Navigating the Era of Low Interest Rates

BEFORE WE BEGIN

SPEAKERS

David Lau
CEO & Founder
DPL Financial Partners

Wade Pfau, PhD
Professor of Retirement Income
The American College of
Financial Services

Why We're Here Today

- New era of low interest rates creating numerous problems for portfolios – increased risk, reduced returns and efficiency
- Sustained periods of low interest rates lead to numerous risks both before and during retirement, and advisors who can navigate them deliver greater value
- Today's retirement realities create new problems for advisors that are difficult to address through investments alone

Problems Created By A Low Interest Rate Era

1. Cash is now a risky asset
2. Bonds are no longer considered income-generating investments
3. Portfolios become overweight to equities
4. Riskier fixed income strategies are being adopted to produce sufficient yield
5. Equities need to be relied upon for income
6. Client retirement portfolios are more exposed to sequence of returns risk

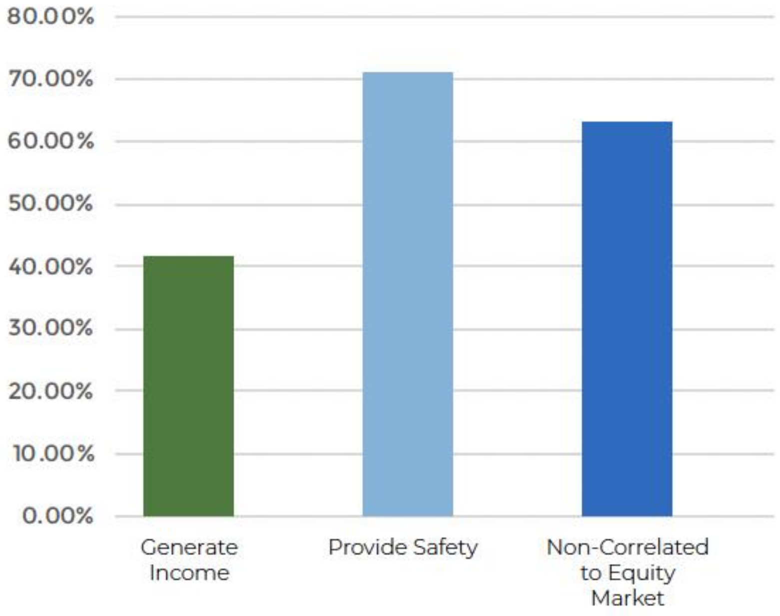
Overview

1. Understanding the Risk Created by Low Interest Rates
2. The Academic Support for Annuities as a Bond Alternative
3. Comparing and Evaluating Annuity Solutions
4. 3 Key Annuity Uses in a Low-Interest Rate Era

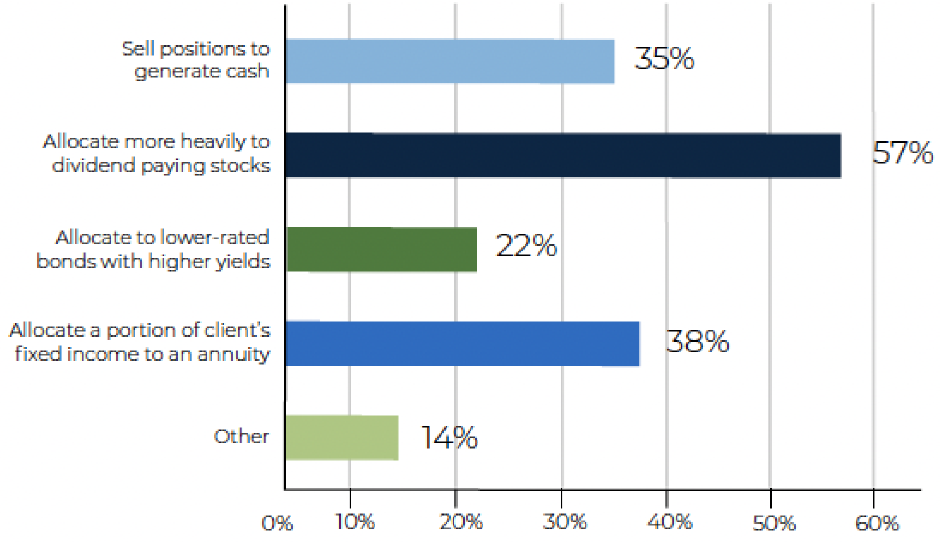
Understanding the Risk Created by Low Interest Rates

Trends Reflected in DPL's 2021 Retirement Planning Survey

Traditionally, bond investments have been utilized to generate income, provide safety and provide non-correlated exposure to the equity market. Do bonds still serve these purposes today? Select all that apply.

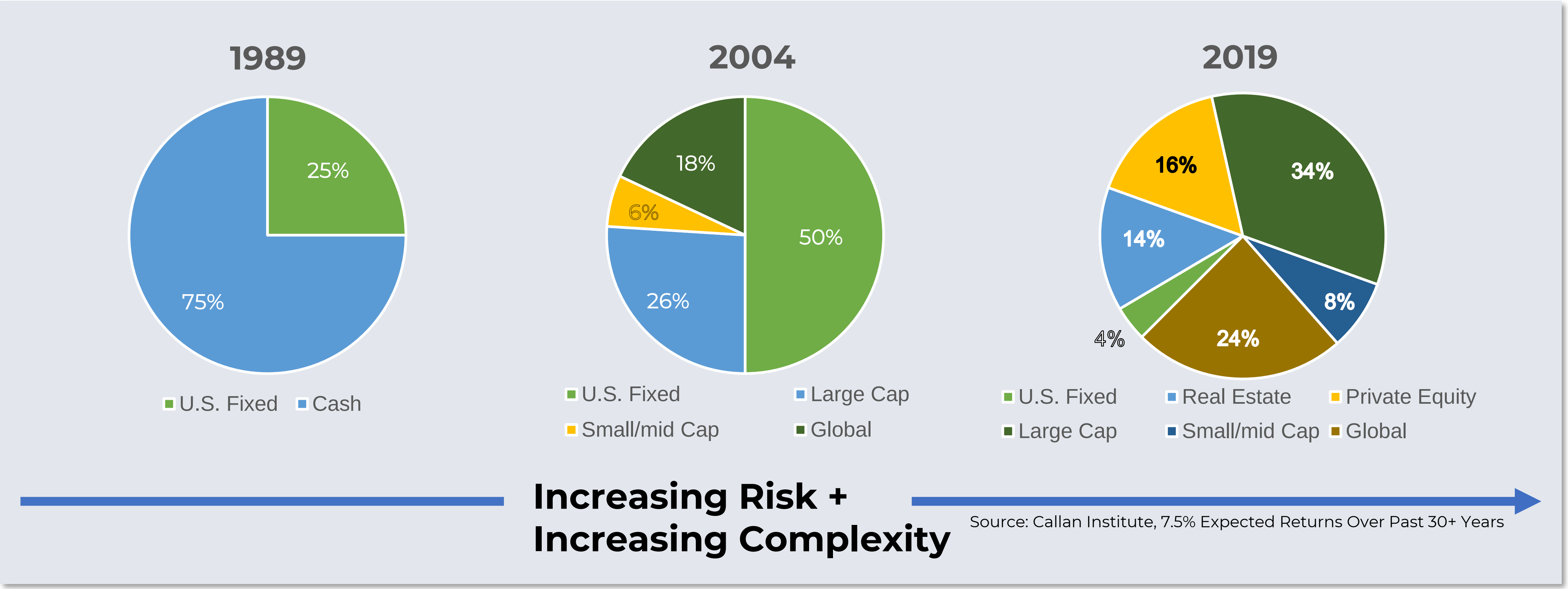


In a low-yield bond market, how do you bridge the gap between your clients' desired retirement income and the yield from their bond portfolio? Select all that apply.



SOURCE: DPL Retirement Planning Survey, 2021

Increasing Risk to Generate Income

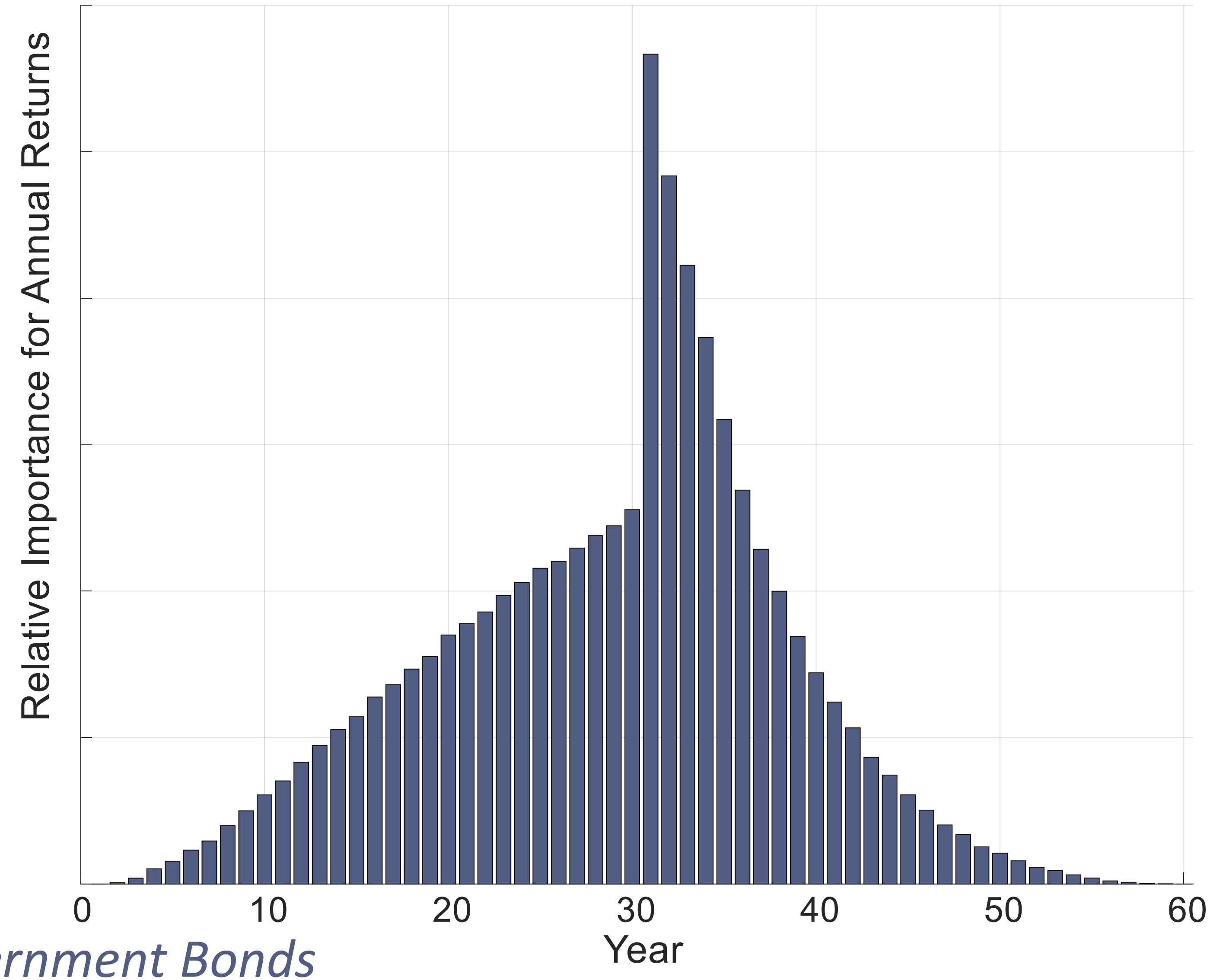


- BlackRock: 90% of retirement plan participants indicate interest in retirement income products and having guaranteed income

