inside information

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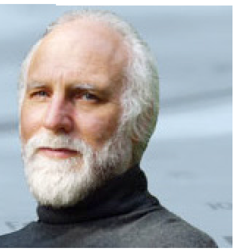

Policy Platform

Synopsis: ***The insurance industry is cautiously introducing fiduciary products—through a new outlet built for fiduciary advisors.***

Takeaways: ***Removing commissions can make significant cost differences in various types of contracts—but the real (radical) innovation is the transparency of cost structures.***

David Lau, founder and CEO of a new company called DPL Financial Partners (*https://www.dplfp.com/*) in Louisville, KY, fully understands why most fiduciary advisors tend to avoid insurance products in their clients' financial plans.

"RIAs look at the insurance world and say: *it's all expensive commission-driven garbage*," he says. "I think most of them know that, under the right circumstances, insurance can deliver important benefits to a client in their financial life," he adds. "The problem has always been that the costs outweigh the benefits, and a commission-driven structure directly conflicts with their professional mindset."

This is a remarkable admission, since Lau's new company is in the business of marketing a variety of insurance products—including variable and fixed annuities, term, universal and variable universal life—to fiduciary advisors who are allergic to commissions, and who demand full transparency in everything they recommend to their clients.

Lau knows this market. He was formerly the Chief Operating Officer at Jefferson National Life during the time when the company was marketing its famous "zero M&E" "flat is beautiful" Monument Advisor VA contracts to non-commission advisors, mostly as replacements for high cost VAs their clients had been sold through prior relationships.

"What we realized," says Lau of his Jefferson National experience, "is that insurance is the last big area of the financial services industry that is still commission-driven. So when I left Jefferson National three years ago, it was to start a grand and ambitious journey of trying to create a fee-only insurance model."

The endeavor was filled with obstacles.

"We had to get the insurance industry to offer products that were different from what they were accustomed to marketing: not only low-cost and zero commission, but also transparent in their cost structure," says Lau.

"Plus, we had to have the systems in place to deliver the products to the end customer based on a recommendation from an RIA who doesn't work with a broker-dealer. We had to find ways to handle fee withdrawals from the AUM component, and integrate all of it with advisors' desktops. It was," Lau says, "an interesting challenge."

Galvanizing fear

Lau had the good fortune to be in the right place at the right time. The new DOL fiduciary rule had sent a galvanizing shiver up the spines of the insurance industry. Whether or not the rule would survive court challenges, the DOL had set a standard for state regulators and the SEC that investment products of the future would need to pass some sort of fiduciary muster. The handwriting on the wall, in plain English, said that eventually the entire insurance industry would be forced to disclose or eliminate its routinely enormous conflicts of interest and rely on fiduciary advisors to recommend its products. Meanwhile, its commission-driven field forces are rapidly aging, and few young financial professionals seem to be eager to enter the workforce as insurance sales agents to replace the retirees.

The handwriting on the wall, in plain English, said that the entire insurance industry will be forced to eliminate its routinely enormous conflicts of interest and rely on fiduciary advisors to distribute its products.

For the first couple of years of DPL's existence, Lau functioned as a for-hire consultant to the large insurance carriers who had been following Jefferson National's success with increasing interest. Lau helped companies like Lincoln National, New York Life, Jackson National, Allianz, AXA, Global Atlantic, Great West and Great American (among others) modify contract designs that had been mouldering on their drawing boards for decades, and finally come to market with true fiduciary versions of their product lines.

In the process, he discovered that in order to convince traditional carriers to make this leap, he also had to provide a way for them to navigate this strange new world of fiduciary advisors.

"The insurance industry is used to teaching people how to sell their products, and creating features that are gimmicky; bells and whistles that are really sales devices," Lau explains. "They've never learned how to speak to advisors, which is why none of them have been very successful, outside of what we did at Jefferson National, being able to get RIAs to use their products."

Lau told the carriers that one of his big takeaways at Jefferson National was that fiduciary advisors are not—as commonly believed—opposed to life and VA products, per se. They were simply turned off by the structure.

