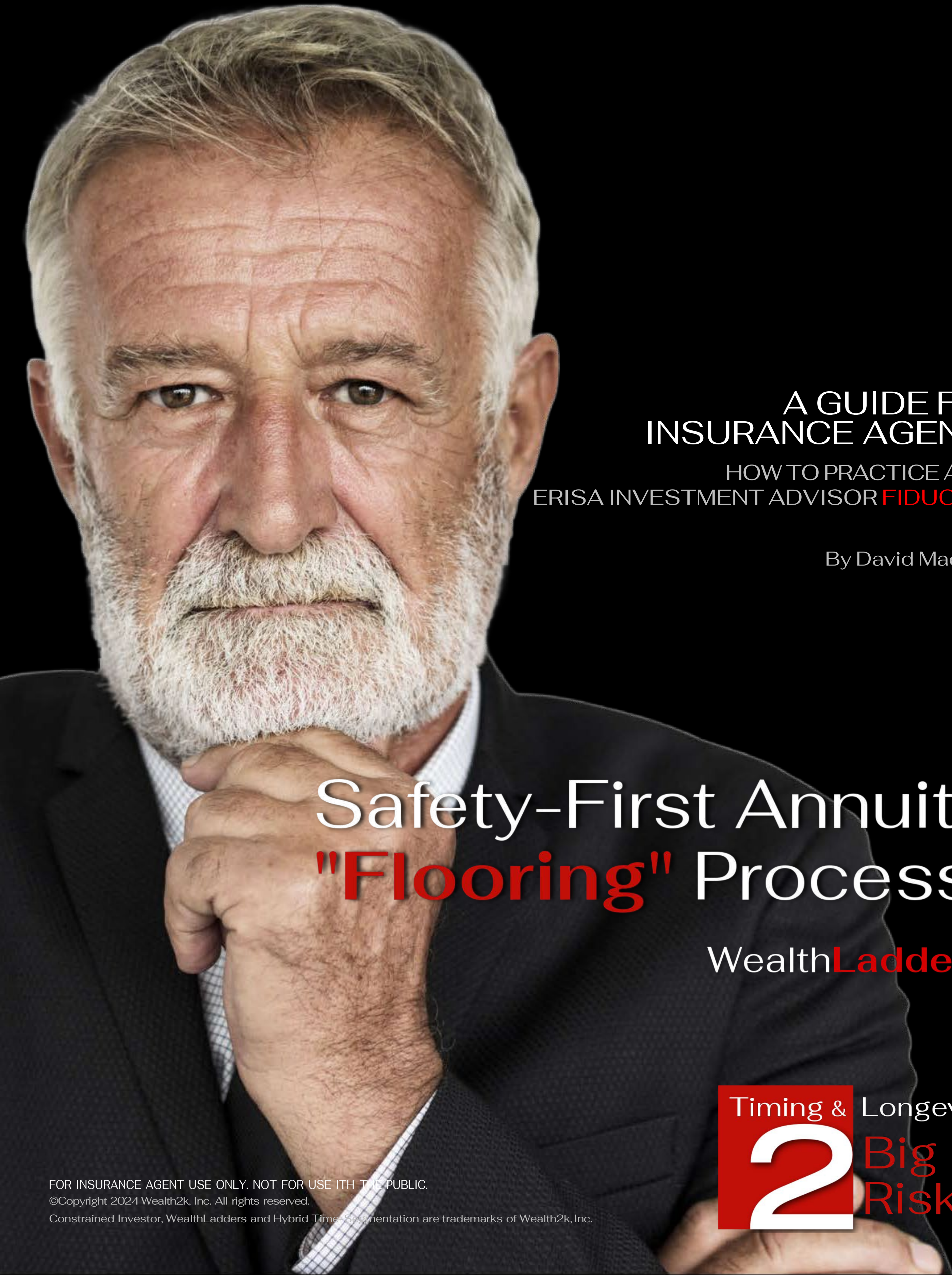
ConstrainedINVESTOR®



A GUIDE FOR INSURANCE AGENTS

HOW TO PRACTICE AS AN ERISA INVESTMENT ADVISOR FIDUCIARY

By David Macchia

Safety-First Annuity "Flooring" Process™

WealthLadders®

Timing & Longevity
2 Big Risks™

"How do you increase your success while operating as an ERISA fiduciary? Here is the key: Stop thinking expansively and start thinking narrowly and strategically. Too often in the past, agents have tried to associate themselves with the buzz words and concepts of investing. Your role as an ERISA fiduciary is a precious one. It is precious because you uniquely provide the liability minimization expertise that other financial professionals typically neglect. So, proudly proclaim the importance of the vital role that you play in income planning. Build millions of "floors" for our nation's millions of Constrained Investors.

Introduction

> "Your fiduciary duty includes duties of loyalty and prudence, meaning you must act solely in the interests of your clients with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters woud use."

DOL 4.0 seems certain to be implemented. The industry's legal challenges may convince a Court to vacate the rule, but this is by no means certain. And even if the industry is successful in overturning DOL 4.0, we cannot know how long it will take. As draconian as the changes 4.0 will bring about are, agents across the U.S. are already failing to meet their responsibilities under NAIC's Best Interest model. In most instances, they are not documenting that their annuity product recommendations are truly in their clients' best interests. This reality signals the potential for agents to face substantial financial liability, an eventuality for which they are unprepared. Ask yourself if you are properly protecting yourself. The insurance companies have no responsibility in this regard.

In terms of annuity product recommendations, DOL 4.0 categorizes you as an **ERISA Investment Advisor Fiduciaries**, a regulatory framework that is "process" rather than "product" centric. ERISA fiduciary is a higher legal standard than the stringent NAIC Best Interest model which requires agents to be able to demonstrate the "why:"

- Why did you choose to sell an FIA to a 68-year-old widow?