[1]DPL Financial Partners RIA Retirement Planning Survey
[2]BlackRock Retirement Survey, 2021

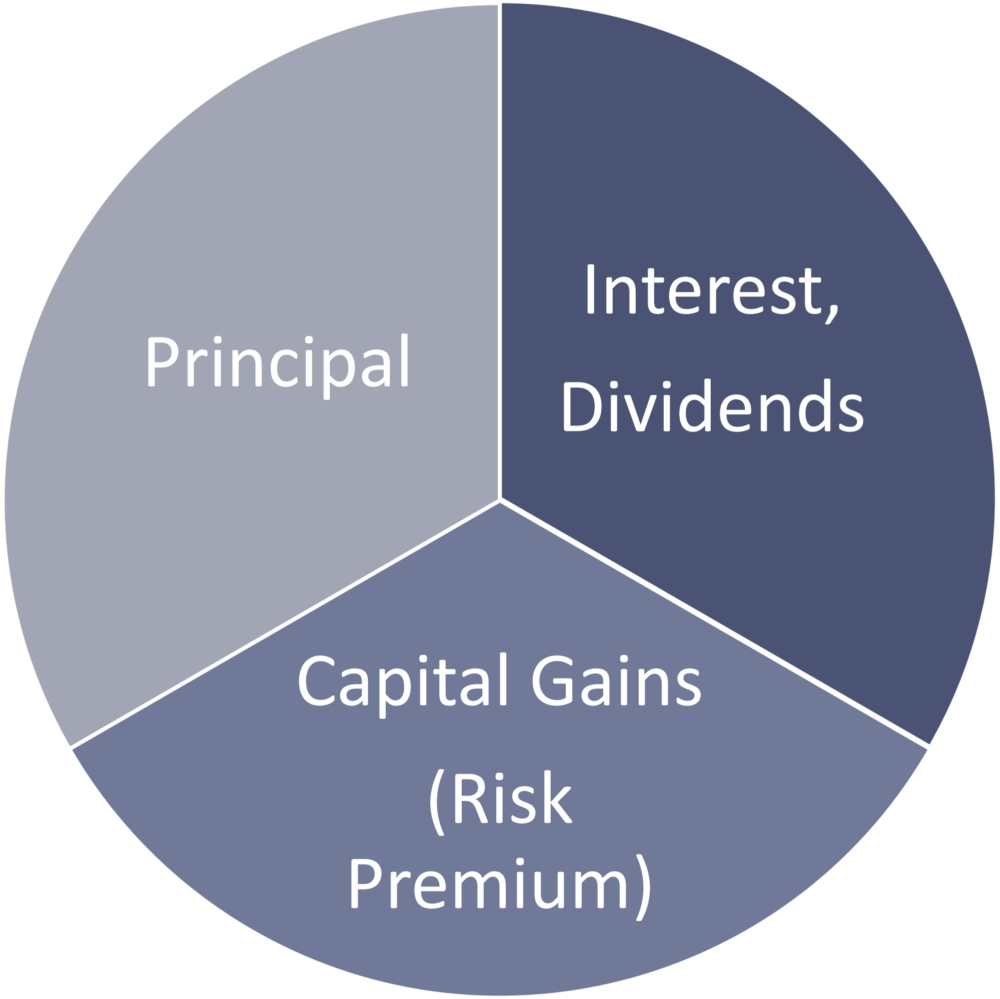
The Academic Support for Annuities as a Bond Alternative

Lifetime Sequence of Returns Risk



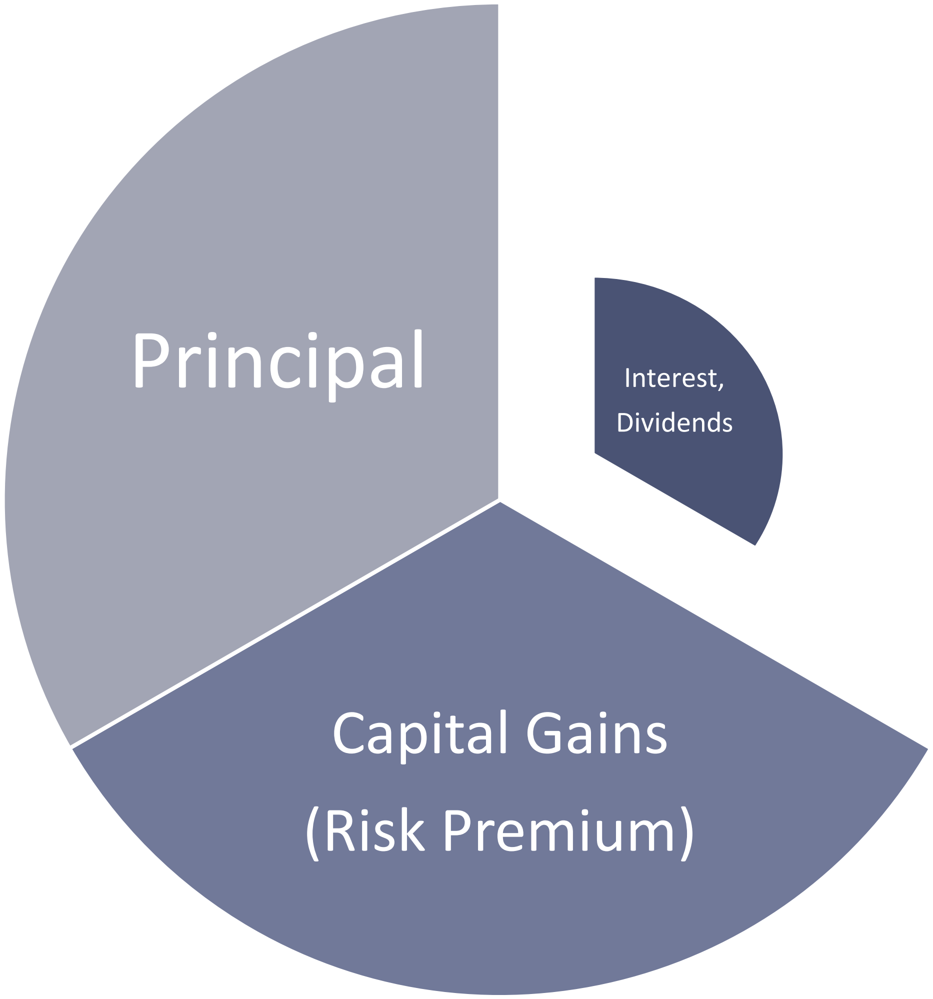
50/50 Asset Allocation,
Inflation-Adjusted Spending
100,000 Monte Carlo Simulations
Based on SBBI Data, 1926–2019,
S&P 500 and Intermediate-Term Government Bonds