"Most of the advisors I talk with already understand how a variable annuity or variable universal life policy works," says Lau. "But because they don't deal in insurance, and they haven't been able to get good disclosures of the various fees and expenses, they didn't have a way to tell their clients who is a good provider or what is a good product. They're not sure who to trust with their client assets, and of course they're also not licensed to sell insurance or variable products."

To complete the consulting work, Lau had to construct a bridge to this RIA community—a platform that would put the fiduciary insurance contracts in one place and service advisors who want to recommend them.

"DPL is built to be an intermediary between insurance companies who don't know how to talk to RIAs and RIAs who have always wanted better products and more disclosure before they recommend insurance products to their clients," Lau explains. "DPL works as an RIA's internal insurance department. We'll find the best products based on the advisor's assessment of the client's needs, and present the RIA with multiple options. Where necessary, we'll explain the products and the product uses."

And at the end, DPL will execute the transaction, all on a white label basis for the advisory firm.

Service platform

How, exactly, does it work? Planning firms pay DPL an annual subscription fee, and that's the entire compensation the firm receives from any source. For that, DPL will function as the licensed agent. It assigns and issues the contracts that the advisor recommends to clients, and the RIA is added to the contract as an advisor, with (if desired) a limited power of attorney to manage the assets in the variable contracts.

Importantly, DPL's contact with the advisor's clients is limited. "As the executing agent of the policy, we have to interact with the client for that purpose," says Lau. "But we always want it to be clear to the client that their relationship is with the RIA, and our consultants are there to support the advisor as an expert they have engaged.

Beyond the suitability call," Lau continues, "we will only interact with the client if and when the RIA wants us to. Some prefer to have us participate in product discussions with their clients to answer detailed questions," he adds. "We're happy to help with paperwork and provide concierge services to our members to minimize their administrative burdens."

Fiduciary VAs

Advisors can go on the DPL platform and check out the options. The menu is still expanding, but a quick tour starts with (*see chart, next page*) four variable annuity contracts that most advisors will use as a fiduciary replacement product—an "annuity rescue" option to replace an expensive annuity that a new client purchased before the advisor took on the relationship.

"We also believe that variable annuities can be an accumulation phase product, providing tax-deferral to high-income clients who have maxed out their 401(k) and IRA contributions," says Lau. Astute advisors can overlay an asset location component, using the VA to defer the yearly tax hit on annual short-term taxable gains from bonds or small cap index funds that have a lot of turnover. "But," Lau acknowledges, "VAs are traditionally sold for their income riders. I personally am not a big fan of using a variable annuity for income riders."

Lau says that cost has been the hurdle preventing most advisors from considering VAs for their clients—and this reluctance is entirely logical. The benefit of tax deferral might be as much as 100 basis points a year. The average annual M&E expenses in the annuity marketplace: 135 basis points.

To complete his consulting work with the insurance industry, Lau had to build a bridge to the RIA community.

So what VAs are on available the DPL platform? Lau points to the Intelligent VA from TIAA—the company which (as most of you know) provides retirement annuities for college professors and hospital workers. The costs of Intelligent VA are fully disclosed, and the all-in cost is among the lowest in the industry.

"To figure the full cost of any VA contract, you have to take into account not only the M&E, but also how much revenue-sharing is built into the funds," Lau says. It has been widely reported that the Monument products feature zero M&E but the fund options are not institutionally-priced; Jefferson National's margin is built into the revenue sharing arrangements with the fund companies who manage the VA subaccounts. The Intelligent VA, on the other hand, features Vanguard and DFA funds (among many others), provided at the institutional expense ratio that you would get if you bought the institutional share classes through your custodian.

The Intelligent VA's M&E, meanwhile, is calculated on a sliding scale, but Lau notes that if the client has more than $100,000 in the Intelligent VA, that cost is just 35 basis points a year.

For an extra ten basis points a year, the TIAA VA also lets clients buy a return of premium guarantee—that is, a guarantee that the withdrawal amount at the time the client starts taking regular payments will be no lower than the total value of the premiums paid in.