- What was your rationale for recommending the MYGA?
- Justify your recommendation of a SPIA and its lack of liquidity.

The Complex Reality of Retirement Income Distribution Planning

Considering its “process” centrality, under the ERISA fiduciary model can the agent’s solution to an issue as complex and as high stakes as retirement income planning be satisfied by recommending a single product transaction such as an FIA?

Would you be better positioned as an ERISA fiduciary if instead you took a more strategic and comprehensive approach to the client’s interests? By using a process-based solution that is linked to meeting essential needs? Would it not be better for you to embrace a solution that *requires* the recommendation of annuities to meet an ERISA fiduciary standard? One of the reasons the latter option offers such appeal is because it provides a larger context for the justification of your product recommendations. It demonstrates your value in guiding the client toward a more secure retirement. And in any post sale review, it provides the justification for every annuity product you recommended. The same logic applies to a carrier. Under DOL 4.0, annuity sales generated by a planning process will be fundamentally advantaged in terms of minimizing an insurer’s financial liability potential.

DOL 4.0 and NAIC Best Interest are sure to destabilize the market for annuities. Destabilization will prompt some agents to innovate and adapt to survive in the changing environment. Agents that quickly adjust their strategies, products, or services to meet evolving market demands have a chance to gain a distinct competitive edge. This adaptability leads to changes in business models or approaches that may not have been seen as necessary in a stable market. This is where we are today.

Destabilization can weaken or disrupt established players in any market, while also creating exciting new opportunities. Large companies may be slow to respond to changes, leaving room for agile and innovative organizations to strengthen their competitive position and capture market share. Armed with Constrained Investor and Wealth Ladders, you will be poised to capture market share while cementing the loyalty of your clients.