Sources of Investment Spending

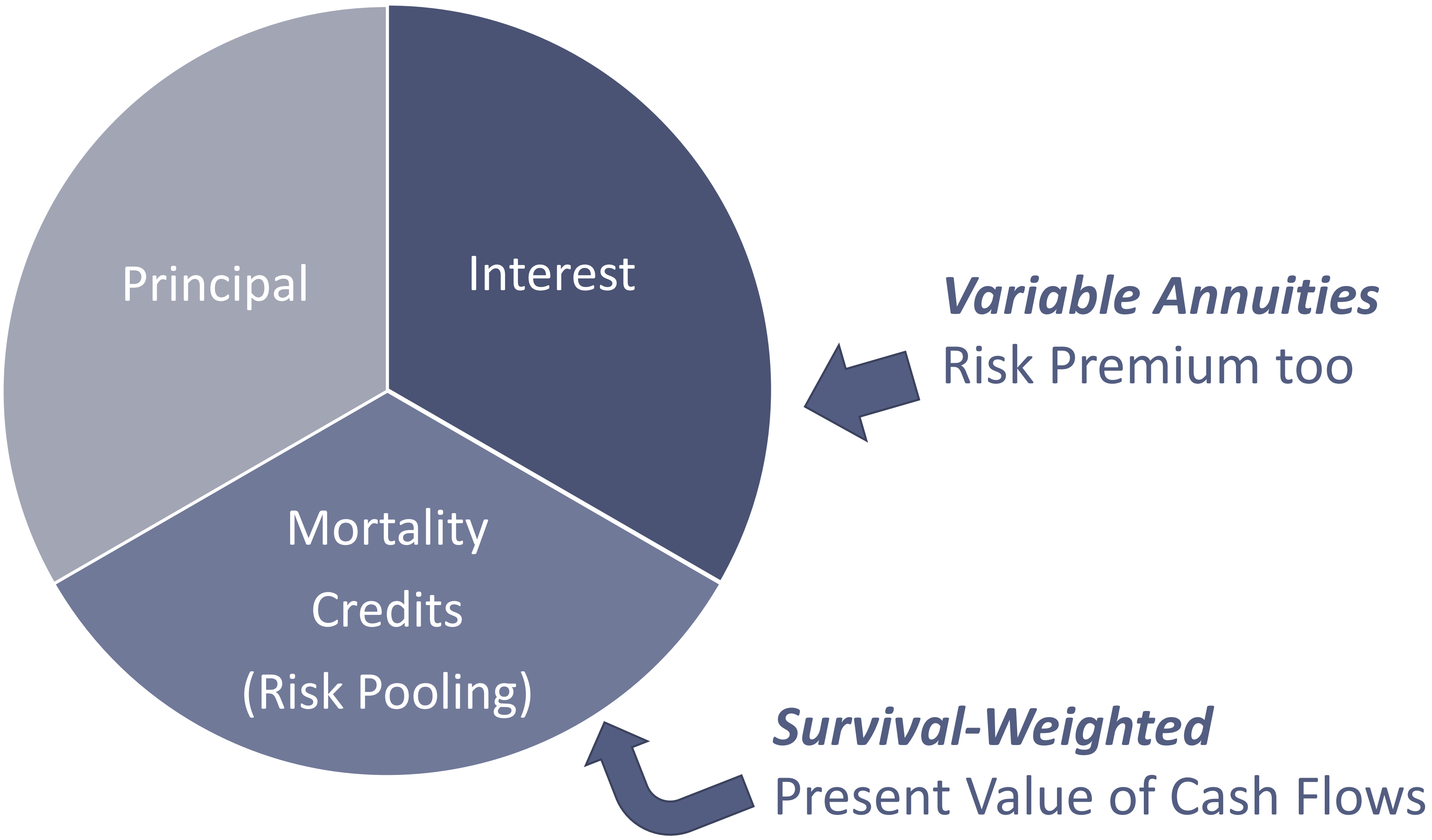


Retirement Researcher

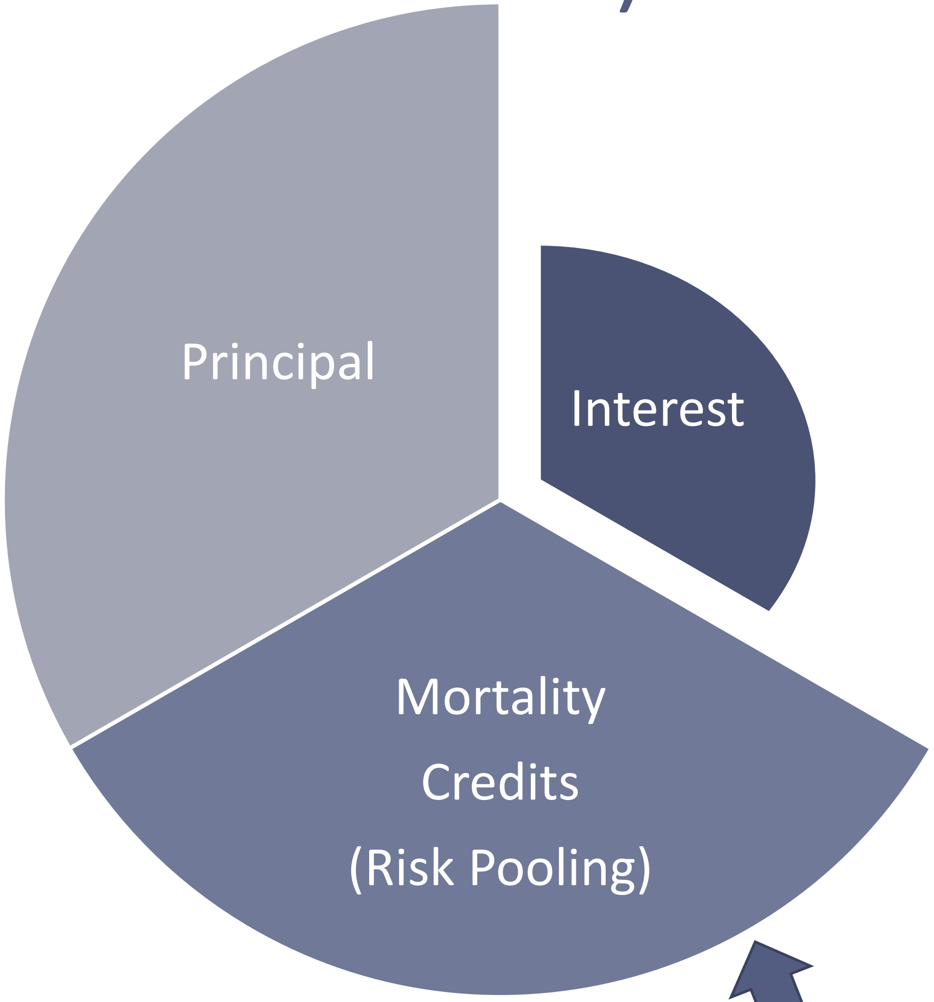
Sources of Investment Spending (Low Interest Rates)



Sources of Annuity Payments



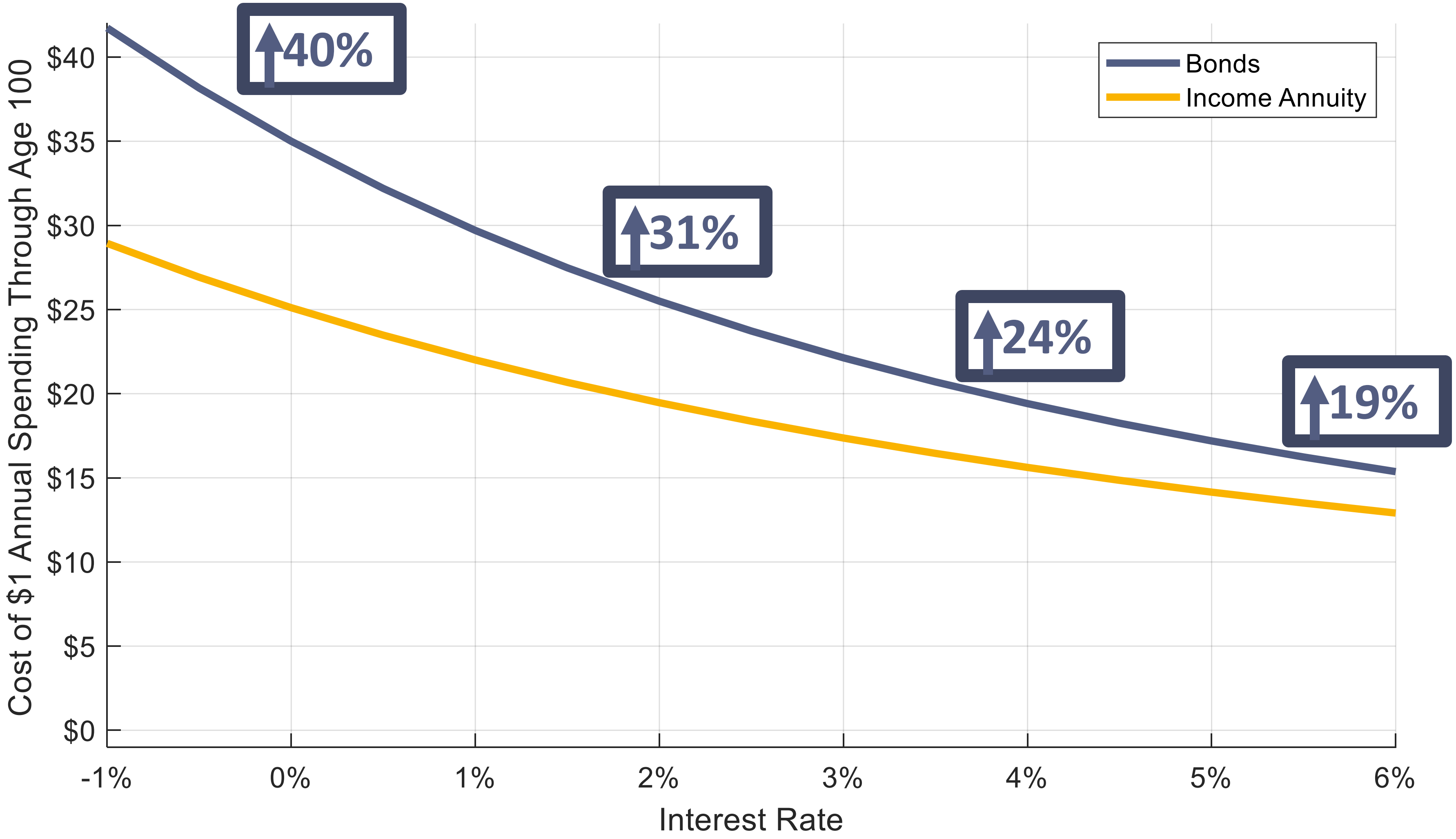
Sources of Annuity Payments (Low Interest Rates)



Variable Annuities
Risk Premium too

Survival-Weighted
Present Value of Cash Flows

Cost of Funding Income



Assumptions:

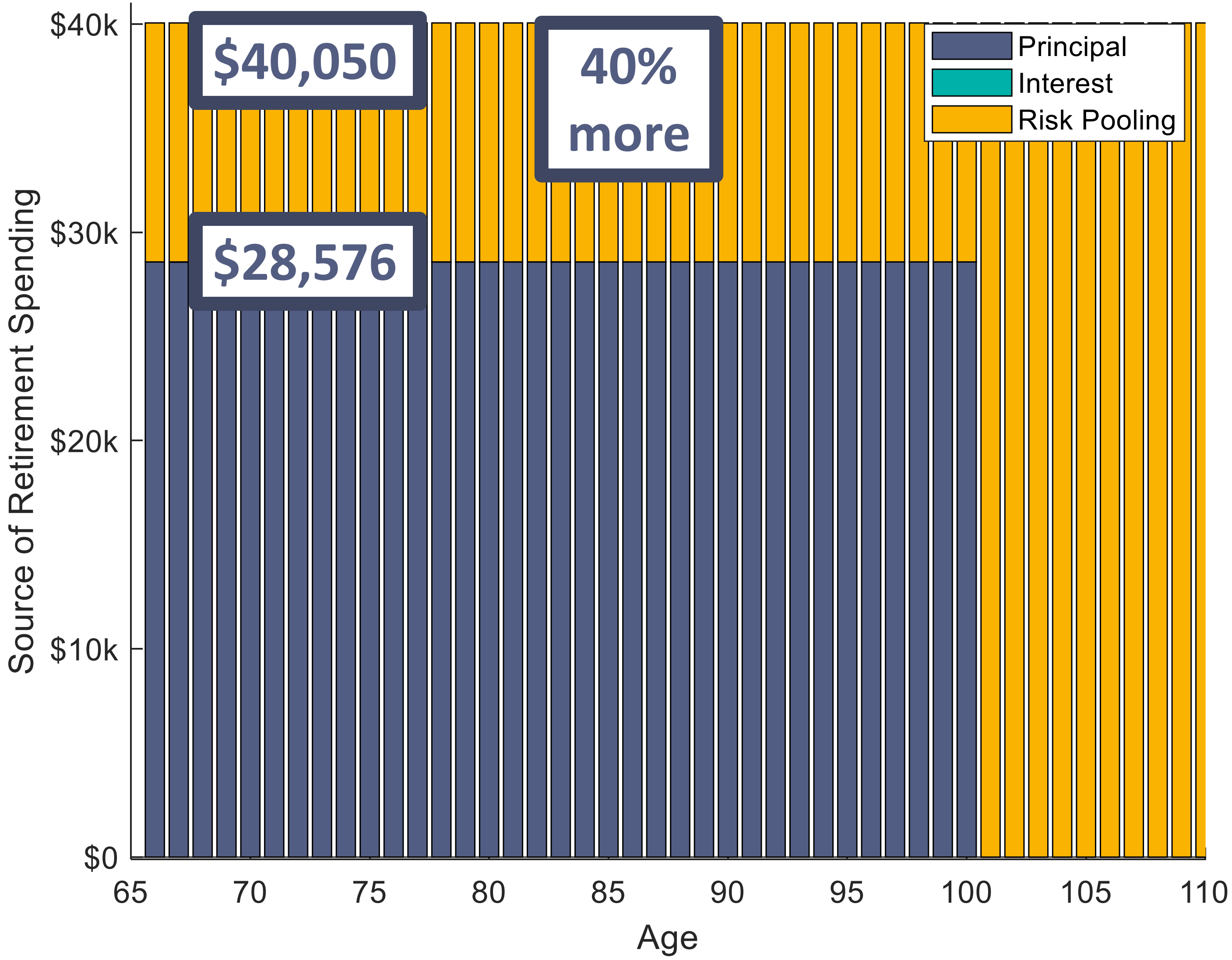
65-Year Old Female

Planning Age: 100

Fixed yield curve at Interest Rate

Society of Actuaries Individual Annuitant Mortality Table, 2021

Income Sources for Income Annuity



Assumptions:

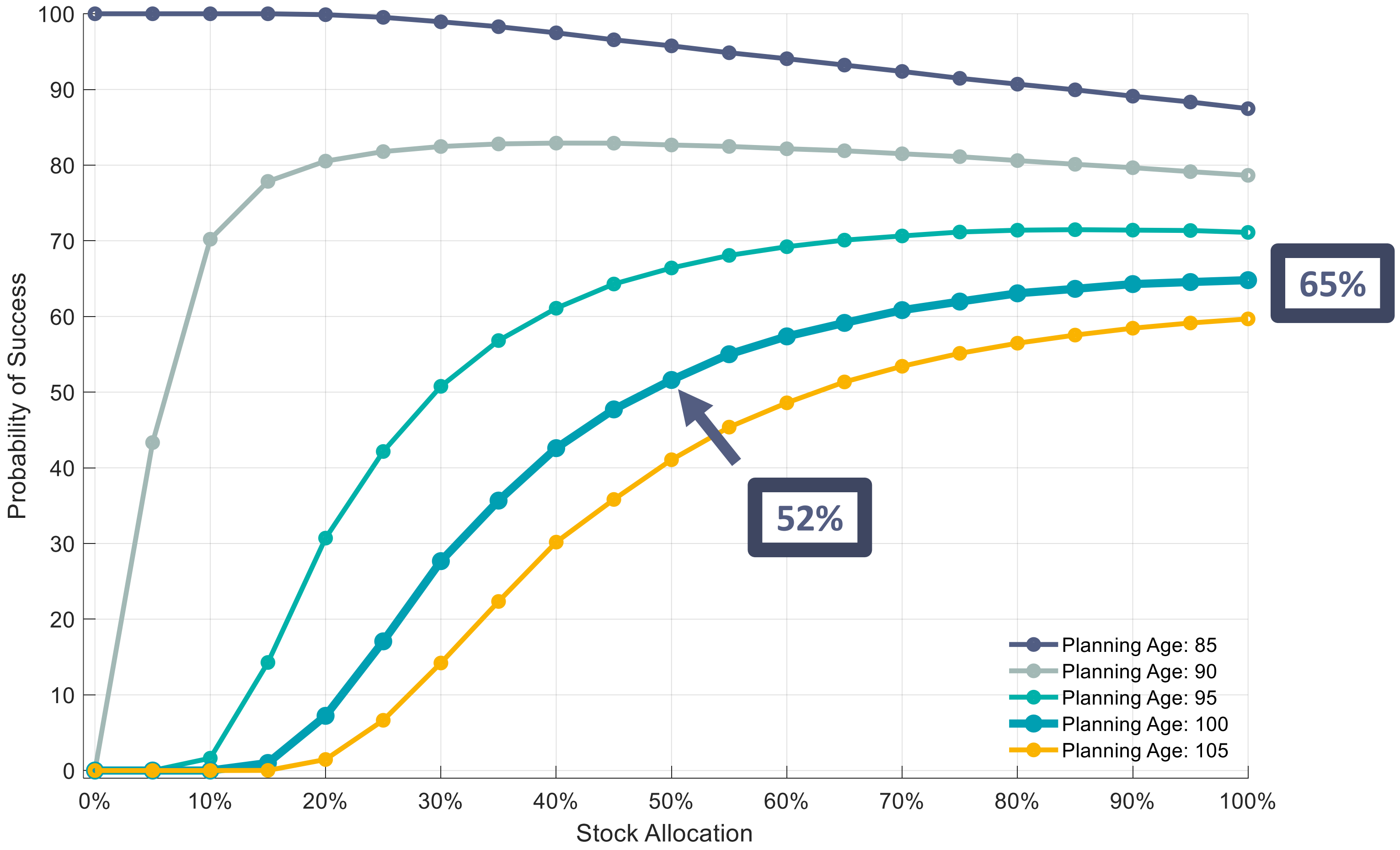
65-Year Old Female, $1 million

Bond Ladder Planning Age: 100

0% fixed real yield curve

Society of Actuaries
Individual Annuitant Mortality Table

Probability of Success: Funding Real $40,050



Source: Own calculations with 100,000 Monte Carlo Simulations for stock and bond portfolios. Bonds earn a fixed real return of 0%. Stocks earn an arithmetic average real return of 6% with a 20% annual volatility.

Retirement Researcher

Capital Market Assumptions

&

Building Blocks of Portfolio Returns

	Stocks	Bonds
Components of Arithmetic Returns		
Inflation	2.0%	2.0%
Real Bond Return	1.0%	1.0%
Risk Premium	6.0%	--
Gross Nominal Arithmetic Return	9.0%	3.0%
Gross Real Arithmetic Return	7.0%	1.0%
Further Adjustments:		
Investment Management Fees; Portfolio Diversification / Alpha; Investor Behavior; Taxes; Market Valuations	0.0%	0.0%
Net Nominal Arithmetic Return	9.0%	3.0%
Net Real Arithmetic Return	7.0%	1.0%
Standard Deviation of Returns	20.0%	0.0%
Asset Allocation	50.0%	50.0%
Portfolio Characteristics		
Portfolio Nominal Arithmetic Return	6.00%	
Portfolio Nominal Compounded Return	5.5%	
Portfolio Real Arithmetic Return	4.00%	
Portfolio Real Compounded Return	**3.5%**	
Portfolio Standard Deviation	10.0%	

Case Study Example

- 65-Year Old Female with $1 million
- Planning Age: 100 (conservative planning horizon)
- Investments: 3.5% fixed real return with 50% stocks & 50% bonds (median investment outcome)

- Spending goal: $47,873 per year with 2% inflation growth (calibrated to deplete investments at age 100 with assumed return)
- i.e. 4.78% initial withdrawal rate

First Case Study Question…

- What happens if she allocates 30% of investment assets to a life-only income annuity?

- Overall withdrawal rate: 4.78%

- Annuity: 5.78% payout rate
- Remaining investments: 4.36% initial withdrawal rate (but all inflation adjustments must come from here)

How Does Asset Allocation Adjust?

