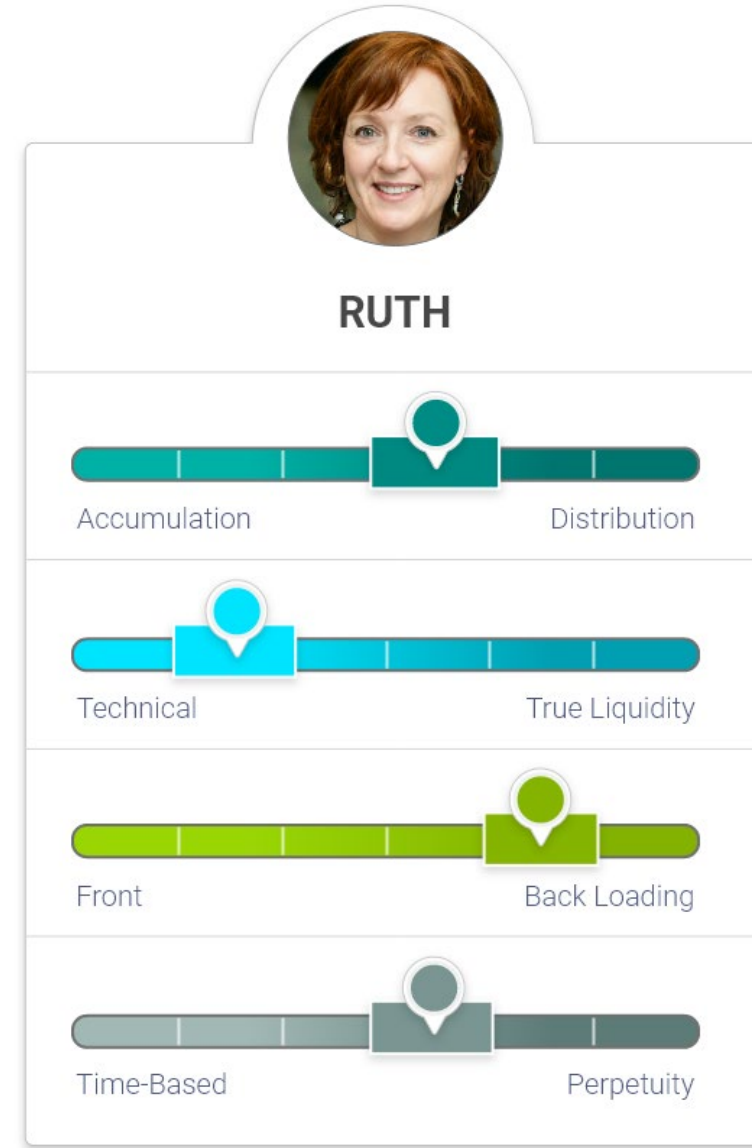
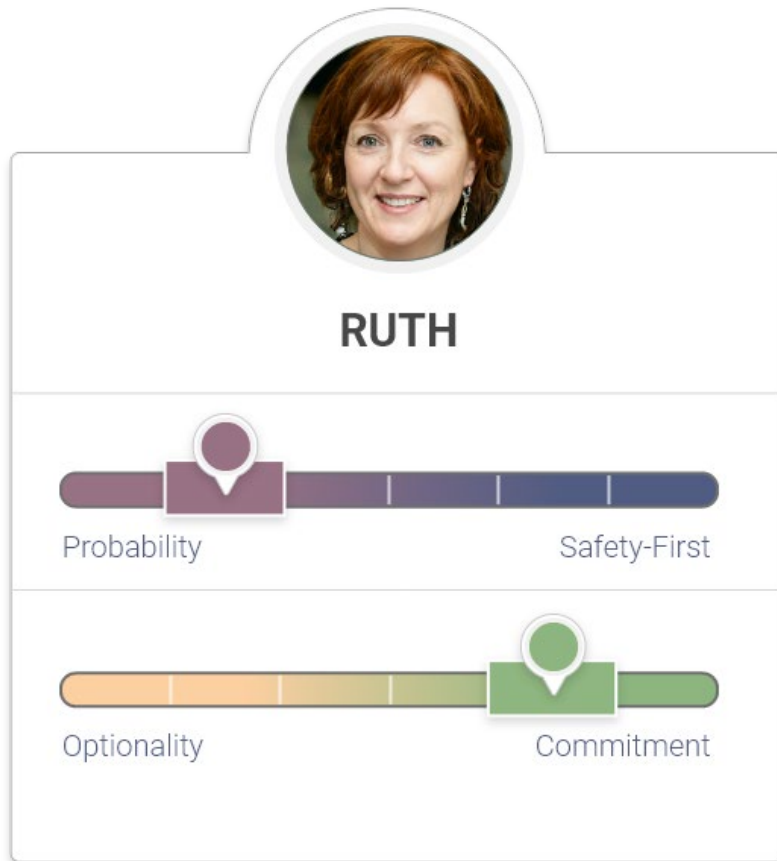