Why Constrained Investor is a Revolutionary Innovation

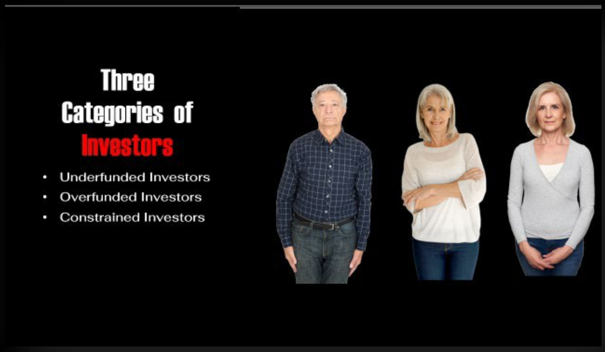
In the dynamic landscape of income planning, the stakes are high for all parties. Yet, a considerable portion of the financial advisor community persists in recommending a deficient income-generation methodology. The repercussions of unsustainable market conditions, combined with unprecedented fiscal and monetary stimulus, have led to inflation, an irrational stock market, rising interest rates, and heightened economic uncertainty. This section explores the shortcomings of the prevalent market-based approach to income distribution planning and introduces an alternative paradigm known as Constrained Investor®.
An important innovation prior to DOL 4.0, Constrained Investor emerges as the best and most actionable strategy for enabling agents to play a vital role in an ERISA fiduciary marketplace.

Traditional investment advisors typically implement a purely markets-based approach to income distribution planning, emphasizing Assets

Under Management (AUM) client segmentation. While effective for asset accumulation, this construct falls short during the decumulation phase. Why? Wealth-based segmentation makes no room for issues that are critical to the income planning of most retirees, including the mitigation of risks that can reduce or even wipe out the client's capacity to create income from savings. At a minimum, all Constrained Investors require the inclusion of "flooring" in the overall retirement income strategy to protect against longevity risk.

Constrained Investor client segmentation replaces AUM segmentation, or "wealth segments" with three more meaningful categories of investors. All retirees will fit into one of the three categories:

- **Underfunded Investors**,
- **Overfunded Investors**, or,
- **Constrai**ned Investors.



All retirees will fit into one of the three segments.

This paradigm shift expands the assessment of client needs by examining the crucial relationship between the amount of investable assets and **savings-generated** "must-have" monthly income. This approach fosters a more comprehensive understanding of the client's retirement preparedness.

Identifying the Constrained Investor

Advisors will sometimes jump to the conclusion that Constrained Investors have little in the way of savings. Nothing could be further from the truth. Wealth2k has observed that the average Constrained Investor has accumulated $1.35 million in investable assets. Using The Income for Life Model, an ever-growing number of securities licensed advisors have made Constrained Investor income planning the centerpiece of their practices. Now, using WealthLadders, insurance agents will have an important role to plan in helping their Constrained Investors clients construct a solid income plan foundation.

Advisors are often quite surprised at how much money some Constrained Investors have accumulated, i.e., $10 million, or more. With an Assets-to-Income Ratio of 5.4%, a client* with AUM of $20.6 million- who requires an income of $80,000/month- is very much a Constrained Investor. To determine if a client is Constrained, we use the Income-to-Assets Ratio™ (annual income required to fund a Minimally Acceptable Lifestyle (MAL) divided by assets available to produce income). If the resulting percentage is 3%, or more, the client is a Constrained Investor.

*The largest Constrained Investor case on record, implemented by a Securities America registered rep.

Constrained Investor upends the practice of income planning. It prioritizes the mitigation of risks for those whose accumulated savings are just enough- or not quite enough- to fund a minimally acceptable lifestyle.

This represents most retirees who reach retirement with savings.

Constrained Investor planning utilizes Wealth2k's Hybrid Time-Segmentation® allocation methodology to deliver essential protection against Timing and longevity risks. It provides safe monthly paychecks throughout retirement, and a "floor" of guaranteed lifetime income. Constrained Investor planning helps retirees fight emotionally driven decision making, helping retirees to remain invested in risk assets through even the worst market conditions. Its utility is proven over two decades and many thousands of client implementations.

As the methodology underpinning The Income for Life Model®. Constrained Investor has helped financial advisors attract more than $100 billion in retirement assets.

