PACIFIC LIFE | ADVISORY

Annuity Innovation in the RIA World

Written by K. Orian Williams, JD, LL.M, CFP®

VLP2128RIA-0522

About This White Paper

Annuity Innovation in the RIA World

Fiduciary financial professionals in the registered investment advisor (RIA) and trust company spaces have been resistant to using annuities for years. Not only were traditional annuities viewed as a conflict of interest, but they also were expensive and incompatible with the RIA business model. In addition, widely spread, misguided information led to a general misunderstanding of annuities. This paper highlights exciting new developments in advisory-friendly annuities. These include advances in technological capabilities and the ability to bill directly on clients' assets without creating a taxable event or affecting clients' benefits. In fact, there are many compelling reasons to consider using modern advisory annuities to help clients close critical gaps in their financial plans—and forward-thinking fiduciary financial professionals may change their views.

About the Author

K. Orian Williams, JD, LL.M, CFP®, is a senior advisory consultant at Pacific Life. He has more than 20 years of experience working in financial services and the legal industry. Williams earned a bachelor of arts degree from the University of Alabama at Birmingham, a juris doctor from Loyola New Orleans College of Law, and a master of laws degree with dual concentrations in taxation and wealth management from Thomas Jefferson School of Law. He is also a member of the Louisiana State Bar. Orian currently resides in Nashville, Tennessee.

Pacific Life has committed to building advisory annuities that help fiduciary financial professionals provide solutions that meet a variety of client needs. Pacific Life's advisory annuities offer cost-conscious contract charges and allow financial professionals to withdraw their advisory fees directly from a client's annuity tax-free[1] and without impacting the benefit. These annuities also are competitively priced and transfer several types of risks to an industry-leading insurance carrier. Pacific Life Advisory is happy to provide fiduciary financial professionals with case designs and consult on the many planning uses for advisory annuities.

[1]Private letter ruling 201946002.

Annuity Innovation in the RIA World

For years, annuity innovation in the advisory space was almost nonexistent as the financial industry saw the evolution of hedge funds, index funds, ETFs, structured investments, and other financial strategies become widely embraced. It's clear that innovation is the lifeblood of any industry, and lack of innovation within the annuity world and bad actors who improperly sold annuities to get large commissions led to the problematic perception of annuities. Annuities particularly have been viewed negatively within the fiduciary financial professional realm. However, as a renaissance in annuity design explodes within the fee-based and fee-only world, many of these financial professionals are taking a second look. This wave of innovation comes just in time to help solve planning necessities and answer a growing demand for the features that annuities can now offer to fiduciary financial professionals. There has never been a better time to incorporate Pacific Life advisory annuities into your toolkit.

Assisting RIAs in the New Environment

Consumer need and demand is why Pacific Life made the commitment to bring fee-based annuities to the fiduciary financial professional space. Many of these professionals will be faced with assisting in the distribution of assets as their clients near or continue on in retirement. Sequence-of-returns and longevity risks are valid concerns in a world where clients are living longer, equity markets are volatile, and interest rates have been at historic lows for years. It is generally accepted that the previous industry norm of a "safe withdrawal" method with an investment-only approach is risky when mortality is the unknown variable financial professionals must account for.[1] Is it prudent for older clients to increase portfolio market risk or credit risk to keep them from running out money? This is where annuities can fill a void within client portfolios. Annuities are insurance products at their core and give clients protection through risk pooling. They offer clients a way of protecting income and pursuing the retirement lifestyle they envision and also can be deployed as solutions to help mitigate various risks.

Annuities offer clients a way of protecting income and pursuing the retirement lifestyle they envision.

Congress recognized the utility of annuities and the need to address lifetime income through the passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act. Traditional defined-benefit plans gave retirees income they knew they wouldn't outlive. However, the traditional defined-benefit plan is all but extinct and has been replaced with defined-contribution plans that put the onus on plan participants to adequately fund and manage their own retirement savings. The SECURE Act mandates that employers provide hypothetical income projections for qualified-plan participants. The Act also provides safe harbor for plans that incorporate annuities, provided the plan administrators perform due diligence on the annuities they offer. The academic community also has embraced and been vocal about the utility that annuities provide in mitigating sequence-of-returns risk and protecting income. Retirement income experts such as Wade D. Pfau, PhD, CFA, RICP®, a professor of retirement income at The American College of Financial Services, and Moshe A. Milevsky, a professor of finance at York University's Schulich School of Business,published numerous articles, white papers, and books that are backed with extensive research and explain the value of including annuities in a retirement portfolio.

[1] Moore, Rebecca. "Consider All Individual Circumstances Before Suggesting 4% Retirement Income Withdrawal," PlanAdvisor.com, December 11, 2018.

