Contingent Deferred Annuity

Wrapping Risk

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Agenda

- The Challenge
  - Pensions/DC Plans/Retirement Savings
  - Traditional Solutions
- New Unbundled Solution
  - What is it?
  - Structure
  - How it works
- CDA vs. Other Insured Income Strategies
  - Annuitization
  - GLWB
- Case Study: Donna
- Case Study: George Webb, CEO Pension & Wealth Management Advisors
- Key Takeaways

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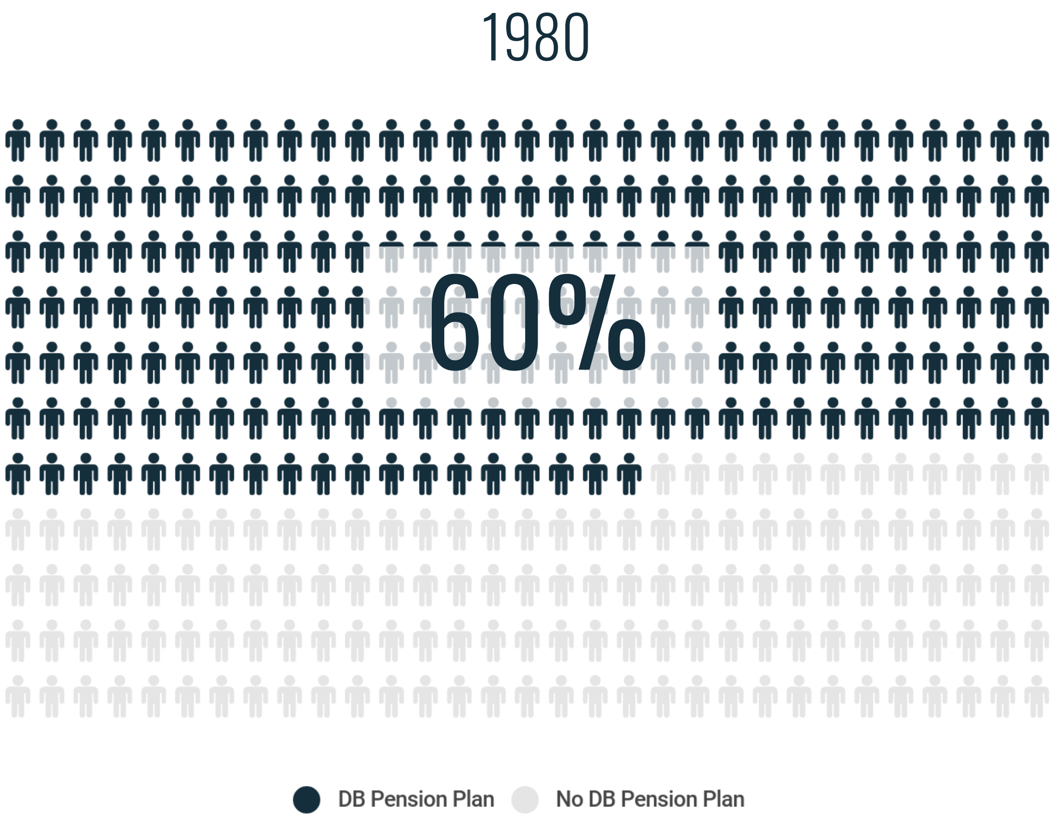
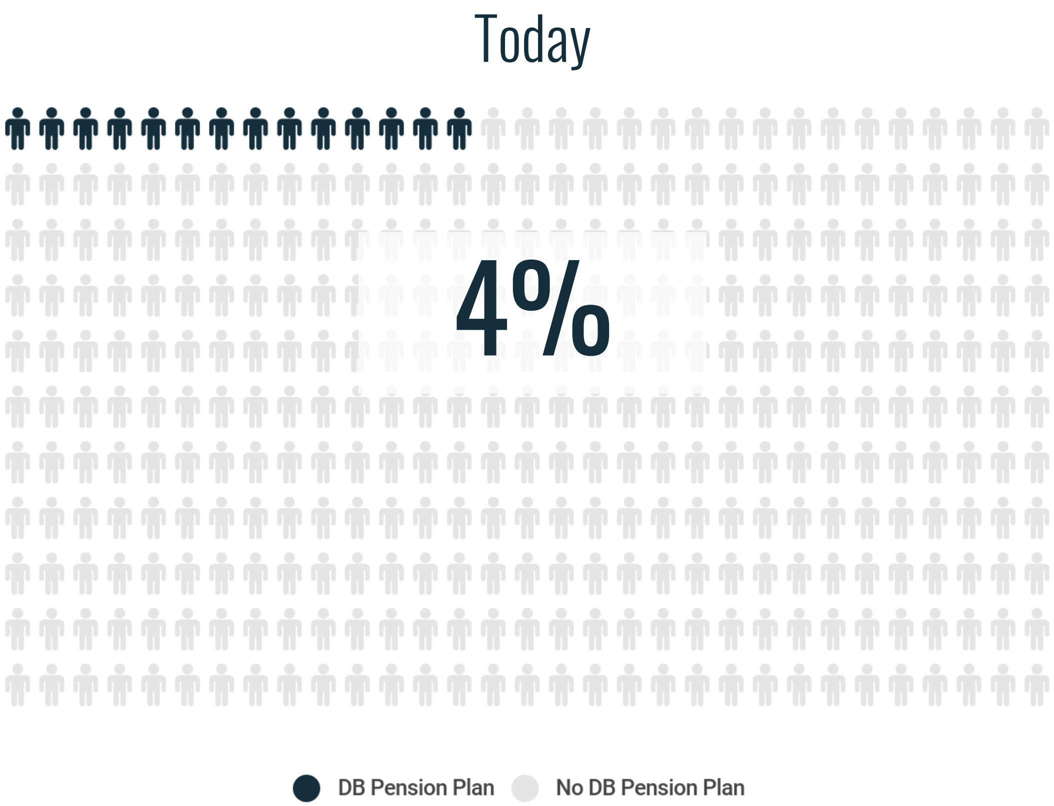
Sustainable Spending in Retirement

