An FIA Designed By RIAs

By Kerry Pechter *Thu, Jan 31, 2019*

The "ClearLine" fixed indexed annuity was developed by Security Benefit Life and DPL Financial Partners with input from the registered investment advisors who use DPL's no-commission annuity purchasing platform.

With the new “ClearLine” fixed indexed annuity (FIA), Security Benefit Life and DPL Financial Partners have built a product based on what they heard first-hand from the registered investment advisory (RIA) firms that pay an annual administrative fee to be part of DPL’s nearly year-old commission-free insurance sales platform.

The DPL Financial platform is the creation of David Lau, formerly at Jefferson National Life. Security Benefit Life, now privately owned by Eldridge Industries LLC, whose CEO is former Guggenheim partner Todd Boehly, is one of a half-dozen insurers with products on the DPL platform.

Todd Boehly

The partnership represents a wager that, in a pension-less world. retiring boomers will, in growing numbers, begin to demand guaranteed income strategies from their fee-based advisors and that the most agreeable solution for advisors will be no-commission indexed annuities with living benefit riders.

ClearLine was custom-built for “pure” RIAs (those without broker-dealer affiliations or insurance licenses). Most FIA contracts tilt either toward higher growth or to a more generous lifetime income rider. In building ClearLine, Security Benefit used the premium freed up by stripping out the commissions to enhance both aspects of the product.

“We wanted something that would perform better than bonds as people are approaching retirement and de-risking, and to have principal protection for sequence risk, and then to allow people to turn it into income at the right time,” Lau (right) told *RIJ* this week.

(Despite the absence of a commission, the contract has a seven-year surrender period with a first-year charge of 5%. The surrender period allows the issuer to invest in longer-term bonds.)

The income rider on ClearLine costs only 50 basis points a year—half the usual fee—and can be elected only at issuance. Once income begins, the annual payout is simply a percentage of the account value. The percentages depend on the ages of the policyholders. At age 65, for instance, the annual payout rate is 5% of the account value for men, 4.8% for women and 4.3% for couples.

RIAs asked Lau for cheaper, simpler income riders. Security Benefit responded. “First we heard that ‘the riders are too complex,’ so we eliminated a rollup rate and a benefit base and introduced more competitive payout factors. The second message we heard was about cost. So we purposely lowered the cost of the rider,” Doug Wolff, president of Security Benefit Life, told *RIJ* in a phone interview.

RIAs wanted to offer clients inflation-protected income, so ClearLine’s payout rates automatically rise by two percent per year. “We heard that living benefits don’t keep pace with inflation and the customer loses purchasing power,” said Al Dal Porto, vice president, product development, at Security Benefit. “So we created the Rising Income Rider [guaranteed lifetime withdrawal benefit]. There’s a guarantee that the income will go up.”

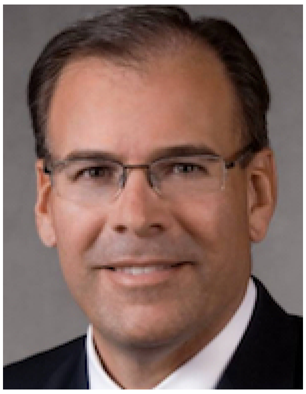
Doug Wolff

RIAs also objected to the tax treatment of income from guaranteed lifetime withdrawal benefits (on non-qualified contracts), so Security Benefit found a solution it calls **Income Power**.

"The way living benefits are usually taxed, the gains come out first," Lau said. "In this product, the gains and principal are coming out pro rata. So it's tax advantaged. There are stipulations regarding how you do it. But, according to private letter rulings, you can treat the income as if the product had been annuitized." In other words, the "exclusion ratio" can be used. That feature is not available for contracts purchased with IRA money.

Security Benefit Life is one of a limited shelf of insurers on the DPL platform, which includes Allianz Life, AXA, Great American, Great-West, Integrity and TIAA. Lau intends to offer a range of insurance products, including variable universal life and long-term care insurance, is expected to be offered on the platform.

The platform, which competes with the Envestnet Insurance Exchange and the RetireOne insurance platform, is not intended to be a portal to the entire universe of annuities. "We want some depth in each category, but we don't want to be managing dozens of carrier relationships," Lau told *RIJ*. "A limited offering is more compelling to RIAs; they want best-of-breed. We feel free to swap out to get the best."



Al Dal Porto

Wolff and Dal Porto were asked if RIA advisors with no experience selling annuities would be able to "close" an annuity sale and obtain a client signature—an anxiety-producing process for all concerned. Since there's no commission involved, there's also less urgency to complete the process. On the DPL platform, the insurance agent employed by the platform is expected to be partner in that process.

"We assume that the IARs [investment advisor representatives who work at RIAs] are using our solution because they're better than what the IAR is already using," said Wolff, suggesting that a product substitution—an FIA for a bond fund, for instance—within the context of a holistic financial plan wouldn't be as pressure-laden as an isolated sale. As for experience selling insurance, that's what DPL's in-house agents will bring to the table. "There's no question that there's a sales cycle. But that's where the DPL insurance counselors come in. They're independent, and that makes it work."

FIAs have emerged as *the* most viable annuity product design, from a business perspective. The design doesn't demand a lot of insurer capital, because it mainly invests in the insurer's stable general account. At the same time, it generates enough potential upside—through equity derivatives—to pay for manufacturing, distribution, benefits, guarantees and profits.

On the other hand, FIAs still have a reputation for over-aggressive sales tactics that lingers from a period when only highly incented, lightly monitored, independent insurance agents sold them. RIAs and the advisors who work for them are required to act in their clients' best interests.