Finke report touts benefits of ‘contingent deferred annuities’

By Editorial Staff *Fri, Apr 29, 2022*

A CDA 'unbundles' the two main parts of a variable annuity with a living benefit: the investments and the income guarantee. It gives advisors more investment flexibility than VA contracts typically offer. (Photo: Michael Finke)

A new report, written by retirement researcher Michael Finke and sponsored by RetireOne, the retirement income solutions platform, assesses the potential the benefits of a “a novel, pure insurance solution” for the retirement drawdown challenge, RetireOne said in a release.

Finke’s research **paper**, entitled, “Portfolio Income Insurance: Understanding the Benefits of a Contingent Deferred Annuity,” focuses on the Contingent Deferred Annuity or CDA (sometimes known as a SALB or stand-alone living benefit). SALBs allow Registered Investment Advisors (RIAs) to wrap an income benefit around a client’s investment portfolio.

“It is possible for an institution to guarantee that a retiree will always be able to spend a fixed amount in retirement no matter what happens in financial markets,” wrote Finke, an authority on retirement income at The American College of Financial Services. “Portfolio insurance through a CDA provides the freedom to spend within one’s financial planning boundaries, without the fear of running out of money due to events out of one’s control.”

A CDA “unbundles” the two main components of a variable annuity. The first component is a portfolio of mutual fund-like variable subaccounts offered by a life insurance company. The second is an insurance rider that guarantees the contract owner a floor income for life (with upside potential) while allowing the investor to tap the portfolio for liquidity (at the cost of proportionately reducing the income rate).

Finke’s research showed that “the certainty of lifetime income provided by a CDA may give individual investors the assurance to not only spend confidently, but to continue to invest in equities without the fear that a market downturn will force them to spend much less than planned in retirement,” the RetireOne release said.

“If stocks outperform bonds, the retiree will accumulate a larger nest egg over time,” wrote Finke. “Greater retirement wealth can result in higher spending or a more substantial legacy as a reward for accepting investment risk. However, if investments underperform early in retirement, a retiree can continue to spend the same guaranteed amount despite a much higher risk of outliving savings.”

With Midland National Life Insurance Company, RetireOne recently launched a Contingent Deferred Annuity called Constance. Constance costs a flat certificate fee instead of an expense ratio, allows the policyholder to begin taking income at any time, hold a portfolio with up to 75% equities, and cancel the contract at any time.

“Portfolio Income Insurance: Understanding the Benefits of a Contingent Deferred Annuity” is a free download on RetireOne’s website. Advisors who would like to learn more about Constance can schedule a meeting or call their RetireOne Relationship Manager at (877) 575-2742. For additional information, please visit retireone.com.

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