"We aren't pushing that feature," says Lau, "but there might be some clients who see the market near all-time highs, who are nearing retirement, who want that guarantee in place."

Other no-commission VA options on the DPL platform offer different features and benefits. "We like the way the AXA Investment Edge product handles their return of premium a little better," says Lau. If the client wants that "can't lose money" feature, and invests through AXA's Investment Edge VA, the rider calculates the cost of the rider based on a simple calculation called "net at risk."

DPL Product Matrix

Annuities

Product	Carrier	Product Name	Rating	Fees	Riders	Description
VA	TIAA	Intelligent VA	A++	$0 – $99k 50 bps $100k - $499 35 bps $500k+ 25 bps Year 11+ 10 bps	ROP 10 bps	NQ money, Vanguard & DFA available, Funds are institutionally priced
	Great West	Smart Track	A+	20 bps	ROP 20 bps GLWB Options: Income Plus 130 bps Income Max 120 bps Income Fndn 90 bps	NQ Stretch available
	AXA	Investment Edge	A+	30 bps	NAR (Net Assets at Risk) ROP, fee determined by age	Exclusion ratio applied to withdrawals (Period Options: 10-40 years) NQ Stretch available
	Security Benefit	Elite Designs	A-	45 bps	ROP 35 bps	Model trading capability 315 subaccounts including Rydex, Vanguard & DFA Exclusion ratio applied to withdrawals (Period Options: 10-40 years) NQ Stretch Available

Product	Carrier	Product Name	Rating	Surrender Schedule	Riders	Description
Fixed Index Annuity	Great American	Index Protector 7	A+	7 years (7/7/7/6/5/4/3)	GLWB Options: Income Defender 85 bps Income Keeper 50 bps ROP available after 3 years in most states	*$100,000 minimum* Current Rates as of 4/3: (<$250k/>$250k) Fixed rate: 3.5/3.6% S&P 500: 7.25%/7.4% Cap S&P 500 Risk Control 10: 75%/80% Par S&P U.S. Retiree Spending: 90% Par iShares U.S. Real Estate: 8.75/9% Cap
	Allianz	Retirement Foundation ADV	A+	7 years (6.5/6/5/4/3/2/1)	Income Benefit 105 bps (Option 1 or 2)	*$10,000 minimum* Current Rates of 4/3: Fixed Rate: 3.00% Nasdaq 100: 6% S&P 500: 6% Russell 2000: 5.50% Bloomberg US Dynamic 9.50%

How does that work? "If your clients put $100,000 into this product, and the account value never dips below $100,000, even if they've selected this feature, they will never pay anything for that protection," says Lau. "If they've opted for that protection and the account value dips down to, say, $95,000, then you're only paying on the $5,000 that's actually at risk, and only for as long as the account value is below $100,000. We think," Lau adds, "that that's a pretty neat way of accomplishing the return of premium guarantee."

The actual fee is determined by age—and once again, the contract's 30 basis point M&E is relatively inexpensive.

Suppose you're in an annuity rescue situation where the client hates the expense of his or her existing annuity, but is reluctant to give up the guaranteed lifetime withdrawal benefit feature that it was sold with. In that case, you might recommend Great West's new Smart Track VA, which charges roughly the industry standard for the guaranteed benefit rider, but only charges 20 basis points in annual M&E.

"Remember, your traditional variable annuity with those benefits is going to cost 135 basis points a year, just for the M&E, in addition to the cost of the rider," Lau points out. But once again, he doesn't typically recommend that advisors buy this feature for clients through a variable annuity.

"If you're looking for guaranteed income, we think there are better ways of achieving it," he says. "The lowest risk option is the pure guaranteed income products, like a SPIA [Single Premium Immediate Annuity], where you're going to immediately annuitize and start taking income. Slightly higher-risk," he adds, "you could go with a fixed indexed annuity, which will provide an income guarantee but with a floor of protection, so the client is not going to lose assets."

Neither the Great West nor the AXA variable annuity products offer institutionally-priced fund options. "We are clear about that," says Lau. "When we talk about these products with RIAs, we'll illustrate the all-in differences in costs. Because of the institutionally-priced funds, the TIAA product is going to be, all-in, the least expensive product."