Initially: $500k in stocks & $500k in bonds

1. Annuity Premium ($300k) drawn equally from stocks and bonds, leaving 50% stock allocation with remaining investments, or 35% of total assets

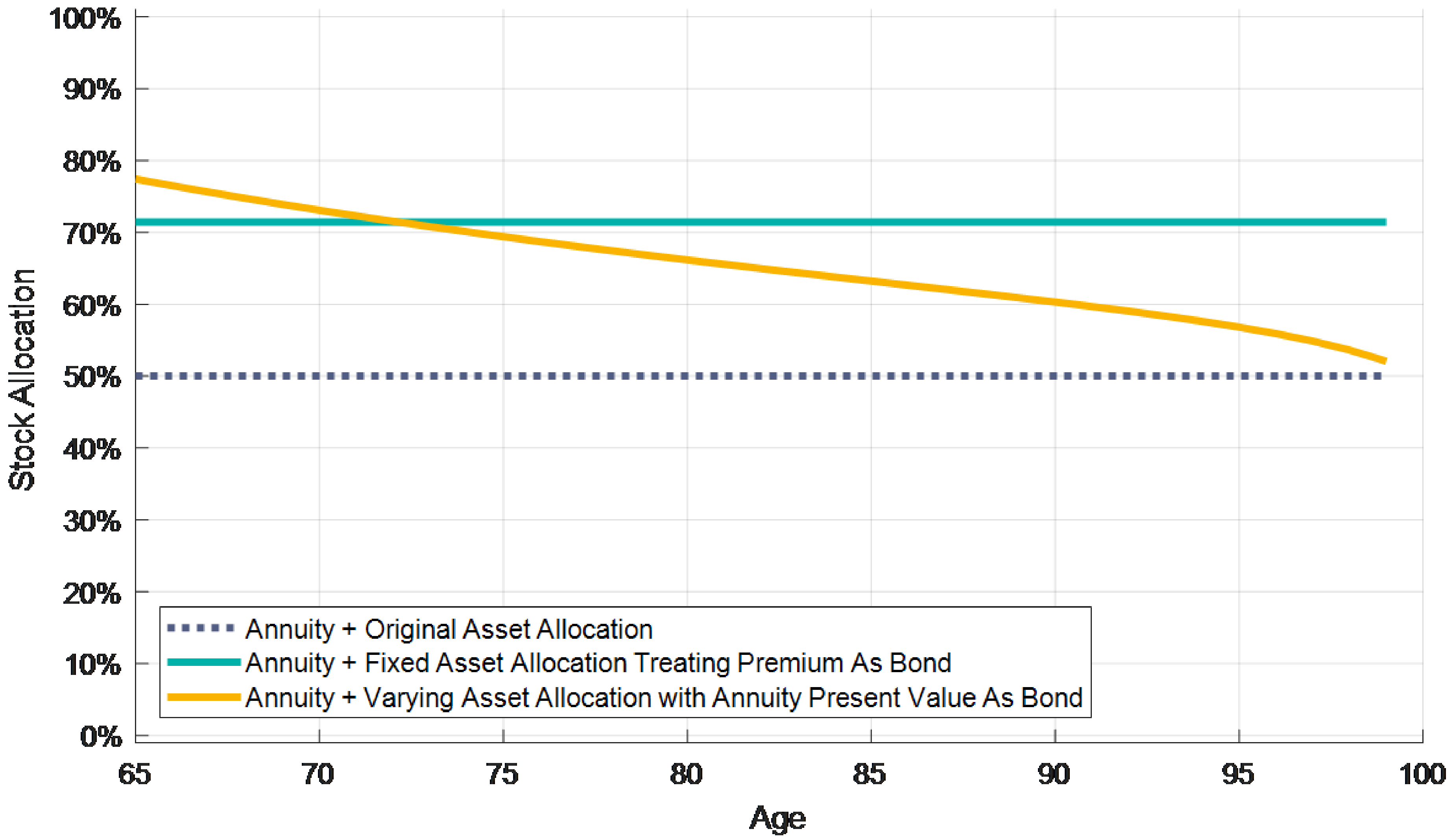
2. Annuity Premium ($300k) drawn from bonds, leaving all $500k in stocks; Stocks now 71% of remaining $700k in portfolio; This stock allocation is kept throughout retirement

3. Annuity Premium ($300k) drawn from bonds, and stocks are allocations as 50% of the combined balance of remaining investments and the present value of remaining annuity payments

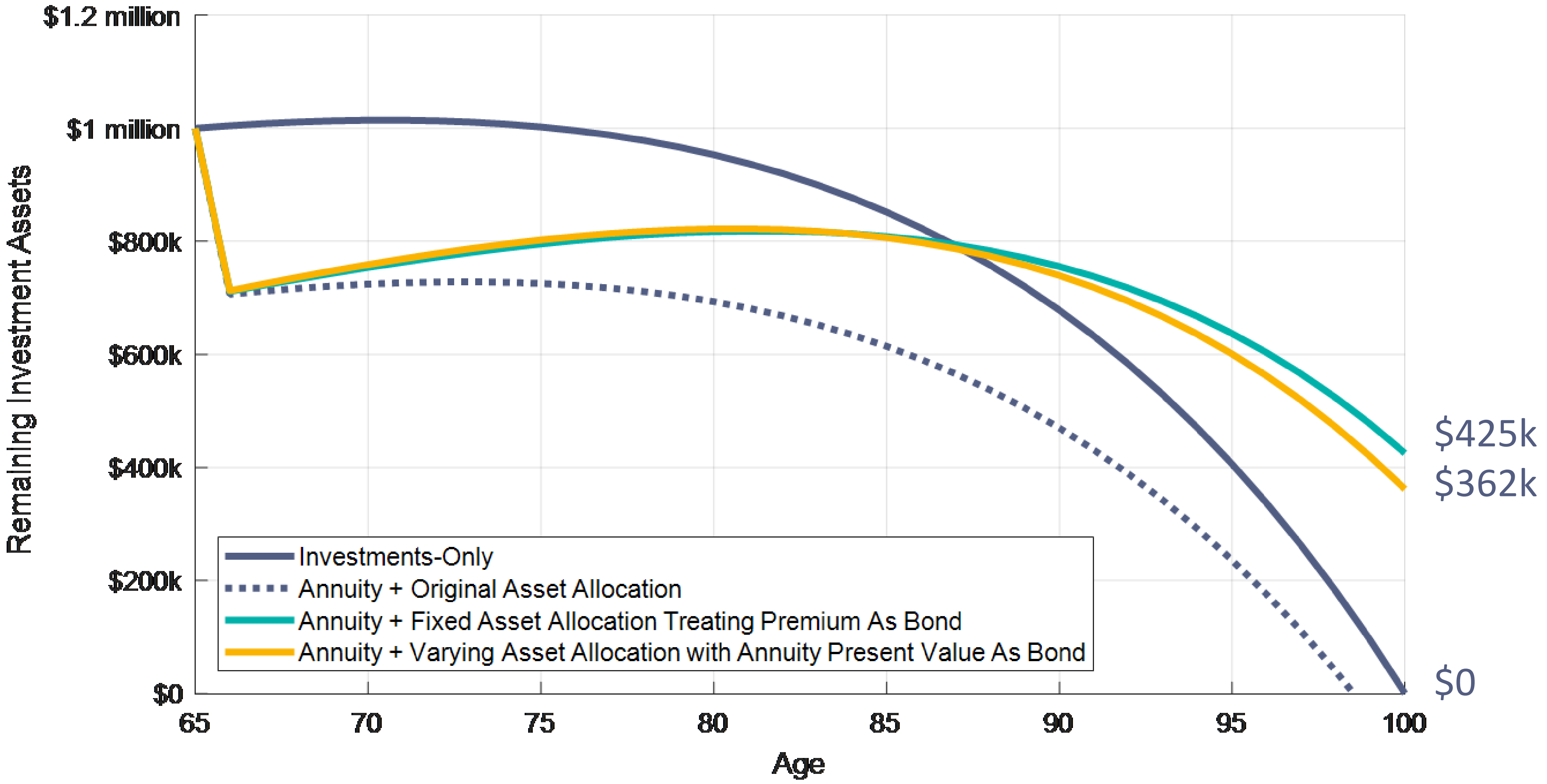
Present Value of Annuity Payments

- With conservative planning horizon, annuity is valued at more than premium
- $300k annuity premium – payout based on objective mortality
- Worry about living to age 100: present value of annuity payments at 3% interest is **$384k**

Adjusting Asset Allocation to Income Annuity



Remaining Investment Assets:
Investments-Only vs. Partial Annuitization



Why does partial annuity use support more long-run legacy?

1. Payout rate is higher than spending goal, reducing initial withdrawal rate from remaining investments

2. Over time, more spending from mortality credits, creating relief for portfolio more than offsetting inflation adjustments

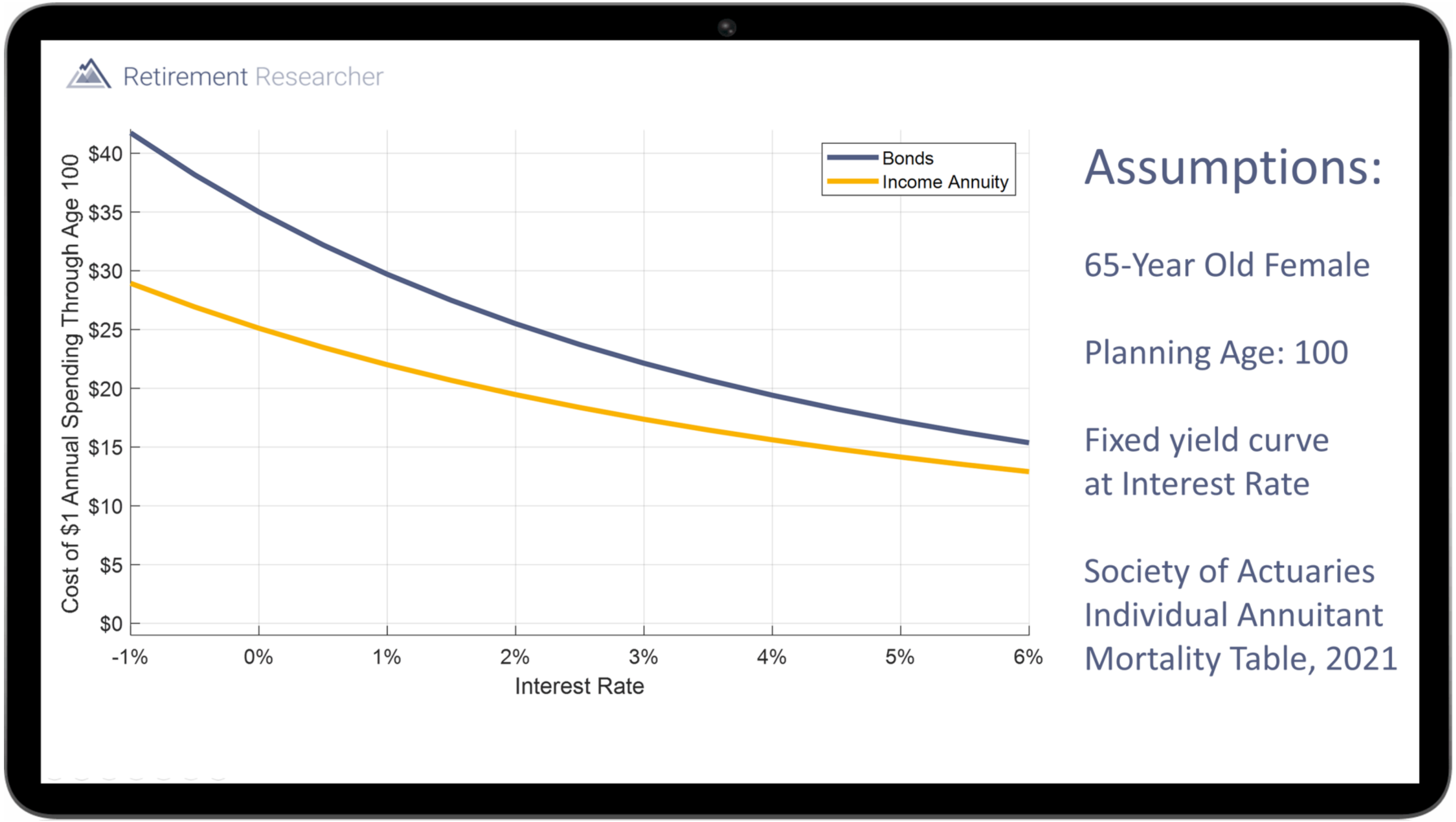
3. Higher stock allocation with remaining investments

Comparing and Evaluating Annuity Solutions

Using Annuities for Guaranteed Income

- Annuities are designed to provide a reliable and efficient income stream.
- Annuities are the only way to address longevity risk.
- Annuitization is not required to generate income.
- Annuities provide psychological and behavioral benefits for retirees.