Addressing the Income Gap

Constrained Investor shifts the planning focus away from the total amount saved and toward the critically important relationship between savings and the income required to fund a minimally acceptable lifestyle. The Income-to-Assets Ratio identifies the Constrained Investors as those with a percentage ratio of 3% or more. Surprisingly, even clients with substantial AUM may fall into the Constrained Investor category, emphasizing the importance of understanding this nuanced approach.

Determining Who is a Constrained Investor

How a client with \$1.4 million, who requires \$6k per month in retirement, is determined to be a Constrained Investor.

\$72,000 ÷ \$1,4000,000 = 5.14%

5.14% > 3% = Constrained Investor

Determining the Monthly Income Needed to Fund the Minimally Acceptable Lifestyle

A key part of the Constrained Investor planning process is determining the annual income required to fund the client's Minimally Acceptable Lifestyle (MAL). The MAL is critical because any shortfall or "gap" in income after accounting for Social Security must be generated from the assets available to produce income. Importantly, all Constrained Investors share an absolute reliance upon their savings to produce income that they "must have" to fund the MAL. Consequently, Constrained Investors must be protected against risks that can reduce or eliminate their capacity to produce income from savings, Constrained Investors have no cushion to absorb investment losses. Yet, they need to be durably invested in risk assets. “Durably” is an unlikely outcome unless they have an income generation strategy that promotes investing consistency. Constrained Investor income planning focuses on the design dynamics that empower the client to remain consistent with the overall strategy, even while living through the darkest days of negative market performance.

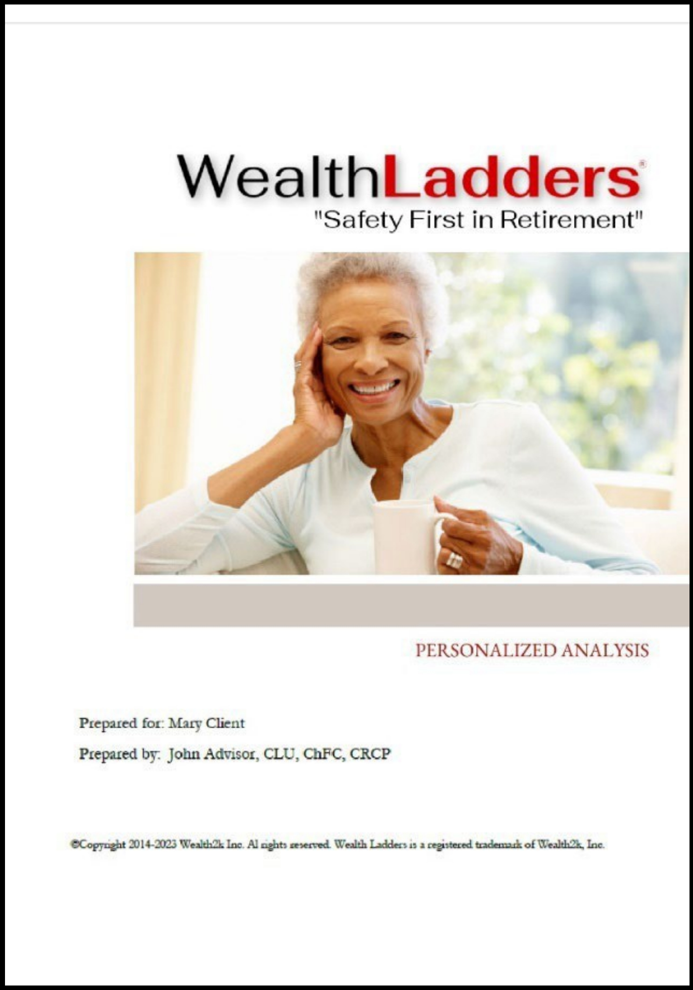
My colleagues and I at Wealth2k observed this firsthand during the 2008-2009 market breakdown when we saw that clients using Constrained Investor planning were able to remain consistent with their income plans. The guaranteed monthly paychecks that clients receive when using the Constrained Investor strategy is a major factor in contributing to their ability to remain durably invested. We also observed, by contrast, that clients relying upon systematic withdrawal plans were far more likely to sell out of risk assets, leading to a permanent impairment in income generation.