But the AXA Investment Edge VA has another feature that might be attractive for advisors: it applies an exclusion ratio to withdrawals. "One of the issues with a variable annuity is that when withdrawals are taken out, all of the gains are subject to ordinary income," Lau explains. "And usually when you make withdrawals, the gains are taken out first."

AXA's Investment Edge product allows its contract owners to take withdrawals on a pro rata basis, which is more tax-efficient, since the percentage that is attributed to return of premium is not taxable.

Finally, Investment Edge and Smart Track offer another feature that Lau thinks might be interesting: a non-qualified stretch option. If the VA is purchased outside of a qualified plan (and it should be), then the contract can be transferred to heirs without them having to immediately take the gains out of the product.

"It's almost like transferring the ownership of the product to the beneficiary," says Lau. "Of course, the annuity is never going to be a tax-efficient estate option," he admits, "because you don't get the step-up in basis on gains in the assets. But if the kids inherit it with the non-qualified stretch feature, they only have to pay taxes on the gains when they come out."

For the AXA product, these inherited withdrawals would also come with the exclusion ratio feature. That might be a good option for an annuity rescue out of a high-cost product for a client who is getting on in years, who might be leaving the annuity to heirs before long.

The traditional variable annuity with guaranteed benefit riders is going to cost 135 basis points just for the M&E. the new Smart Track VA has an M&E of just 20 basis points.

Fiduciary fixed-index annuities

The next category of products on the DPL platform are fixed-index annuities. "These are a hybrid product between a variable annuity and a fixed annuity," Lau explains. "When you invest in a fixed-index annuity, you're investing in a replicant of an index or more than one index—the S&P 500, or NASDAQ, or whatever combination of indexes you choose."

In each case, the carrier will replicate each index's performance using options strategies, and the returns are assigned either cap rates or participation rates which are constantly changing depending on market conditions. For instance, in the Great American Index Protector 7 product, if clients put money in the S&P 500 index, they could get a 7.4% cap (assuming at least a $250,000 investment; see chart), meaning that if the index goes up 5% that year, they would get the full 5% return; if the markets were to go up 8% or 10% or 15%, that portion of the portfolio would still return 7.4%. At the other end of the spectrum, if the index lost value in that year, the client would earn 0%—essentially avoiding the loss.

Alternatively, the client could opt for a participation rate of (currently) 80% of the movement of the index, in return for that 0% floor on each year's return. (This, too, changes with market conditions.)

The Great American contract also offers a 3.5% fixed return—which, as Lau points out, is very competitive with bond funds and CD rates these days. Advisors can allocate client assets to various indices and the fixed rate in an overall asset allocation they choose on behalf of their clients.

What's different about these products, other than the absence of the commission? Lau says that when he was deciding which products to put on the DPL platform, he focused on character issues. "A lot of carriers might post some very high cap rates to attract new money into a product and help sales, and then drop those rates precipitously in the out years," he says. "We want to make sure we're not putting on our platform carriers who are wildly fluctuating new

Product	Carrier	Product Name	Rating	Fees & Surrender	Riders	Description
Buffer Annuity	Great West	Capital Choice	A+	40 bps / No Surrender (6 year MVA)	ROP – Free	Indexes: S&P 500, Russell 2000, NASDAQ 100, MSCI EAFE. Buffer: 10% downside protection Floor options: 0, -2.5%, -5%, -7.5%, -10%
	AXA	Structured Capital Strategies (SCS)	A	No fee/ No surrender (MVA)		Durations of 1, 3, 5 yr. Buffer % (-10, -20, -30) See Indexes
	Allianz	Index Advantage ADV	A+	25 bps / 6 year (6.5/6/5/4/3/2)	ROP – Free	Index Performance Strategy Index Precision Strategy Index Guard Strategy Index Protection Strategy See Indexes Variable subaccts optional (0.65-0.73 expense)

Product	Carrier	Rating	Annuitization Options	Fees	Description
SPIA	TIAA	A++	Lifetime Fixed period (5, 10, 20, 30) Lifetime w/ Guarantee Periods	Fixed Account 60 bps on Variable Subaccounts (8 choices) range 10-63 bps	*$25,000 minimum* Max issue age 90 Reallocate 1x/yr. Can go Fixed Account to Variable, cannot go Variable to Fixed -Variable option is unique and allows fluctuation to income
	Integrity Life	A+	^options as well as cash refund		*$10,000 minimum* Max issue age 95

rates for renewal money and new money. We want the renewal rates and new money rates to be very consistent from year to year."