Comparing the Cost of Income: Bonds vs. Annuity



Retirement Researcher, 2021.

FIXED INCOME COMPARISON

Comparing Annuity Income to Fixed Income Portfolios

Client Info

Initial Investment: $250,000

Client: 60, M, Single

Retirement Age: 65

Income Duration: 30 years

Market Assumptions

Equity Allocation: 60%

Fixed Allocation: 40%

Current FI Return: 1.2%

FI Tax Rate: 35%

4. Allianz Retirement Foundation ADV Annuity vs Fixed Income: Retirement Income Result

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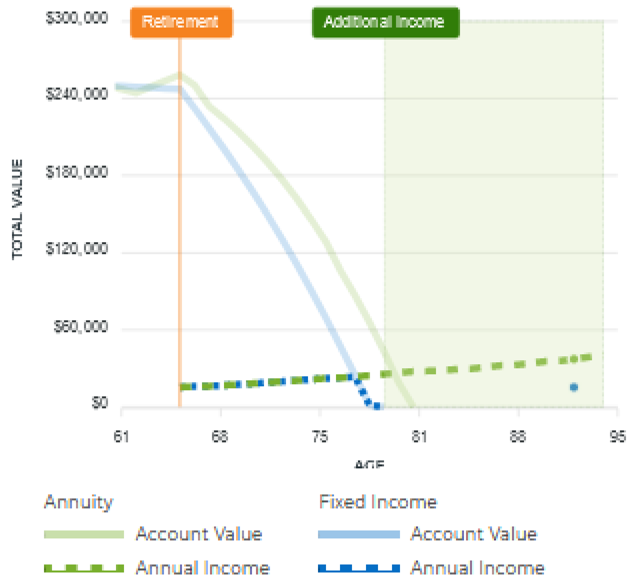
The annuity pays **$787,650** in cumulative income over the 30 year retirement horizon, while the fixed income portfolio pays **$275,562**, and leaves a 16 year income shortfall.

	Allianz Retirement Foundation ADV Fixed Index Annuity	Fixed Income Portfolio
Annual Income	$15,372*	$15,372
Income Funded Through	Age 95 Lifetime	Age 79 Income ends after 14 years
Cumulative Income	$787,650	$275,562
Income Shortfall	--	16 years

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

Initial Investment	Purchase Age	Income Starts
$250,000	60 years	Age 65



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.

DPL Financial Partners, 2021.

Comparing Annuity Income to Fixed Income Portfolios

Client Info

Desired Income: $60,000/year

Client: 60, M, Single

Retirement Age: 65

Income Duration: 30 years

Market Assumptions

Equity Allocation: 60%

Fixed Income Allocation: 40%

Fixed Income Returns: 1.2%

FI Tax Rate: 35%

1. Great American Index Protector 7 Annuity vs Fixed Income Portfolio: Investment Comparison

NEXT →

To meet the monthly income need, the annuity requires an investment of $857,143, while the fixed income portfolio requires $1,760,815.
Note: The product requiring the lowest investment to meet the income need may not be the optimal solution. Also consider cumulative income.

	Great American Index Protector 7 Fixed Index Annuity	Fixed Income Portfolio
Annual Income	$60,000	$60,000
Payout Rate	5.00%	N/A
Rate of Return	3.24%	1.20%
Income Funded Through	Age 95 Lifetime	Age 95 Income ends after 30 years
Required Investment	$857,143	$1,760,815
Additional Investment Required	$0	$903,672

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

Monthly Income Need	Income Starts	Income Through
$5,000	Age 65	Age 95

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DPL Financial Partners, 2021.

Comparing Annuity Income to Fixed Income Portfolios

Client Info

Desired Income: $60,000/year

Client: 60, M, Single

Retirement Age: 65

Income Duration: 30 years

Market Assumptions

Equity Allocation: 60%

Fixed Income Allocation: 40%

Fixed Income Returns: 1.2%

FI Tax Rate: 35%

2. Great American Index Protector 7 Annuity vs Fixed Income Portfolio: Client Value

NEXT →

CLIENT VALUE | FIRM VALUE

To meet your income need of $60,000, the annuity required **$903,672** less. If we invest the surplus at a 6% return in the market, it results in **$4,747,303** that represents potential new assets for growth, discretionary spending and legacy.

Invested Funding Difference	$903,672
Rate of Return	6.00%
Projected Portfolio Growth	$4,747,303

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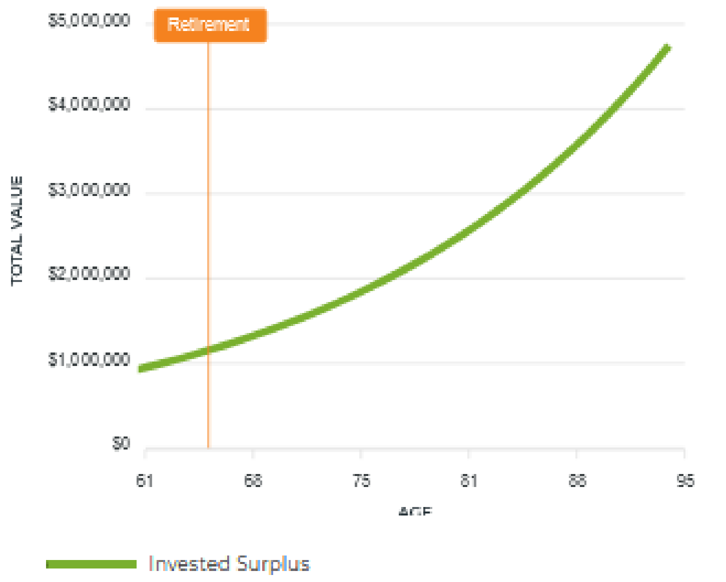

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3 Key Annuity Uses in a Low Interest Rate Era

3 Key Annuity Uses in a Low Interest Rate Era

- Guaranteed Income
- Fixed Income Alternative During Accumulation
- De-Risking Equity Positions

1. Guaranteed Income

Step 1: Identify When Income is Needed

- Consider annuity solutions based on time horizons and goals

EXAMPLE: Client Needs Income

✓**Income Now**: FIA/SPIA

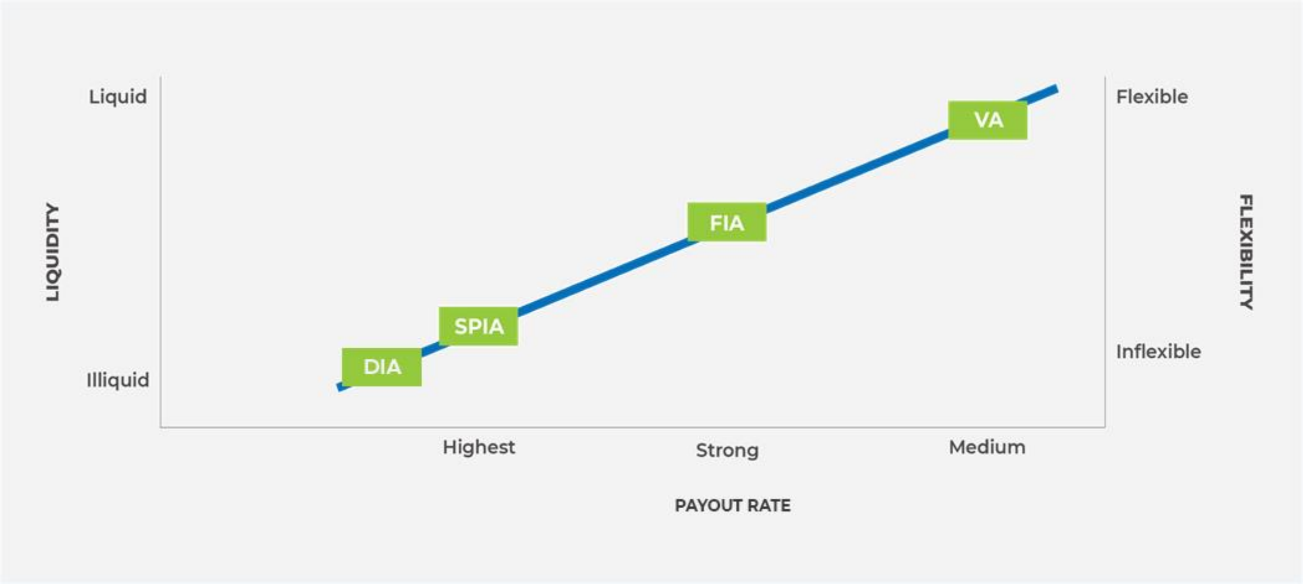
- Clients <1 year from or already in retirement

✓**Income Soon:** FIA

- Clients <5 years from or already in retirement

✓**Income Later**: VA / FIA

- Clients 5-10 years from retirement



This chart is illustrative and displays general strategies and positioning methods as deemed appropriate by DPL Financial Partners, 2021

Step 2: Determine How Much Income is Needed

Step 2: Determine How Much Income is Needed

Two allocation strategies RIAs use for producing income:

- *Solving for essential expenses*
  - An annuity typically fills the **gap in income** to ensure essential expenses are covered
- *Percent of fixed income portfolio*
  - The allocation is typically **25-40%** to an annuity, depending on the specifics of the client situation

Step 3: Choose the Product (Income Now)

- **Commission-Free FIAs can outperform SPIAs** and offer value, such as death benefit riders or personal care-related income increases[1], that a SPIA cannot.