The Constrained investor’s Income strategy Must Be Formal and Documented:

The WealthLadders Formal Written Plan

As an ERISA fiduciary, you must have a rock-solid reason for all product recommendations you make, all of which must be in your client’s best interest. A formal written plan that provides a detailed explanation of the income “flooring” strategy and the benefits it delivers to the client is essential, in my judgment.

The WealthLadders Personalized Analysis offers an easy-to-understand, transparent illustration of the “flooring” plan you recommend. It describes how the client’s income will be created through a strategic combination of annuity products. The WealthLadders Personalized Analysis exclusively addresses the client’s “flooring” strategy. It is one albeit vital component of a client’s total strategy for generating income from savings. As an insurance agent, you must restrict your activity to designing and implementing flooring,” consistent with the Constrained Investor’s needs.



WealthLadders®

"Safety First in Retirement"

PERSONALIZED ANALYSIS

Prepared for: Mary Client

Prepared by: John Advisor, CLU, ChFC, CRCP

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Annuities Are Essential in Constrained Investor Income Planning

My Financial Advisor Magazine article Why Monte Carlo Simulations For Retirement Income Should Be Banned (fa-mag.com) was ranked the magazine’s number one article of 2023. The article articulates the need to recommend lifetime income annuities. Criticizing the widely used Systematic Withdrawal Plan, I illustrate why the investment advisor’s failure to recommend annuities could breach fiduciary duty.

Agreement on Both Sides of the Aisle

DOL 4.0 and NAIC Best Interest are not taking place in a vacuum. There is a larger retirement security issue facing millions of Americans. This fact spotlights and amplifies the impact of DOL 4.0.

In today's fractured political climate, it can appear that Republicans and Democrats agree on nothing. But there is one area of universal agreement. That is, the United States faces an acute retirement security crisis that can only be managed through innovation. Liberals such as Bernie Sanders and Elizabeth Warren, and conservatives like Ted Cruz and Marco Rubio are all in perfect alignment when it comes to the urgent need for innovative retirement security solutions.

"In a world where traditional pension plans are disappearing, and many Americans lack access to retirement savings plans at work, we need to find innovative solutions to address the retirement security crisis."
ELIZABETH WARREN

"America's retirement crisis is a ticking time bomb. With longer life expectancies and rising healthcare costs, many retirees are struggling to make ends meet."
BERNIE SANDERS

"The retirement crisis is a reminder that we need to promote personal responsibility and fiscal discipline. Government programs alone cannot solve this problem."
MARCO RUBIO

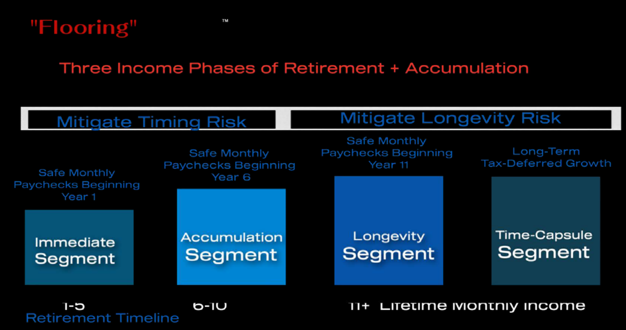
"The loss of defined benefit pension plans is a reflection of changing economic dynamics. We must find innovative solutions to ensure that retirees can still enjoy a dignified and financially secure retirement."
PATTY MURRAY

"The retirement security crisis is a wake-up call for individuals to take charge of their financial planning and for policymakers to create an environment conducive to savings and investment."
BEN CARSON

Safety-First
Planning Process™

The Process That Protects You (And Your Clients)

Wealth Ladders™ is a sophisticated, process-based solution for constructing the vital foundation, or "floor," of secure lifetime income that is an essential part of the Constrained Investor's overall strategy for retirement income.