The Challenge

Private Sector Workers w/DB Pension Only





Source: CNN Money
https://money.cnn.com/retirement/guide/pensions_basics.moneymag/index7.htm)

Social Security – Impact of Declining Fertility

Declining ratio of working-age adults supporting one Social Security retiree.

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3-Legged Stool

Why is this Important?

Primary Risks in Retirement

1. Longevity Risk
    - Market Risk -> Sequence of Returns
    - Inflation
    - Personal Spending (Health, etc.)

Longevity Risk

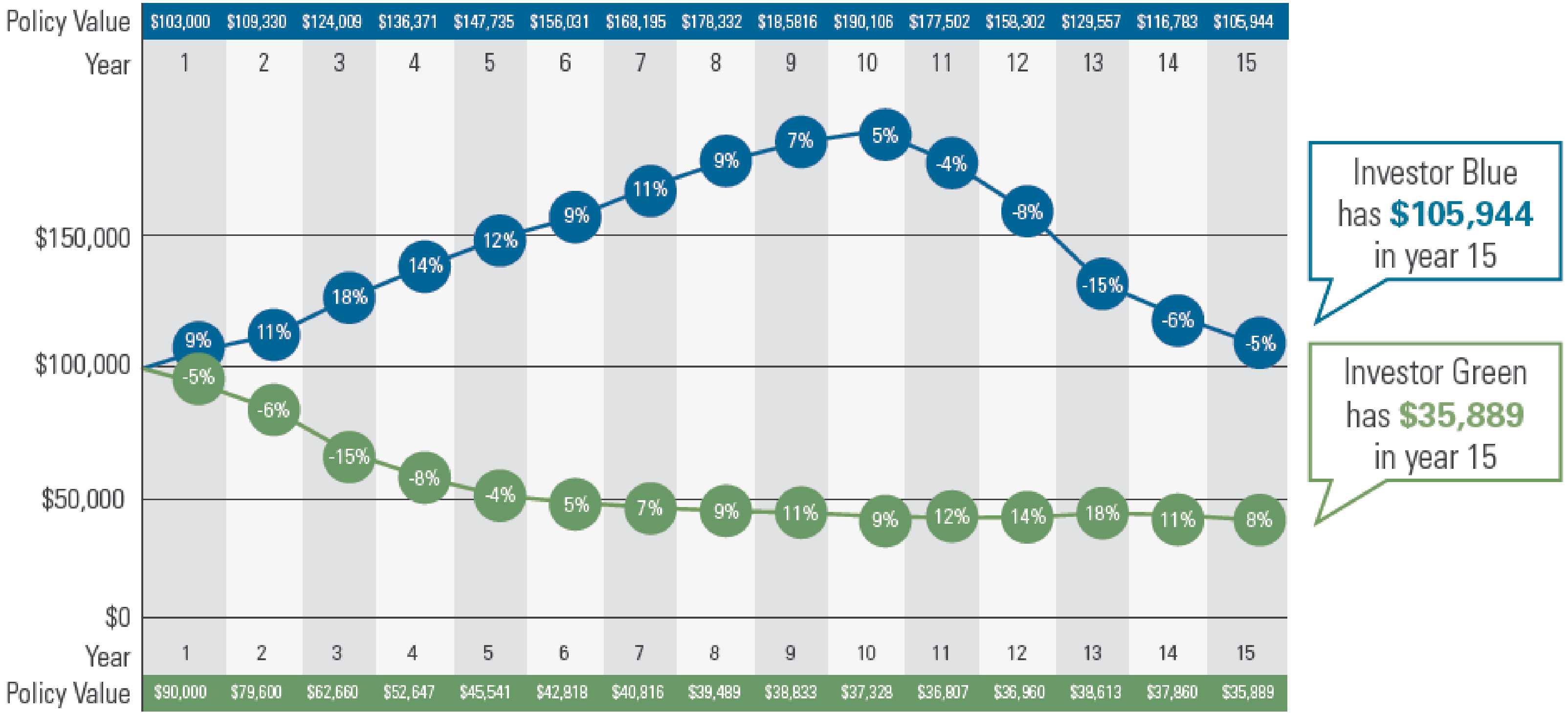
45%

chance that at least one of a couple of 65-year-olds in excellent health will live to age 95.

(source: American Academy of Actuaries Longevity Illustrator: https://www.longevityillustrator.org/, accessed 3/8/22).

Sequence of Return Risk Illustrated