Client Info

Purchase Age	65
Start Income	65
Planning Horizon	85
Premium	$500,000

Product Type	Integrity SPIA	ClearLine FIA
Income Feature	Lifetime with Cash Refund	Lifetime Income Rider
Increasing Payout Option[1]	2% COLA	2% COLA
Year 1 Income Amount	$21,796	$25,000
Cumulative Income	$529,598	$765,000

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[1]Additional fees may apply

Fixed Index Annuities (FIA) Considerations

- **Deferral Credits**
- **Rising vs. Flat Income**
- **Liquidity**
  - Surrender fees
  - MVA
- **Accumulation Potential**
  - Fixed Rate
  - Index Caps
- **Rider Costs**

Carrier & Product	Fixed Rate	S&P 500 Cap	Payout Rate at 65
Allianz *Retirement Foundation ADV*	2.80%	5.00%	5.20%
Great American *Index Protector 7*	2.35%	5.50%	5.00%
Midland National *Capital Income*	2.75%	5.25%	4.95%
Security Benefit *ClearLine*	2.45%	5.75%	5.00%

Rates and ratings are current as of October 1, 2021 and are subject to change. This comparison table is intended to show the features only and is not intended to serve as a recommendation made by DPL Financial Partners.

Step 3: Choose the Product (Income Later)

Variable Annuity (VA) Considerations

- **Product Costs**
  - M&E
  - Rider Costs
  - Fund Costs
- **Liquidity**
- **Investment Options**
- **Investment Restrictions**

Carrier & Product	M&E	Payout Rate at 65
Jackson National *Perspective Advisory II*	45 bps	4.75%
Pacific Life *Pacific Odyssey*	30 bps	7.00% (3.00% when account value = $0)
Pacific Life *Pacific Advisory VA*	30 bps	4.25%
Protective *Protector Investors Benefit Advisory VA*	30 bps	4.00%
Transamerica *Variable Annuity I-Share II*	20 bps	5.00%

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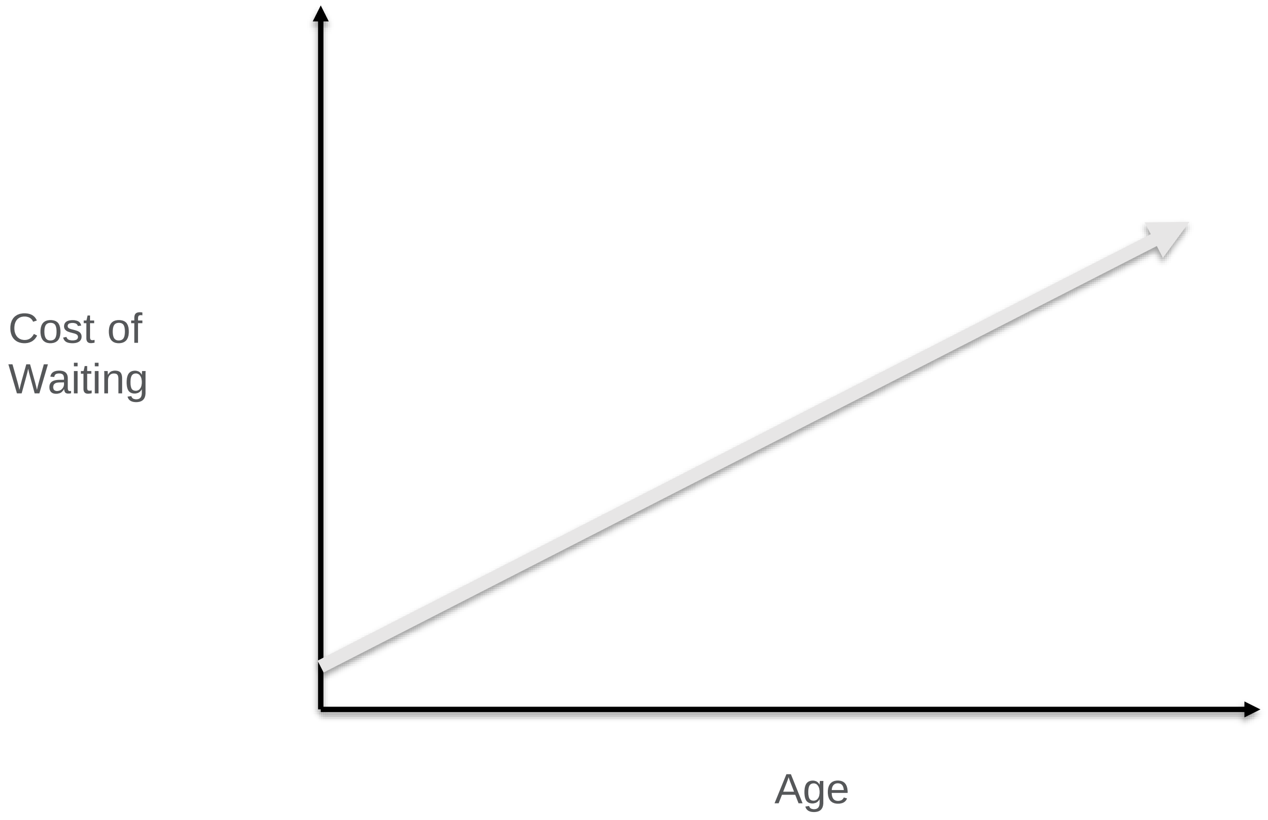
2. Fixed Income Alternative During Accumulation

The Cost of Waiting for Rates to Rise



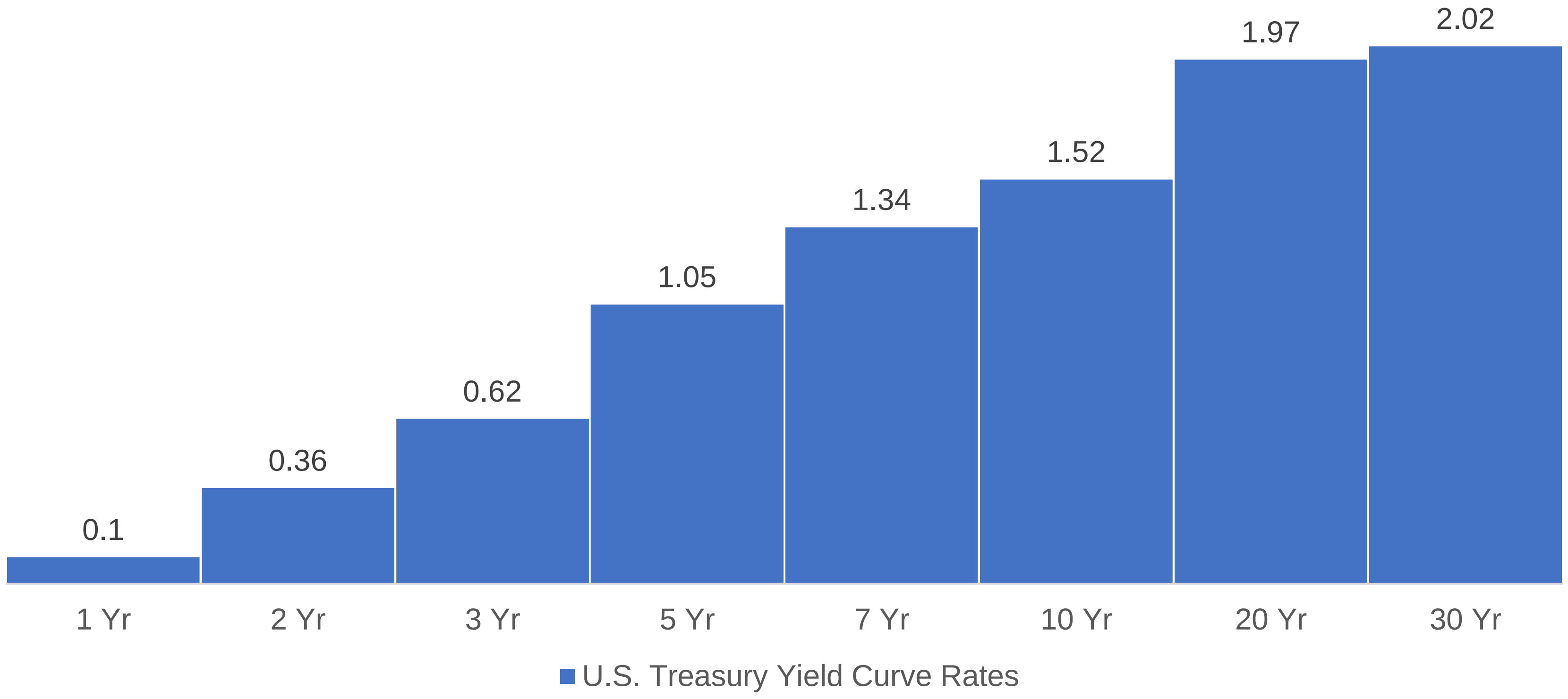
MORNINGSTAR®

Using Annuities for Accumulation Alternative

- **Fixed Annuities are non-correlated to the market on the downside.**
- **Fixed Annuities and Multi-Year Guaranteed Annuities (MYGAs) allow assets to grow tax-deferred.**
- **Fixed Index Annuities provide the opportunity for greater asset growth when using indices.**

Using Annuities for Accumulation Alternative

U.S. Treasury Yields



Daily Treasury Yield Curve Rates, October 15, 2021

Case Study: Fixed Income Alternative

Reasons to consider a FIA as a bond alternative:

- Indexed annuities accumulate like a bond but may outperform
- Tax deferral of a tax inefficient asset class
- Principal is 100% protected from market decline eliminating correlated downside risk

FIA Hypothetical Net Return (1927 – 2016)

	Large Cap Stocks	Long Term Gov't Bonds	FIA
Annualized Return	9.92 %	5.32 %	5.81 %
Standard Deviation	19.99 %	9.97 %	10.01 %
Minimum Annualized 3-Year Return	-27.00 %	-2.32 %	0.00 %
Maximum Annualized 3-Year Return	30.76 %	23.30 %	27.56 %

2017 SBBI Yearbook, Roger G. Ibbotson, Duff & Phelps, Zebra Capital; AnnGen Development LLC

Rate Comparison: Fixed Income Alternative

Fixed Index Annuities (FIA) / Multi-Year Guaranteed Annuity (MYGA) Considerations

- **Duration**
- **Liquidity**
- **Rates**
- **Investment options**
- **Investment Strategy**
  - Fixed or Variable Return

Carrier & Product	Fixed Rate	S&P 500 Cap	Index Options
Allianz Life *Retirement Foundations ADV*	2.80%	6.00%	6
Great American *Index Protector 7*	2.25%	5.50%	6
Great American *Index Protector 5*	2.30%	5.00%	5
Great American *Index Protector 4*	2.15%	4.25%	5
Midland National *Capital Income*	2.75%	5.25%	3
Pacific Life *Pacific Index Advisory*	2.00%	4.00%	3
Security Benefit *ClearLine*	2.45%	5.75%	3
Security Benefit *Advanced Choice MYGA*	2.55%	N/A	N/A

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Product Comparison: Bond vs. FIA for Accumulation

In low-interest rate environment, FIAs offer a higher-yield alternative to bonds with similar levels of safety.