Innovation of Product Design and Platform Availability

So why has a retirement strategy with such utility been ignored by fiduciary financial professionals? Some professionals were discouraged by the design and complexity previously associated with annuities. Incompatibility was another reason. Previously, annuities could not be integrated within the fiduciary business model. The inability to fairly compensate oneself without a potential conflict of interest was, historically, a deal-breaker for fiduciary financial professionals. With traditional annuities, financial professionals receive a commission on sales from the annuity carrier. However, RIAs and other fiduciary financial professionals work within a fee-based compensation model, charging a fee based on a percentage of the total assets being managed for the client. Commissions posed a conflict of interest to many financial professionals in the RIA compensation model and subsequently limited annuities as an option. Today, the barriers of complexity and compensation have all been eliminated or reduced to meet fiduciary financial professionals where they are now comfortable considering annuities.

Traditional variable annuities charged administrative fees, mortality and expense fees, fund fees, surrender fees, and fees for optional benefits such as guaranteed income or death benefits. Costs averaging 3% to 4% before returns presented a roadblock that fiduciary financial professionals just couldn't get past, despite the risk-transfer benefit of guaranteeing income. Furthermore, these annuities could not be integrated with fee-based financial professional platforms, and the financial professional selling the annuity had to have the required state insurance and FINRA licenses.

Enter today's modern annuities. Annuity carriers, such as Pacific Life, have created a variety of fee-based variable, fixed, and fixed indexed annuities designed for the way fiduciary financial professionals do business. New fee-based annuities can save clients up to 80% in product costs when compared to traditional commission-based annuities.[1] These new annuities came further in line with the advisory business model when the IRS issued Pacific Life a private letter ruling allowing advisory fees to be withdrawn from fee-based annuities without being deemed a taxable distribution, provided the withdrawal for the fee does not exceed 1.5% of the contract value.[2]

Fiduciary advisors can now access Pacific Life's fee-only annuities directly through Pacific Life's Advisory Solutions Desk, well-respected custodians like Charles Schwab and Pershing, or outsourced insurance desks that include DPL, The Blueprint Insurance Services, Halo, RIA Insurance Solutions, Retire One, Palladium Group, 1 Insurance Solutions by Producer's Choice, The Pinnacle Group, Financial Distributors Group, and TruChoice Financial Group.

Finally, annuities can now be integrated into popular advisory wealth-management platforms such as Black Diamond, Orion, SS&C Advent, and Envestnet among others. These platforms allow fiduciary financial professionals to seamlessly integrate annuities into the entire client account, which enables them to provide clients with more holistic planning instead of outsourcing insurance recommendations to insurance agents. Doing business with Pacific Life has never been easier for fiduciary financial professionals.

[1]Sterman, David. "It's Time to Buy Annuities, Really," RiaIntel.com, June 22, 2020.

[2]Private letter ruling 201946002.

All guarantees are subject to the claims-paying ability and financial strength of the issuing insurance company and do not protect the value of the variable investment options, which are subject to market risk.

Using Advisory Annuities with Clients

Pacific Life's advisory annuities have cost-conscious contract charges and allow fiduciary financial professionals to manage and bill on the client's account without creating a taxable event or impacting the optional benefit. They also are competitively priced and transfer some risk to Pacific Life. Those who understand the many planning uses for annuities will distinguish themselves from competing firms that do not provide insurance strategies to their clients.

Pacific Life's advisory annuities can be used to:

- Provide guaranteed income strategies.
- De-risk portfolios by incorporating advisory indexed annuities as a bond or fixed income complement.
- Lower taxable income for high-earning clients by relocating tax-inefficient mutual funds into mirrored tax-deferred subaccounts.
- Defer and potentially reduce high taxes within irrevocable trusts.
- Allow beneficiaries to control their inheritances through nonqualified stretch provisions.
- Move clients' assets from older commissionable annuities that may no longer be serving their needs (and are sometimes more expensive) into a modern, fee-friendly[1] annuity.

Annuities Can Play a Critical Role in Your Clients' Plans

Pacific Life is dedicated to becoming the leader in providing fiduciary financial professionals with innovative, tax-deferred solutions for retirement income, tax, and legacy-planning strategies.

Our dedicated and experienced advisory team looks forward to assisting financial professionals with implementing strategies that could take their practices to the next level.

Those who understand the many planning uses for annuities will distinguish themselves from competing firms that do not provide insurance strategies to their clients.

[1]Refers to the ability to bill advisory fees up to 1.50% per calendar year directly on clients' assets without creating a taxable event or reducing the annuity benefits.

For a case design or more information about how a Pacific Life advisory annuity can fit into your clients' plans, please call (866) 441-2354 or send an email to PacificLifeAdvisory@PacificLife.com.

PACIFIC LIFE

THE OFFICIAL SPONSOR OF RETIREMENT®