Investor Blue retires at the beginning of an up market



Investor Green retires at the beginning of a down market

Please note that the hypothetical illustration does not represent the results of an actual investment. It does not reflect any investment fees, expenses or taxes associated with investments. An average annual return of 4% is reflected for both investors. Annual withdrawals of $5,000 are taken at the end of each year.

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Traditional Income Strategies

The Solution

Traditional Retirement Income Frameworks

Dividends + Interest

Buckets

Bond Ladders

SWR

4%

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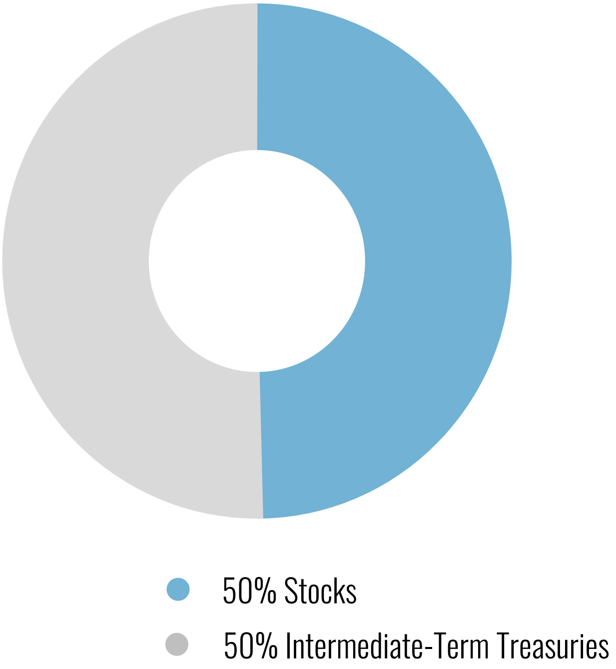
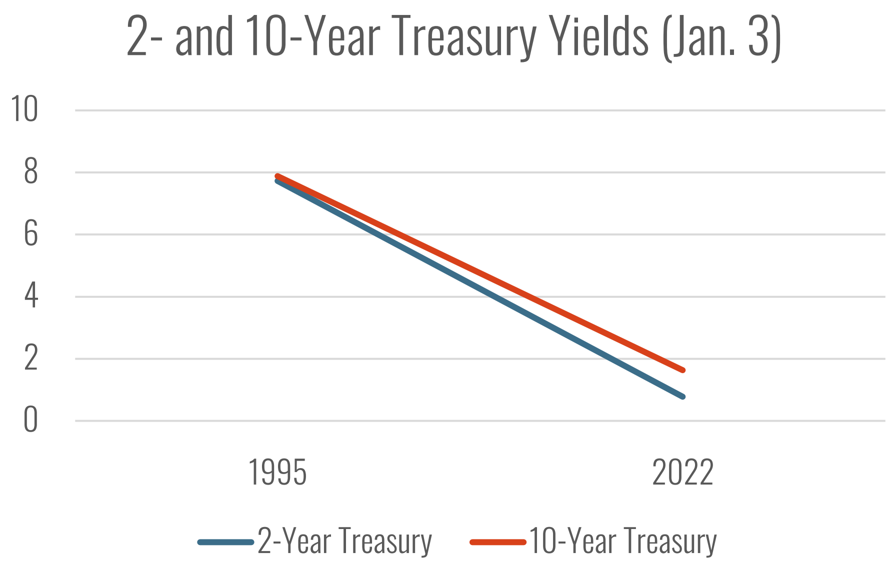
William Bengen's Seminal Research