Client Info:

Purchase Age	60
Start Income	65
Planning Horizon	95
Premium	$500,000
Advisory Fee	1%

Product Type	Bond	Allianz FIA
Rate of Return	1.20%	3.44%
Starting Value	$500,00	$500,000
Account Value at Retirement	$494,524	$548,293

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3. De-Risking Equity Positions

Using Annuities for De-Risking Equity Positions

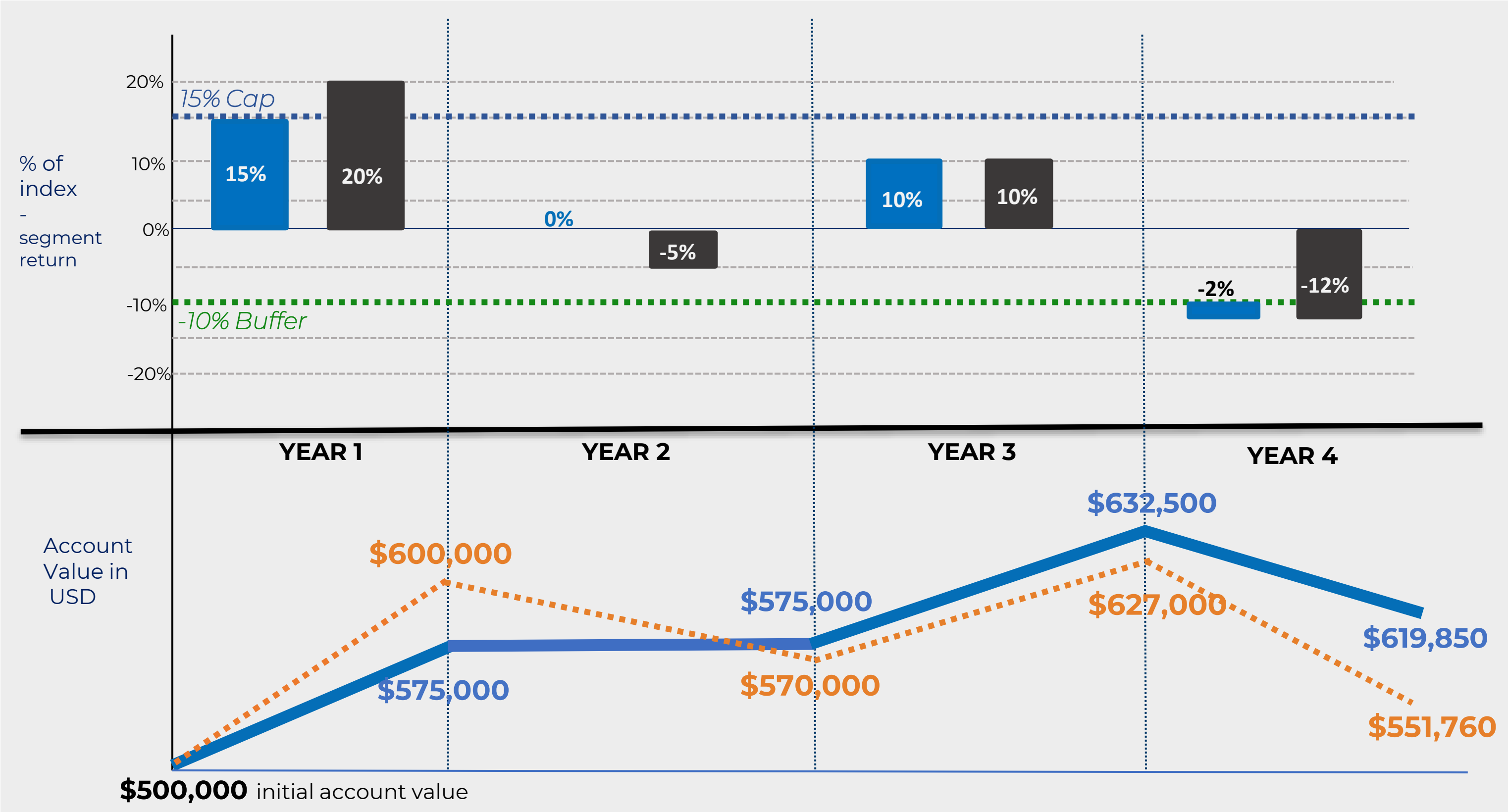
- Low interest rate era makes it difficult to allocate clients into underperforming bonds.
- Protections can provide conservative clients the comfort they need to invest in the market.
- For clients nearing or in retirement protections can help mitigate sequence of returns risk.

Illustration with a 15% Cap and 10% Buffer Component

When purchased, assets are allocated to indices within the RILA, including:

- S&P 500
- NASDAQ
- Emerging Markets

Compared to FIAs, RILAs provide a level of protection, which allows for greater upside potential due to higher cap rates



LEGEND

- Segment Rate
- Index Performance Rate
- Account Value with Buffer
- Account Value without Buffer

This graph is hypothetical and is intended only to demonstrate how the interest is calculated for the portion of the premium allocated to the index account of an annuity. This graph assumes a $500,000 premium payment allocated to the Index over 4 contract years; an Annual Point-To-Point Index Crediting Strategy; a 15% Interest Cap Rate and fluctuating performance of a hypothetical index. It is not intended to predict or project the performance of any specific Index or Buffer Annuity.

Product Comparison: De-Risk Equity Positions

Registered Index-Linked Annuities (RILA) / Structured Variable Annuities (SVA) Considerations

- Cap Rates
- Index Options
- Product Costs
- Liquidity

Carrier & Product	1-Yr S&P 500 Cap / 10% Buffer	Index Options
Allianz *Index Advantage ADV*	17.25%	5
Allianz *Index Advantage Income ADV*	17.25%	5
Equitable *Structured Capital Strategies Plus 21 ADV*	13%	6
Jackson *Market Link Pro Advisory*	15%	5

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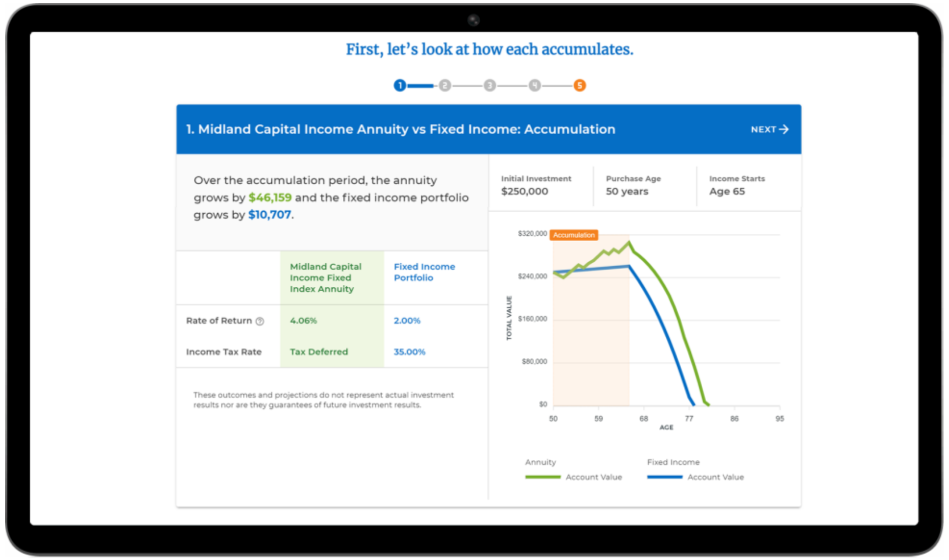
Conclusion

Things to Do Now

The product discovery tools at dplfp.com allow advisors to run the numbers.



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- **STEP 1:** Recognize there are fiduciary-friendly solutions for navigating this era of low interest rates, which can provide greater returns than current treasuries while reducing risk in the portfolio.
- **STEP 2:** Evaluate Commission-Free solutions based on your clients' risk tolerance, income style, and income need—DPL's Product Discovery Tools Suite can help.
- **STEP 3:** Utilize your resources for understanding and implementing retirement solutions, including annuities, in your practice and leverage them appropriately.

Questions?

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26 W. Dry Creek Circle, Suite 575, Littleton, CO 80120 · 303-797-9080

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Fixed indexed annuities are contracts purchased from a life insurance company that are designed for long-term retirement goals. While the interest rate credited to an indexed account is linked to the performance of an underlying index, premium payments made to a fixed index annuity are never directly invested in the stock market. All guarantees are based on the financial strength and claims-paying ability of the issuing insurance company. The purchase of an annuity within a retirement plan that already provides tax deferral under sections of the Internal Revenue Code results in no additional tax benefits. An annuity should be used to fund a qualified plan based upon the annuity's features other than tax deferral. All annuity features, risks, limitations, and costs should be considered prior to recommending the purchase of an annuity within a tax-qualified retirement plan.

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Commission-Free Insurance

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