Spend less today to  
better protect future  
lifestyle

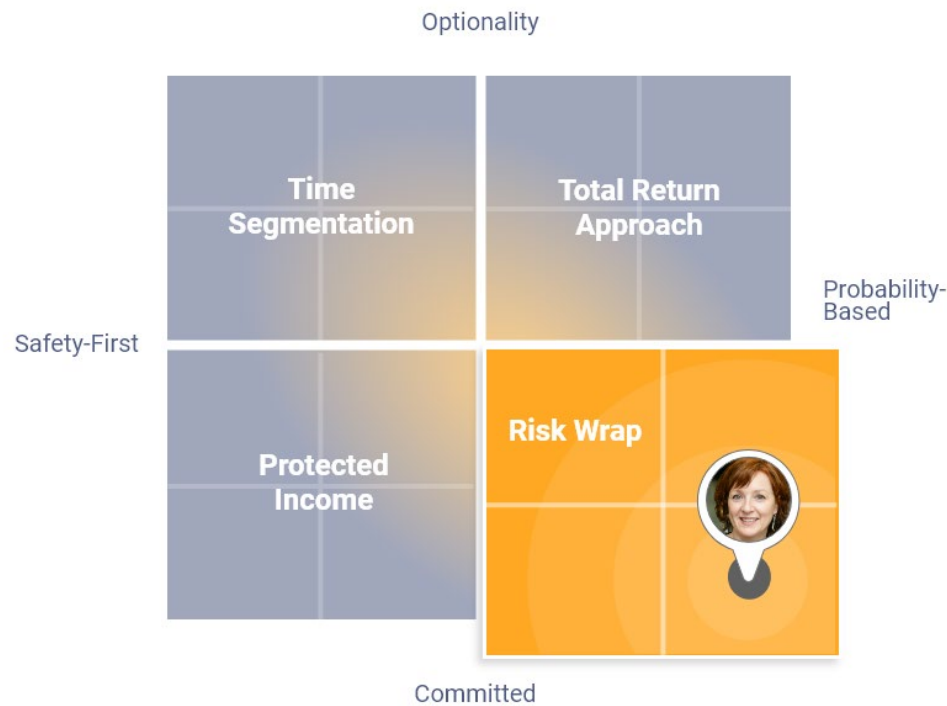




# Case Study - Ruth



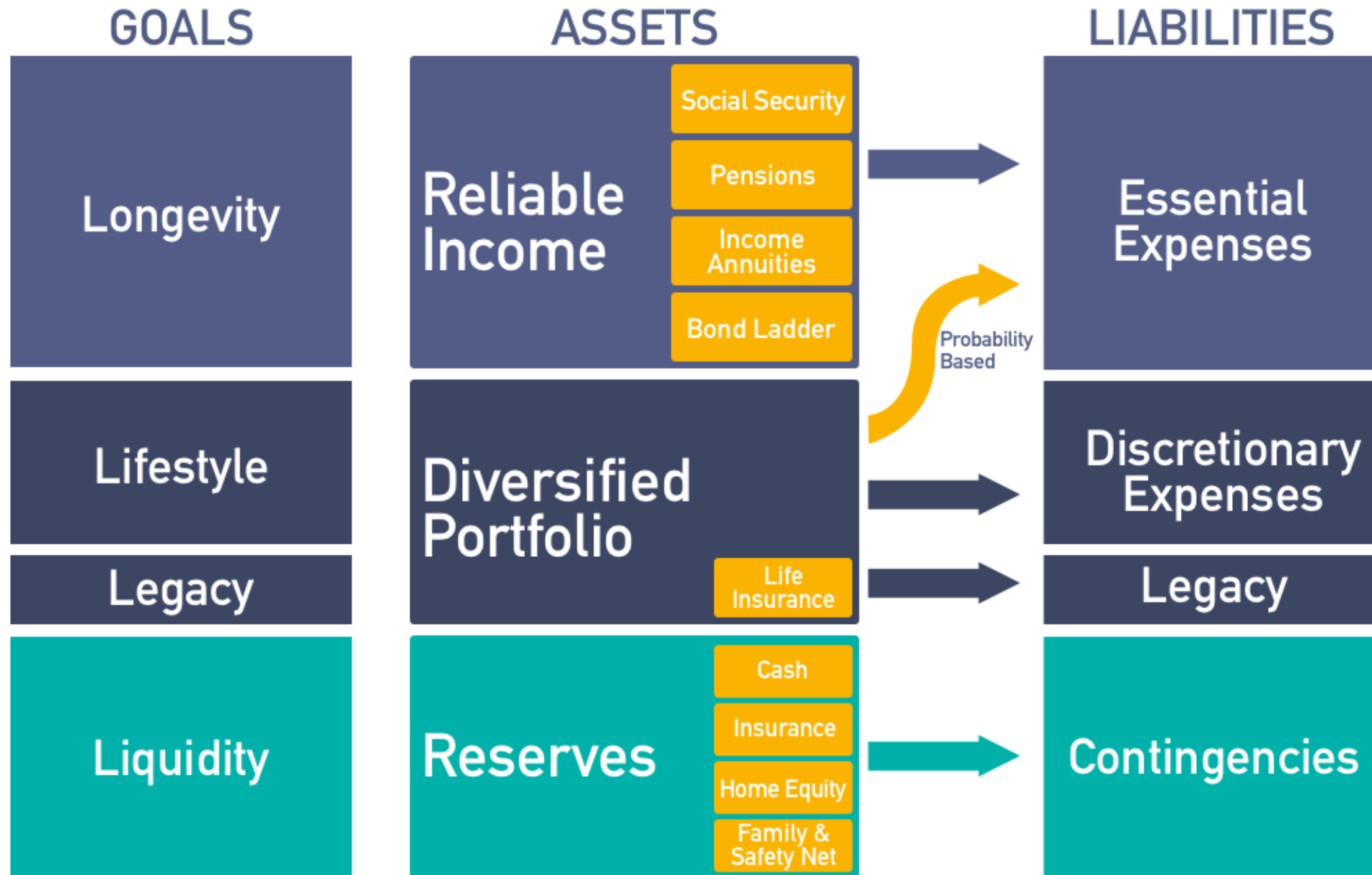
# Case Study – Ruth’s Style is Risk Wrap



- Ruth believes that market growth is needed to accomplish longer-term retirement goals
- But she doesn't want to be overly dependent on the stock market
- She wants a way to automate her income throughout her retirement and have a solution in place in case the markets turn sideways
- With low interest rates, she also realizes that the traditional allocation to bonds for retirement income may not provide enough protection
- She is considering different sources of steady income, which would allow the stock portion of her portfolio to remain aggressively invested



# Retirement Optimization Plan





# David Lau

Founder and Chief Executive Officer  
DPL Financial Partners

David Lau is widely recognized as an innovator and disruptor in the financial services industry. He is a sought-after speaker, commentator and advisor by financial journalists, insurance carriers, RIA firms, fintech companies and others seeking insights on industry products, trends and best practices. His work has received coverage in The Wall Street Journal, Barron's, CNBC, Wealth Management and other financial media. Currently, David is the CEO of DPL Financial Partners, the industry's leading turnkey insurance management platform, which he founded in 2014 to bring commission-free, value-driven financial services products to the registered investment advisor (RIA) channel. DPL went to market in 2018; in that time, over 1,100 RIA firms have joined DPL to implement insurance and annuity solutions, from leading carriers, into their practices.

Prior to founding DPL, David was Chief Operating Officer of Jefferson National, now Nationwide Advisory Services, a leading innovator of tax-advantaged investing strategies for RIAs and fee-based advisors at broker-dealers. Earlier in his career, David served as chief marketing officer of E\*Trade Bank and its predecessor TeleBank, the nation's first internet bank, where he helped pioneer branchless banking.