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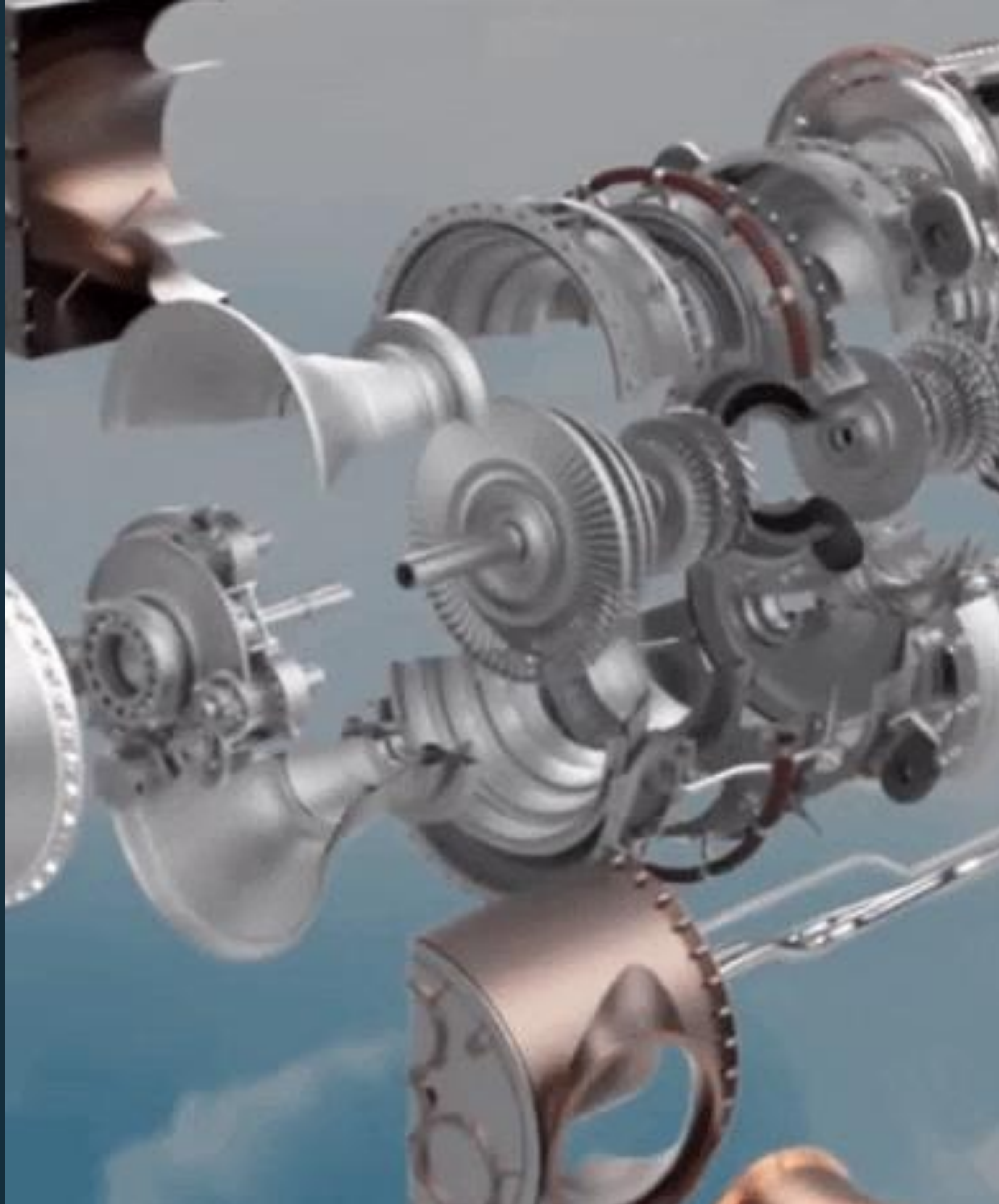
Unbundling