Neither the Great West Index Protector 7 nor the other fixed index annuity—Allianz's Retirement Foundation ADV product—assess an M&E cost. But both have surrender charges that decline over the first seven years of the contract.

"That's not to cover a commission," Lau is quick to say. "The companies are making long-term commitments with their derivative strategies, and they have to be able to recover their costs from people who might jump out after a year or two. Therefore, we only recommend these products for clients who are committed to a longer-term horizon."

Of the two, he says the Great American Index Protector 7 is a strong accumulation product, with high participation and cap rates, and a very competitive fixed rate. With Allianz's Retirement Foundation product, the participation and fixed rates are lower, but the guaranteed income feature is very strong.

Lau is helping to design a third fixed-index product, to be introduced by Security Benefit Life, with an interesting feature. "From an advisor's pespective," he says, "the problem with a lot of the guaranteed-income products is that they aren't inflation-adjusted. You get a guaranteed income, but that is obviously not going to be worth nearly as much, in purchasing power, in 20 years as it is today."

The Security Benefit annuity will provide an inflation adjustment on the income that is paid out to clients, going up 2% each year automatically. "They haven't priced everything out yet," says Lau, "but that feature will cost 25 basis points. I think it's going to be priced extremely fairly."

Overall, Lau thinks that the fixed-index annuity products could be used as a potential replacement for the fixed-income portion of client portfolios. "These have similar risk profiles to bond funds, with potentially better returns," he says. "We think that as clients are getting near retirement, and you're starting to de-risk the portfolio, an FIA can be a good option. Not only can the performance be better, but it has those guaranteed income features that can be turned on when the client is ready to take income and have a guaranteed income stream for life."

Clients can turn on the income stream at any time, and the benefits grow if the clients delay taking benefits. "If you looked at starting taking income at age 65, you might get a 5% payout," says Lau. "But every year you delayed, it would increase the payout by 25 basis points. At age 73, you might end up with a 7% payout rather than the 5%."

Fiduciary buffer annuities

What, exactly, are buffer annuities? "Those products are like a blend of a fixed index annuity and a variable annuity," explains Lau. "Your clients are invested in a diversified mix of indices, similar to the fixed-index annuity, and they get a cap on what they can earn, and also a buffer or a floor of protection."

The difference is that instead of a floor of 0%, you can more flexibly select your clients' buffer or floor options.

How does that work? "With the Great-West Capital Choice product, over each 1-year horizon, you'd get a cap rate on each index, which fluctuates," Lau says, "and you would also get a 10% buffer, meaning if the index goes down 10%, your client would lose nothing. If the index went down 12%, the client would only lose 2%."

The floor options define how much the client could lose in a given year: 0%, 2.5%, 5%, 7.5% or 10%—and in this case, the participation rate would fluctuate depending on which buffer you chose. If you chose 0%, the participation rate would be lower than if you chose -10%.

The Allianz Index Advantage ADV and the AXA Structured Capital Strategies buffer annuities offer various buffer and floor options—and Structured Capital Strategies gives you the added flexibility of selecting the time horizon that the buffer percentage will apply to. For instance, at the extreme, you can select 30% buffer protection over a 5-year period—and, once again, the participation rate will depend on the amount of protection the client desires.

TIAA's zero-commission SPIA offers an inflation protection feature: you can invest the annuity account and get a higher payout if/when the market rises.

Fiduciary SPIAs

Turning to a product type that fiduciary planners are more familiar with, Lau points to two zero-commission single-premium immediate annuities on the DPL platform, one by TIAA and another by Integrity Life. Here, you put your money in the hands of the insurance company and receive, in return, an income for life.

