OFFERING **INSURANCE PRODUCTS AS AN RIA** WHILE MAINTAINING **FIDUCIARY STANDARDS**

RIA™
Insurance Solutions
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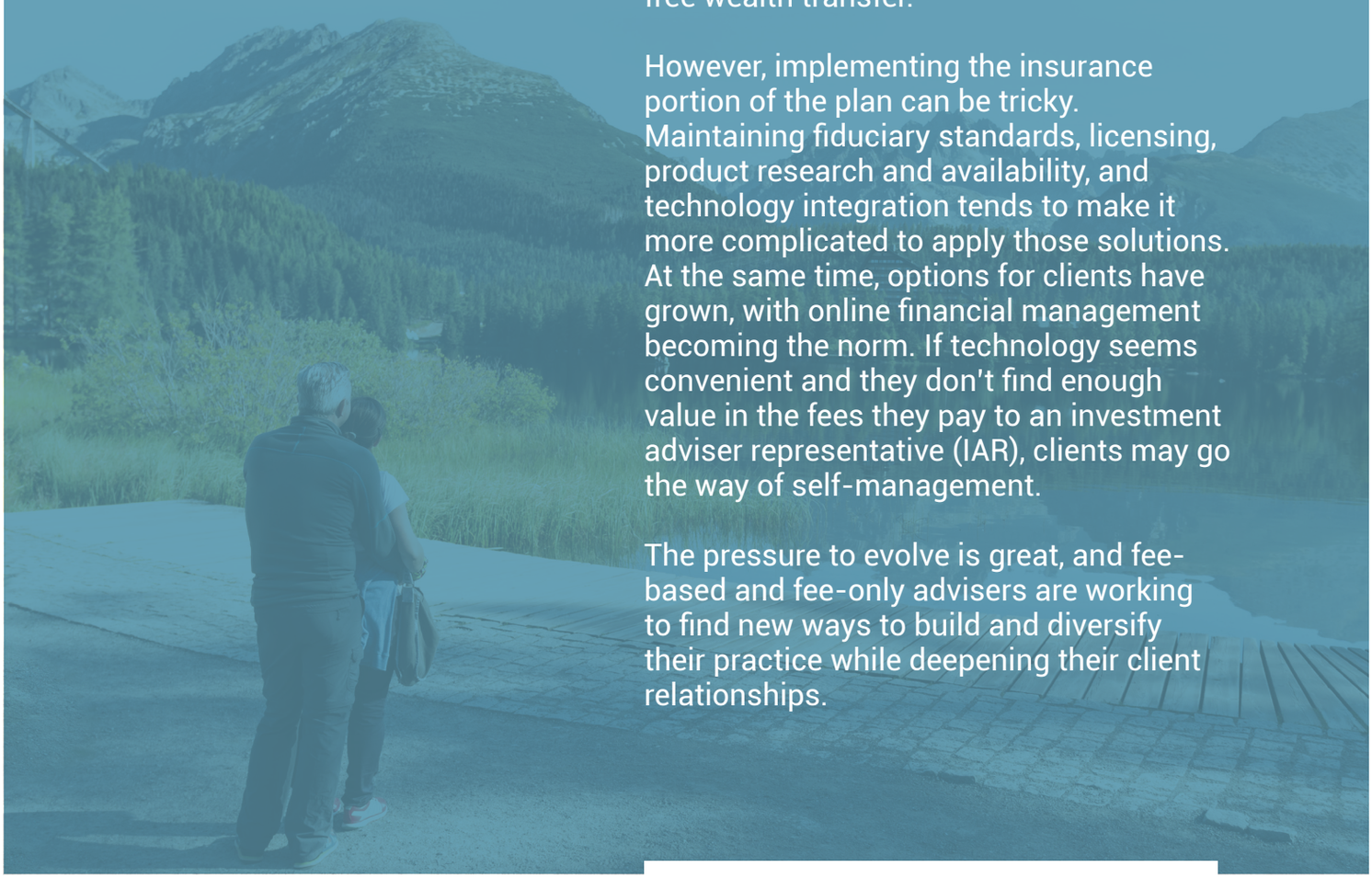
THE ***STATUS QUO ISN'T GOOD ENOUGH*** FOR TODAY'S RIA, AND ***CLIENTS ARE EXPECTING MORE...***



In recent years, financial professionals and their teams have continued their move toward the registered investment adviser (RIA) business model as a natural progression toward firm independence, customization, and the ability to focus on client-centric, holistic solutions.