Wealth Ladders is an annuity laddering process that strategically combines four annuities to deliver lifetime income with two pre-planned "step-ups." Four distinct time-specific "segments" comprise the laddering framework. Each segment has a specific role to play in the overall process. The purpose of Wealth Ladders is to provide the "floor" component, the vital foundation of the larger income strategy.

Annuity Products Used to Fund Wealth Ladders

Wealth Ladders is funded by a strategic combination of one SPIA and one MYGA. plus, two FIAs. Each of the four annuities is earmarked to fund a distinct strategy segment, with each segment providing income over a specific phase of retirement. This process of laddering enables each annuity to optimize its role and contribution to the total strategy. All four segments are funded at the inception of the Wealth Ladders strategy.

Segment One- the "**Immediate Income Segment**"- is funded with a 5-year period certain SPIA. The job of Segment One is to generate safe monthly paychecks over the first 60 months of the strategy.

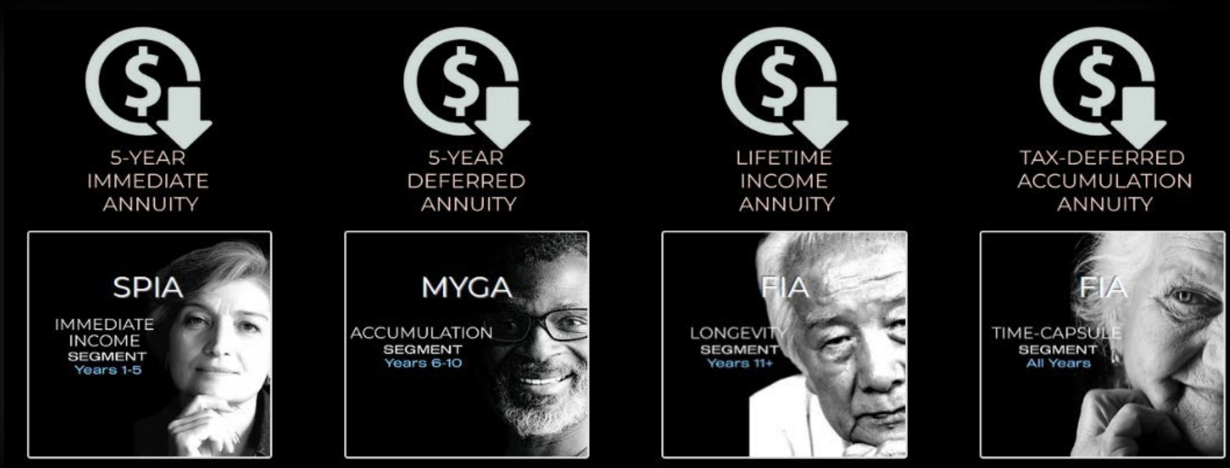
Segment Two- the "**Accumulation Segment**"- is funded by a MYGA. It accumulates during years 1-5. Beginning in year 6 (month 61), Segment Two is annuitized to provide safe paychecks in years 6-10. Importantly, the amount of monthly income paid in Segment Two typically represents a step-up equivalent to a selectable inflation assumption i.e., 2% or 3%.

Beginning in year 11 (month 121), Segment 3- the "**Longevity Segment**"- provides safe monthly paychecks that continue for the life of the annuitant. The income provided is delivered via an income rider.