Contingent Deferred Annuity



The Unbundled Solution – Wrapping Risk

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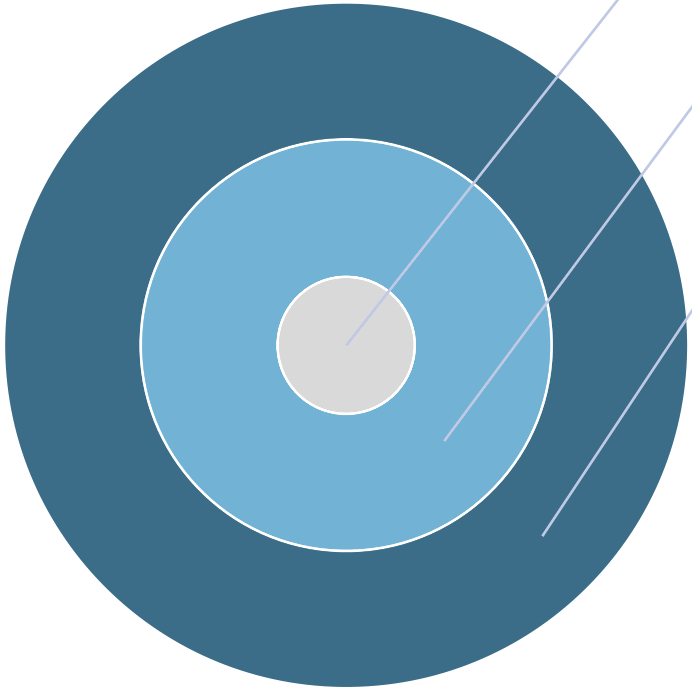
Structure



Asset Management – from established fund managers. Think Dimensional, Vanguard, BlackRock, etc.