As the RIA space continues to grow and consolidate, there's been pressure to evolve. The status quo isn't good enough for today's RIA, and clients are expecting more for the fees they pay. Delivering genuine investment advice in the form of a comprehensive financial plan is one way that advisors are adding value for their advisory fees. Insurance is an essential piece of this plan. It's the only product that offers lifetime retirement income, death benefit guarantees, tax deferral in the accumulation phase, and potential for tax-free wealth transfer.

However, implementing the insurance portion of the plan can be tricky. Maintaining fiduciary standards, licensing, product research and availability, and technology integration tends to make it more complicated to apply those solutions. At the same time, options for clients have grown, with online financial management becoming the norm. If technology seems convenient and they don't find enough value in the fees they pay to an investment adviser representative (IAR), clients may go the way of self-management.

The pressure to evolve is great, and fee-based and fee-only advisers are working to find new ways to build and diversify their practice while deepening their client relationships.

What Does It Mean to be a Fiduciary and Offer Insurance?

As an IAR, you're aware of the scope of your fiduciary duty as outlined by the SEC. Foremost, as a fiduciary, you owe a higher commitment to your clients. You should act in your clients' best interests and abstain from any activity that would conflict with any of their interests. Whether it's investment planning, financial planning, or insurance recommendations, you—as the IAR—are required to practice this level of service across all areas of advice.

Accordingly, you'll need to perform due diligence and document the research and analysis that provides the basis for their recommendations. For example, in reviewing life insurance, comparing policy illustrations is only one component of the required due diligence. Someone on your staff should review and compare detailed expense pages showing the annual cost of insurance, policy charges, investment choices, and more.

When annuities are a good fit within the plan, as a fiduciary it's important to look at a variety of product solutions, including low- or no-fee alternatives. A thorough analysis would also compare competitive crediting strategies and income options.

A client may want their adviser to consider long-term care (LTC) planning. A comparative analysis of LTC would include examining the different types of LTC solutions and how those solutions affect the plan. As with life insurance, the care planning policy should consider health, age, cash flow, and family dynamics. Research and analysis supporting any recommendation at this level takes some expertise on your part and can be time-consuming.

The basis of any suggestion may include the consideration of the type of compensation and fees. As part of your analysis, you should feel comfortable explaining the recommendations of commission versus fee-based products.

What About the ADV?

If you plan to offer insurance, you'll also need to be transparent if you plan to market yourself as fee-only. This requires disclosures regarding any conflicts of interest on your firm's 2A and any additional disclosures for supplemental brochure 2B. Your firm's compliance team will guide the wording of any conflicts of interest and outside compensation.

GETTING STARTED

If it's been a while since you sold insurance yourself or have dropped your insurance licenses in the transition to becoming an RIA, there are still ways to offer these products in-house. Here are some steps and practical considerations to get started.

First Step: Are You Licensed for Insurance?

It's not uncommon for advisers like yourself to drop their FINRA and insurance licenses in the transition to becoming an RIA—if you ever had them. So, what's your current situation? Some maintain their insurance licenses and are dually registered as IARs and registered broker-dealer (BD) representatives. Known as hybrid advisers, dually registered IARs can keep their commission-based business. Hybrid advisers may already have access to vetted products through their broker-dealer, along with operational and administrative support. Does this sound like you or what you envision yourself to be?

If you're insurance licensed, some carriers allow you to go directly to their internal product sales team for product illustrations, case management, and underwriting support. Many carriers also offer access to advanced markets support for more complex cases.

Most insurance carriers, however, don't market directly. If you're interested in a competitive review of available products, you may consider partnering with an insurance marketing organization (IMO). The advantage of IMOs is that they vet carriers and products, run illustrations, and compare products for fees, expenses, and riders. A good IMO will have superior case management, licensing support, and underwriting negotiation.

If you're an adviser who wishes to be genuinely fee-only, you may prefer to assign all the implementation of the insurance piece of the plan to a professional who's licensed to make the sale. But by doing so, you may feel like you lose control of your financial and product strategies. You might even find yourself in direct competition for planning advice.

However, if you're a non-licensed, fee-only IAR, it may be fruitful to partner directly with a sales desk that would work collaboratively to do the due diligence of product research, analysis, and, if necessary, serve as an agent of record. This allows you to keep the advice in-house and retain control of the client experience.