"TIAA is a tremendously-rated carrier, so you're not going to get the highest payouts from them," says Lau. "I think of it like a bond; you pay a little bit for the security of the rating."

Nevertheless, he says, the TIAA payout rate is strong and competitive, and the contract also offers an interesting inflation protection feature. This is designed to address the obvious objection to the immediate annuity concept: the fact that inflation erodes the value of future payments.

With TIAA's SPIA, you can have the account invested in the markets, and get market returns, which should, over time, boost the value of your client's annuity payout. "The contract offers eight different subaccounts, all index funds that an advisor can allocate their client to, all institutionally priced," says Lau. "If you allocated 100% to the variable subaccount, they will give you a calculated estimate of your payout. And then, depending on the performance of those subaccounts and your allocation, your payout can go up or down for the following year."

You can also choose a lifetime fixed account, or allocate between the two strategies, some to the variable for the potential upside, some to the fixed portion. The only caveat: you cannot transfer variable funds to the fixed option down the road and stick the insurance company with a loss.

Elsewhere on the DPL platform, a product offered by Integrity Life offers a higher fixed payout than almost anything you'll find on the market—and you can thank the absence of a front-end commission. "Integrity has consistently among the highest payout rates in the market," says Lau, "along with a terrific rating and balance sheet, which we also like."

Both TIAA and Integrity Life also get high markets for the integrity issue. "A lot of carriers

Product	Carrier	Product Name	Rating	Guarantee Period	Renewal Option	Description
Fixed Annuity	Integrity Life	MultiVantage	A+	4,5,7, and 10 year	After term is up, 1 year rolling fixed option is available	*$20,000 Minimum* Max issue age 89 Current Rates as of 4/3: (1ST yr/remaining) 4 Year 3.30%/2.30% 5 Year 3.60%/2.60% 7 Year 3.95%/2.95% 10 Year 4.15%/3.15%

Life Insurance

Product	Carrier	Rating	Riders	Description
Term Life	TIAA	A++	Free 1% charitable rider	Competitive rates versus other A++ rated carriers, is also convertible to permanent. Under 60 years old and under $1 million dollars has a simplified issue option

Product	Carrier	Rating	Fees	Crediting rate	Description
Universal Life	TIAA	A++	Cost of Insurance = Term rates	3.85% current, 3% minimum (as of 2/15)	
	Columbus Life	A+		4.6% current rate (2/15)	Guaranteed (No-Lapse) option available Single pay – 10 year pay schedule

Product	Carrier	Product Name	Rating	Fees	Crediting rate	Description
Variable Universal Life	TIAA	Intelligent Life	A++	$0 - $99k 95 bps $100 - $499k 65 bps $500k+ 35 bps Year 20+ 35 bps	Fixed Account: 3.75% 100% Fixed Account: 3.65%	Same subaccounts as Intelligent VA

will pop a rate to try to attract new money, and then drop the rate after some period of time," says Lau. "What we like about TIAA and Integrity is that they have shown a lot of consistency over time."

Fiduciary fixed annuity

Integrity Life also has a fixed annuity option on the commission-free DPL platform, which Lau says functions much like a CD. "Here, you're going to invest for a duration—4, 5, 7 or 10 years—and get period-certain returns," he explains. "You can roll it over just like a CD once that period has come to fruition. Or you can move to a different product at that point."

The rates look competitive compared with the CDs offered by the bank down the street: currently 4.15% in the first year and 3.15% each year thereafter for a 10-year investment. A 4-year investment earns 3.30% in the first year and 2.30% thereafter until maturity.

Fiduciary term life

Is there a need for a commissionless term life product in a marketplace where term rates are so competitive? "The commissions in the term life world aren't that large," Lau concedes. "Where in other products, you might be removing 80% or 90% of the product cost, in term life you're removing something closer to 5%."