Risk Management from an A+ rated insurance company

Technology that wraps it together with the Portfolio Retirement Income Guarantee

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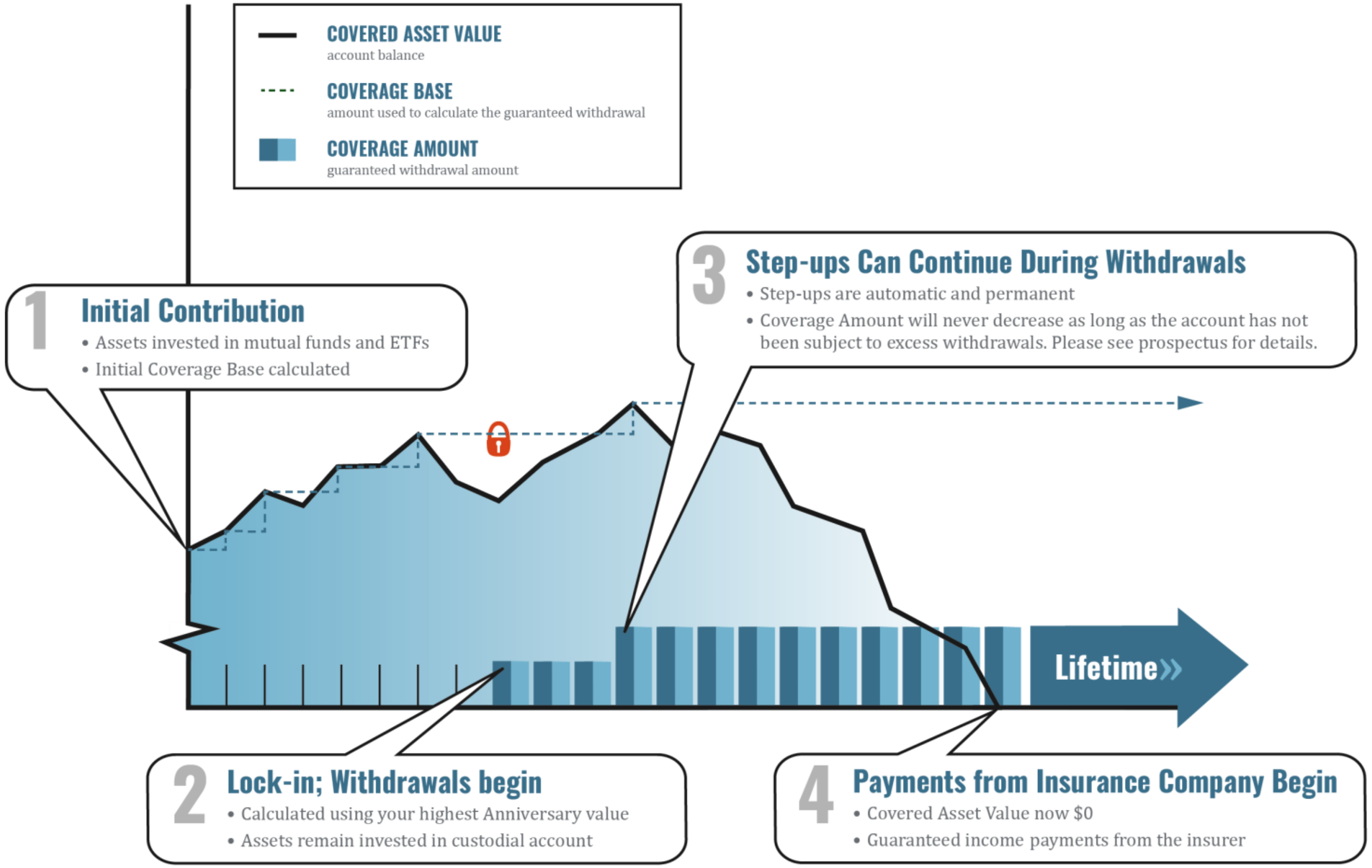
How it Works



For illustration purposes only. Withdrawals illustrated in annual increments.

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Sequence of Return Risk Protection

- Since establishing a floor of coverage, can potentially raise risk budget to:
  - Protect spending power (inflation)
  - Have benefit pay for itself
- If client portfolio performs well enough in ”fragile decade” can sever and remove any fee drag from certificate

CDA vs. Other Insured Income Strategies

The Solution

What is an Annuity?

- An annuity is insurance, not investments, though may have investment component
- Like other forms of insurance, there are costs.
  - Implicit and explicit
- Risk management
- Only insurance companies can offer:
  - Stand-Alone Tax deferral
  - Guarantees

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Annuitization

Benefits	Drawbacks
• Guaranteed	• No growth (not investment)
• Favorable taxation	• No 'account value'
• Customizable payout option	• Illiquid
• Behavioral 'buttress'	• Not a billable asset