Navigating Insurance Products

Insurance carriers are innovating to cater to the fee-only adviser and the demands of clients for fee-transparent products. While fee-only variable annuities (VAs) have been around for years, fee-only fixed indexed annuity (FIAs) are newer. Both the variable and fixed indexed products offer optional or built-in guaranteed lifetime withdrawal benefit riders (GLWBs), death benefit guarantees, and some (often limited) investment options. The popularity of these products is an excellent reason for you to acquire or maintain your insurance license.

Fee-based FIAs pay no commission. Instead, you can charge an annual fee for the assets under management (AUM). Lower upfront costs often allow insurers to boost their guaranteed minimum interest and cap rates. For example, cap rates on fee-based FIAs can be as much as 1.25% higher than similar commission-based FIAs. Lower upfront commission rates allow the carrier to allocate more toward the purchase of options required to secure the guaranteed rate and caps on the upside.

What's more, the IRS recently furnished a private letter ruling that allows RIAs to pull clients' advisory fees from the cash value of nonqualified, fee-based annuities without any adverse tax consequences.

If your client is 59 ½ or younger, the asset management fee isn't impacted by the old LIFO rule. The ruling states that the advisory fee can't exceed 1.5% of the annuity's cash value to qualify for this tax-advantaged withdrawal.

The fee-based annuity is a partial solution to implementing risk management into a financial plan. Life insurance, care planning, and disability strategies may be necessary. Unless you're selling insurance regularly and spend an exorbitant time researching carriers and their product offerings, the variety of products available can be overwhelming. Take the time to research and compare fees, riders, and carriers if you don't engage with insurance products often.

In recent years, insurance carriers have made great strides in application and underwriting efficiencies. However, it can still take a significant amount of time to complete the application process, follow up with any case management issues, and navigate underwriting concerns that arise. All this means is that if you're considering the insurance realm, you should make sure you have the right staff on board to make your life easier or find a partner who aligns with your values and to perform these tasks for you.

Interpreting Clients' Current Insurance

To begin the holistic planning process, your clients should be bringing in all their financial and insurance documents. Most financially successful clients have met with and purchased products from multiple advisers. Often, clients may have annuities with income or death benefit riders that are no longer needed or outdated life insurance policies that can be significantly improved. Be sure to take time to review these insurance policies to see if they still fit a client's goals and budget to determine whether there are more current and robust products that could meet their needs.

Remember, clients appreciate having an unbiased professional who reviews and analyzes their contracts. If you aren't qualified to do this analysis, it's essential to work with someone who is.

Advanced Markets Support

Concept evaluation and case design are important when there are complex dynamics to consider. When dealing with insurance solutions, it's crucial to have the product expertise and knowledge of advanced markets and financial planning techniques. This can be much more complicated than calling the carrier for an illustration, especially when you're dealing with estate and care planning, tax-advantaged strategies, wealth management, retirement planning, and more.

Having a network of liability insurance agents, health insurance agents, accountants, and attorneys is part of building a financial services team. It'll still be up to you to find the right product solutions. Many direct carriers have superb advanced markets departments available that will give non-biased advice—but they generally recommend their products. Part of choosing the right IMO is to find one that offers advanced case design and agnostic product advice.

Technology and Data Aggregation

Data aggregation offers real-time reporting on a client's entire portfolio. Fully understanding their holdings allows you to see how all components are interacting and whether their goals can be achievable.

Insurance carriers are working with multiple technology platforms to integrate data, including the Depository Trust & Clearing Corporation (DTCC), Morningstar, Envestnet, and MoneyGuidePro. Even customer relationship management (CRM) tools are getting in the game. The available tools are carrier-specific right now, but they're light-years beyond mailed statements and manual entry into holdings.

Back-Office Support

In the move to independence, you might lose the additional layer of back-office support that some BDs offer. You'll now face the time-consuming and often frustrating process of filling out applications, following up with case management, and navigating underwriting. It's vital for you to have the right staff on board for long-term success.

WHY RIA INSURANCE SOLUTIONS

At RIA Insurance Solutions, we partner with RIAs like you across the country who are looking for life insurance, annuity, and care planning solutions. We're a full-service partner designed with institutions like yours to aid in implementing insurance strategies and solutions. Our systemized programs and flexible models provide cost-effective efficiencies to your RIA, resulting in a seamless integration in your practice and a smooth and managed experience for your clients.