In the advisory profession, however, there are a lot of professionals who reluctantly accept these inconsequential term commissions because they don't trust traditional agents to give their clients advice, and because they don't feel comfortable with the very limited no-load term products in the marketplace. There may be a much bigger demand for no-load term by major carriers among the "almost fee-only" crowd than it would appear on the surface, because it allows them to eliminate commissions altogether without compromising product quality.

Lau says that the TIAA and Columbus Life term contracts on the DPL platform offer the added benefit creative features that fiduciary planners might find attractive. "Term life is a product that a lot of people use to cover income protection for a period of time, which means by far the majority of these policies never pay out," he says. "With the TIAA product, the very strong feature they have is convertability. You have a product that you can convert to permanent insurance at any point while it's still in force."

After conversion, the premiums would adjust upward as the client gets older. But there is no requirement to undergo additional medical underwriting.

This requires unusual courage on the part of the insurance carrier.

You can image a client whose 10-year level term contract is about to expire, and he's lying in a hospital bed with tubes attached to various limbs, and you recommend that, with his failing hand, he convert the policy to a permanent one. Lau says that many insurance companies offer convertibility, but cover their bets by allowing conversion to a very expensive permanent insurance product. This is not what he wants on his platform.

"With TIAA," he says, "you can convert into any of their standard contracts: their universal life or their universal variable life, without additional underwriting, and those are tremendous products." Lau explains that some clients who are not lying in a hospital bed might simply want to use their term policy as a legacy planning option. "Since you've already paid in all this premium to have that insurance, maybe you want to keep it going," he says.

Lau is currently consulting with two major insurance carriers on a different no-load term contract architecture, which will include a "decreasing base" death benefit feature. "This kind of product is not often sold in the term life market," says Lau, "mainly because the commissions aren't as good."

How does it work? "The purpose of term is to cover your income gap during whatever time you're planning for," Lau explains. "You want to cover your mortgage, your future college expenses, your family's lifestyle expenses. But," he says, "as you get older and put money aside each year, that need should be decreasing over time. The amount you need covered should be decreasing. But in most contracts, you're paying for the full amount of insurance coverage year after year after year."

Also, of course, as your clients get older, their cost of insurance goes up. It would make sense for the amount of coverage to decline over time. Think of these "decreasing base" policies, coming soon, as more of a precision instrument in the term marketplace.

The no-commission Great American fixed-index annuity offers a 3.5% fixed return, which is very competitive with today's bond funds and CD rates.

Fiduciary UL

Most of you understand universal life; a bond portfolio with a life insurance (term policy) attached. Included on the DPL platform are commission-free UL contracts from TIAA and Columbus Life.

TIAA's product is, once again, attractive from an integrity standpoint. While many carriers charge a higher cost of insurance in their permanent products than they do in the more competitive term marketplace, and will often raise those costs invisibly as the UL/VUL contract ages, TIAA's term rates are carried over to their permanent products. "That's the way TIAA operates," says Lau. "They don't create different cost of insurance tables. There is one set of underwriting and cost of insurance, and they leverage that across all of their life products. That's a highly unusual practice."

What's special about the Columbus Life UL contract? The biggest attraction is the unusually high crediting rate: 4.6% a year as this article is written.

"They also have a guaranteed no-lapse option that you can add to the product," says Lau. If you stop paying the premiums, the death benefit will go down, but you'll still have a policy in place.

"If you're anticipating a normal life expectancy, you're going to be better off without the guaranteed no-lapse," says Lau, "because obviously you're paying something for that protection. But if you expect to live to 110, you might be willing to take less of a death benefit, so as not to have to pay crazy premiums very late in life to keep the insurance policy in force."

Fiduciary VUL

Variable universal life is essentially the same as universal life, except instead of a bond portfolio attached to a term life policy, you have a more diversified range of investment options that the client can choose from, and redeploy as desired. Lau says that the TIAA Intelligent Life product is his favorite product across the entire DPL lineup. "I think it's incredibly flexible for what you can use it for," he says. "Apart from the obvious life insurance coverage and death benefit, we have advisors who use it as a fixed-income replacement. It's an incredibly flexible cash management tool."