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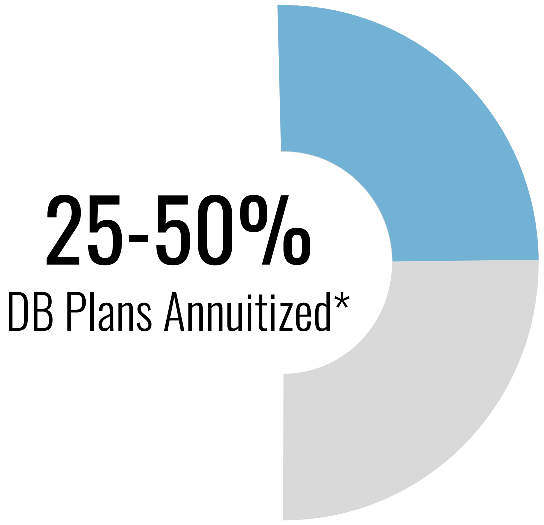
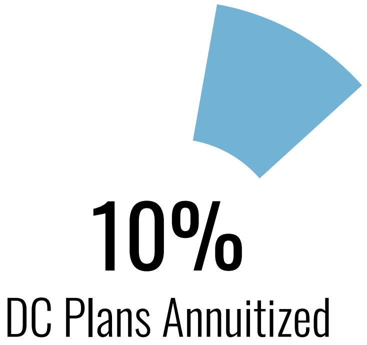
Annuitization Stats





*Of those plans that offer a choice between receiving benefits as a lump sum or as an annuity.
Source: National Bureau of Economic Research (https://www.nber.org/aginghealth/2013no1/w18575.html)

Riders (GLWB)

Benefits

- Guaranteed
- Tax-deferred growth potential
- Behavioral ‘buttress’
- Liquid*
- Trackable account value
- Potential step up in benefit base
- Inheritable
- Billable w/out taxable event (if advisory)

Drawbacks

- M&E + additional rider fee + other potential fees
- LIFO tax treatment
- Investment option limitations + Costs
- Advisor/Client Experience
- Can lose value

*Assumes low-cost, next-gen annuity without surrender penalties.
Withdrawals made prior to 59 ½ may be subject to 10% IRS penalty.

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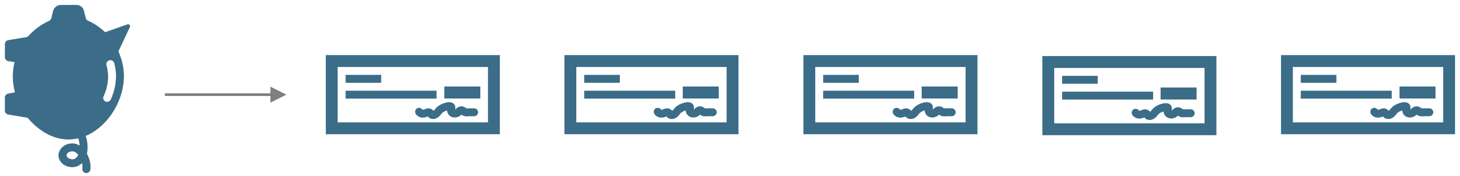
Contingent Deferred Annuity – CDA

Benefits

- Guaranteed
- Tax-deferred growth potential
- Behavioral ‘buttress’
- Liquid*
- Trackable account value
- Potential step up in benefit base
- Inheritable
- Billable w/out taxable event (if advisory)
- Cover approved ETFs/Mutual Funds in IRAs, Roths, or Taxable Accounts
- Can be turned off or on
- Flexible tax treatment

Drawbacks

- Certificate Fees
- Can lose value



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CDA Fees

A CDA can be 30% less expensive than a typical no-load variable annuity with a Guaranteed Living Withdrawal Benefit.

Contingent Deferred Annuity

Single Life Income benefit of 5.0% at age 65.

M&E	0%	
Insurance Cost	1.55%	Of initial investment.*
Avg Fund Expense	.15%	Varies slightly between portfolios.
TOTAL FEE	1.70%	

Lowest-Cost Fee-based Variable Annuity

Income benefit of 4% at age 65.

M&E	.3%	
Insurance Cost	1.40%	Of benefit base**
Avg Fund Expense	.80%	Varies slightly between portfolios.
TOTAL FEE	2.50%	

*Insurance cost is set at a value established at 1.65% of the initial investment value. Should the value of your portfolio increase the fee remains locked at that starting value.
**Insurance cost on a typical Protective Fee-based VA is set as 1.4% of the benefit base. Your fee can go up, should the value of your benefit base increase.

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Knowledge Check

Unbundling insurance from underlying investments allows the CDA to cover assets in which accounts?

Check all that apply

A. IRAs

B. Taxable Brokerage Accounts

C. 401(k)s

D. Roth IRAs

E. 403(b)s

Knowledge Check

What kinds of investments may be covered by a CDA in those accounts?