# Bonds vs. Annuities

Characteristic	Bonds	Commission-Free Annuities
Real Returns	Negatives	Annuity Rates* (FIA)
Risk Premium	Minimal	Significant
Liquidity	Yes	Yes
Taxation	Taxable	Tax-deferred
Market Correlation	Correlated	Non-correlated
Potential Upside	None	Yes

DPL Financial Partners, 2021

- ✓ Efficient income generation
- ✓ Only tool to address longevity risk
- ✓ Market diversification
- ✓ Increased success rates of financial plans (generally)
- ✓ Larger potential legacies
- ✓ Behavioral investing benefits
- ✓ Psychological benefits during retirement



“I can’t imagine how anyone who calls themselves a fiduciary would ever recommend a commission-based product over a commission-free product because it’s an absolute no brainer.”

FOR MORE ANNUITY INSIGHTS,  
LISTEN TO THE FULL EPISODE ON





“It can take a couple of conversations to lay the groundwork of how [annuities] work and how it could benefit them. But it really comes to life when I can show them the results of the plan with and without the annuity.”

FOR MORE ANNUITY INSIGHTS,  
LISTEN TO THE FULL EPISODE ON



## The cost to meet your client's income need:

### Client Assumptions:

**Desired Income:** \$50,000/yr

**Client:** 60, M, Single

**Retirement Age:** 67

**Income Duration:** 30 years

### Market Assumptions:

**Equity Allocation:** 60%

**Fixed Allocation:** 40%

**Current FI Return:** 2.0%

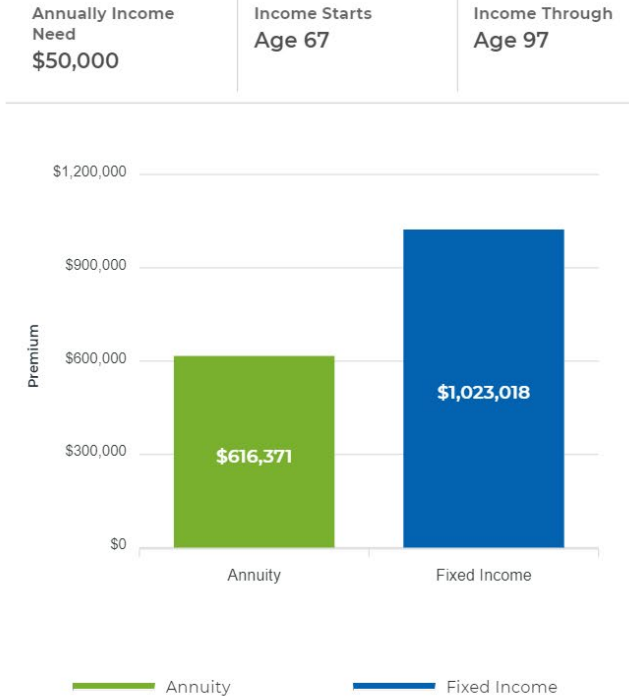
**FI Tax Rate:** 35%

### Great American Index Protector 7 Annuity vs Fixed Income Portfolio: Premium Comparison

To meet the monthly income need, the annuity requires an investment of **\$616,371**, while the fixed income portfolio requires **\$1,023,018**.  
Note: The product with the lowest premium may not be the optimal solution. Also consider cumulative income.

	Great American Index Protector 7 Fixed Index Annuity	Fixed Income Portfolio
Annual Income ②	<b>\$50,000</b>	<b>\$50,000</b>
Income Funded Through	<b>Age 97 Lifetime</b>	<b>Age 97 Income ends after 30 years</b>
Required Premium	<b>\$616,371</b>	<b>\$1,023,018</b>
Additional Premium Required	<b>\$0</b>	<b>\$406,647</b>

These outcomes and projections do not represent actual investment results nor are they guarantees of future investment results.



This comparison is hypothetical and is intended only to demonstrate the potential each type of annuity has for helping your clients meet their retirement needs. It is not intended to predict or project the performance of any specific investment. Investing in fixed indexed annuities involves risk, including potential loss of principal. There are different risks, fees and charges associated with each type of annuity.



▶ **June 10, 2021 – 12:30 – 1:30 p.m. ET**

## **Using Annuities with Purpose**

- *Learn how and when to use commission-free annuities based on clients' specific needs, and how to implement annuities strategically in your fiduciary practice (e.g. how to collect a fee for annuity allocations).*

▶ **June 24, 2021 – 12:30 – 1:30 p.m. ET**

## **How to Evaluate and Compare Annuities**

- *Join this session to learn how to assess risk in clients' portfolios and take your annuity understanding to the next level by learning how to compare annuities by type and use.*



**Thank You!**  
**Questions?**