Many carriers charge a higher cost of insurance on their permanent products than they do in the more competitive term marketplace. TIAA charges the same for both.

What features does he like? The low M&E fees (which drop as more money is allocated to the contract) plus the same institutionally-priced investment options as in TIAA's VA contract. And once again, the cost of insurance equals the cost of the company's term contracts for the same age and rating.

Other fiduciary products

Lau isn't finished building out his product line; he's working with major carriers to build commission-free long-term care, disability and medicare supplement policies. "Philosophically, we're looking to build out any kind of insurance coverage that a financial planning client might need," he says. "We want to bring products to market for planners to fill all of those buckets."

The long-term care policies currently on the drawing board will be hybrid products, meaning a fixed annuity, and a life policy, each providing a long-term care benefit.

"What I like about it is how straightforward it is," says Lau. "You invest in the annuity, and you're going to get a multiple of your account as a long-term care benefit if you qualify. So if a client has assets sitting around in money market accounts or CDs, they can invest it into a no-commission fixed annuity that is going to pay them a competitive rate that might be more than they're currently getting, plus they'll get the long-term care benefit. We think it's a smart use for cash."

With the disability policy, Lau says that he's working with major carriers to help them create a contract with fewer complexities than what's out there now. Of course, eliminating commissions will result in better pricing and a higher payout when the claims are triggered. "But the most interesting feature," Lau adds, "is that the product will provide a lump sum payout that the advisor can then manage on behalf of the client, rather than your typical monthly check that gets written out when a client becomes disabled."

And the Medicare supplement policy? "These are kind of commodity products," Lau confesses. "But they're typically a very heavily-commissioned product as well. We think by removing the commission, we can bring something to market that is going to save clients 25% on their Medicare supplement premiums. If we can do that," he says, "it will be a no-brainer, an easy way for the advisor to provide value and provide great service to the end client."

The DPL platform's future also holds additional fixed indexed annuities and another fixed annuity, this one offering in the neighborhood of 4% annual returns.

Costs and benefits

Lau has helped major insurance carriers create products which are not on the DPL platform (see the list of companies he's worked with at the top of this article), and he is quick to say that non-inclusion isn't necessarily a reflection of their quality. "Some carriers—Lincoln National is a great example—simply want to handle the distribution themselves," he says. "I'm just happy to see carriers start to offer commission-free products, and I'm happy that I can help them do it. I don't care whether they go on our platform or not; I think this is a change that needs to happen for the industry."

How much does all this cost the advisor? As mentioned earlier, DPL operates on a subscription fee basis. Firms with up to $250 million in AUM (or some equivalent thereof for firms that don't measure themselves that way) would pay $1,000 a year to be on the DPL platform. Firms larger than that would pay $2,500 a year. (Here's the web link to get more information: *https://www.dplfp.com/*).

For that, they get unlimited access to the firm's (currently) 13 consultants, access to the products, free analysis of the annuities and/or life contracts that their clients currently own, plus training and client suitability work if they want to recommend one of the platform's contracts. (There is also a platform fee paid by the insurance carriers, not the advisors, which amounts to roughly 6.5-11 basis points a year.)

It will be interesting to see whether fiduciary advisors and financial planners are willing to get get more familiar with types of insurance that have traditionally been sold through the agent and broker communities, now that there are transparent, commission-free options available. If they do, then the insurance industry might be motivated to edge away from their traditional sales distribution channels that it has relied on for more than a century, and follow the fiduciary trend.

Meanwhile, I expect a number of "mostly-fee" planners and advisors to consider abandoning the 5-7% of their revenues that come from commissions, migrate to the DPL platform and finally qualify for NAPFA membership.

Either way, and also through Lau's consulting activities, I think we're about to experience a significant transformation in the financial services marketplace. In my own career, I've been waiting and prodding for decades, trying to make the last bastion of commission-based distribution move toward fee-only and fiduciary. Finally, at last, Lau, DPL and this interesting new fiduciary insurance platform seem to be making that happen.■

To schedule an appointment with a DPL Consultant,
visit the website at *dplfp.com*
or call 888-327-0049.