Check all that apply

A. Approved Stocks

B. Approved Bonds

C. Approved ETFs

D. Approved Mutual Funds

E. Approved Crypto assets

Case Study

Donna

Meet Donna

Donna is 58. She's highly educated, and in excellent health. According to data from The American Academy of Actuaries she may need to plan for a retirement that's twice as long as her grandmother's.

She's concerned about how much she can safely spend in retirement, and fears running out of money.

Donna's Lifetime Income Need

Donna, aged 58, nearing the fragile decade, with $600k of retirement savings.

58
Current age

66
Retirement age

$40k − $25k = $15k

$40k: Annual pre-tax income target

$25k: Social Security + other income

$15k: Additional income need

$15k ÷ 5% = $300k | $300k*

$15k: Additional income need

5%: Single life income benefit

$300k: Annuity investment

$300k*: Remaining portfolio for additional investment

*If the investor's account grows from age 58 – 65, the remaining portfolio for additional investment also increases.

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Step 1 – Create Model Portfolio + Fund

Age 58
Single Life Coverage
Certificate Fee: 1.55%
Tax Type: Non-Qualfied

Year 0	
Covered Asset Value	$300,000
Coverage Base	$300,000
Certificate Fee	$4,650
Certificate Fee as % of CB	1.55%
Asset Allocation	75/25
- VOO	60%
- VXUS	15%
- BND	25%

Step 2 – 8-Year Deferral Period + Lock in Income

Age 66
Single Life Coverage
Certificate Fee: 1.55%
Tax Type: Non-Qualfied

Year 8	
Covered Asset Value	$426,000
Coverage Base	$521,000
Certificate Fee	$4,650
Coverage Amount	$26,000
Certificate Fee as % of CB	0.95%

Step 3 – Step Ups Can Continue

Age 72
Single Life Coverage
Certificate Fee: 1.55%
Tax Type: Non-Qualfied

Year 14	
Covered Asset Value	$466,000
Coverage Base	$521,000
Certificate Fee	$4,650
Coverage Amount	$26,000
Certificate Fee as % of CB	0.95%

Step 4 – Covered Asset is Drawn to Zero

Age 86
Single Life Coverage
Certificate Fee: 1.55%
Tax Type: Non-Qualfied

Year 28	
Covered Asset Value	$0
Coverage Base	$521,000
Certificate Fee	$0
Coverage Amount	$20,840 - $26,000
Certificate Fee as % of CB	0%

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Knowledge Check

When does the insurance company begin writing checks directly to the CDA owner?

A. When the owner ‘turns on’ income.
B. When the covered asset reaches the high-water mark.
C. When the covered asset is drawn down to zero.
D. Never to owners. Only beneficiaries upon death of the owner.
E. Immediately, when certificate/contract is issued.

RIA Case Study

George Webb

Key Take Aways

The Highlights

Key Take Aways – Insured + Unbundled

INSURED: CDAs guarantee income payments for life, even after covered assets are exhausted.

- Sequence of Returns risk insurance
- Longevity Insurance
- Protected income allows for greater risk budget in covered assets (and remaining portfolio)

UNBUNDLED: Insurance has been unbundled from the covered assets. Can "wrap" taxable brokerage accounts, IRAs and Roth IRAs.

- Choose your tax treatment
- Covered assets managed on your platform
- BYOM – bring your own models/funds (but must be approved)

“A good retirement is a comfortable standard of living, which is measured by the amount of sustainable lifetime income received, and not by the size of the accumulated ‘pot.’ Significant numbers of Americans retire today without the reassurance of an adequate pension. New and innovative lifetime-income solutions will be critical for addressing the looming retirement planning crisis. A well-designed Contingent Deferred Annuity offers new and flexible ways to create guaranteed lifetime income directly from IRAs, Roth IRAs, and brokerage accounts.”

--Robert C. Merton, Nobel Laureate in Economic Sciences and Resident Scientist at Dimensional Holdings.

RetireOne®

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Advisor Solutions Team

877.575.2742

Service@RetireOne.com

www.RetireOne.com

RetireOne
222 South First Street
Suite 600
Louisville, KY 40202