Here are just a few reasons why you need RIA Insurance Solutions:

- Unmatched asset protection strategies and expertise
- Access to fee-based solutions and over 80 carriers
- Control of your clients' retirement portfolios
- Turnkey and comprehensive policy reviews
- A full-service client application process

ARE YOU READY TO *DIVERSIFY* AND *ADD VALUE* TO YOUR RIA BUSINESS?

Visit us online at **www.RIA-InsuranceSolutions.com** or give us a call at **(704) 990-0942** to speak with one of our licensed planning consultants today.

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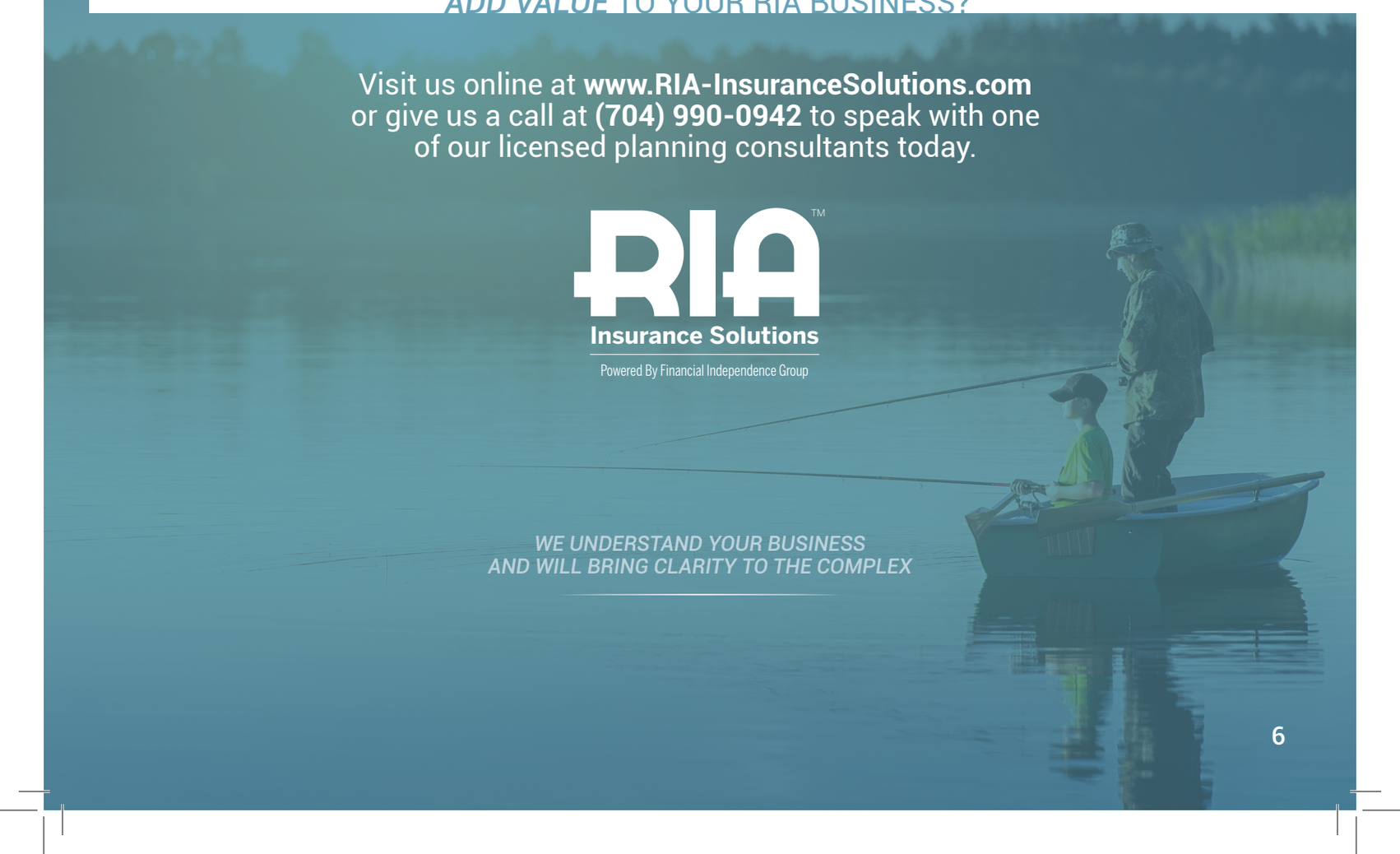
WE UNDERSTAND YOUR BUSINESS
AND WILL BRING CLARITY TO THE COMPLEX



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