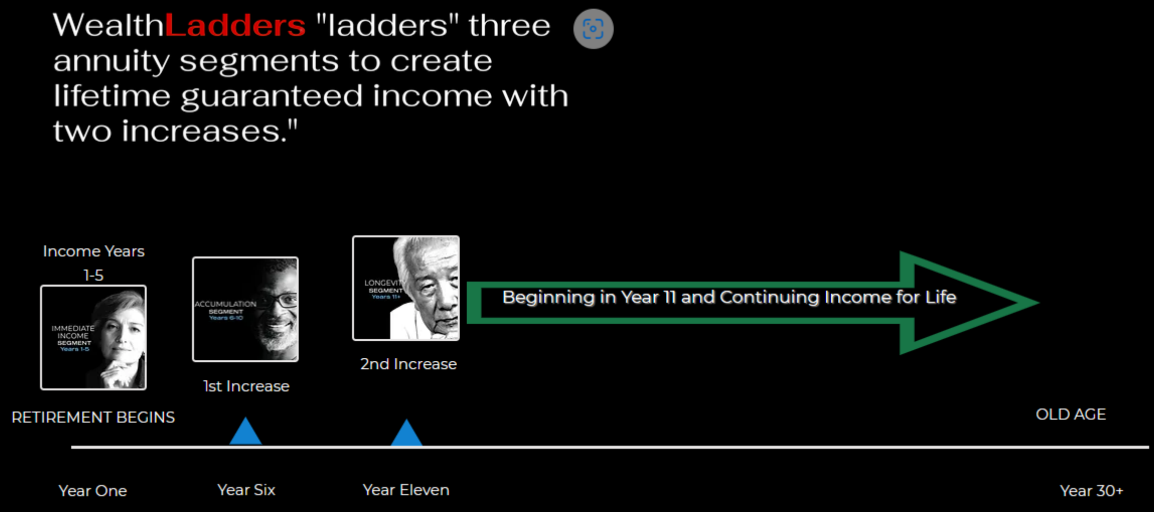
The role of Segment Four – The "**Time Capsule Segment**"-serves to add additional liquidity to the strategy. It may be thought of as an emergency fund, a bequest, or a source of additional income, if needed.

Critical Linkage: Product Recommendations Map to the Mitigation of Key Risks

The majority of retirees who arrive at retirement with savings are Constrained Investors. The agent's first responsibility when working with these investors is to mitigate the risks that can reduce or eliminate their capacity to generate income from savings. In all cases, Constrained Investors must be protected against Timing and longevity risks. Through an explicit linkage, it is demonstrable that annuities used to fund Wealth Ladders protect against both risks. See retirement- income-for-a-constrained-investor



The strategic combination of annuities to achieve multiple income planning objectives.



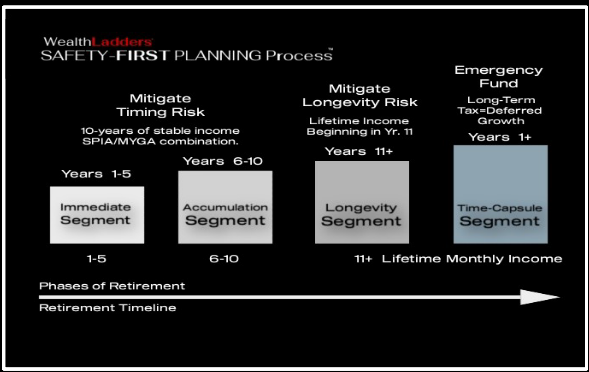
WealthLadders creating "flooring" with two step-ups.

Consumer-Facing Communications

"Boomer" Women's Retirement

Wealth Ladders offers a special level of applicability to the strategically important business opportunity represented by "boomer" women's retirement. In recent years, insurers have given lots of attention to this market opportunity as shown through countess emails and webcasts. But can you find even one well-constructed, technology-driven, annuity focused and actionable sales platform that has been given to agents to address the women's market? WealthLadders changes the game.

Capturing "Boomer" Women's Assets



Unlike the retirement income strategies typically recommended by most financial intermediaries, including RIA and financial planner practitioners, individuals who tend to serve-up more investment risk than the female "boomer" is comfortable taking on, Wealth Ladders aligns perfectly with women's preferences for risk reduction, confidence, and security. These preferences have been documented in multiple research studies. Marketing messages behind Wealth Ladders would center around the investing attributes that "boomer" women most favor:

- "Wealth Ladders utilizes annuities to enhance your retirement security. It provides safe, lifetime retirement income, as well as tax-deferred growth of savings. At a time of economic uncertainty and heightened risks, it is meeting a need that many women share."
- "A personalized annuity laddering strategy for a portion of your assets, Wealth Ladders builds confidence by strengthening your financial security in retirement."
- "Wealth Ladders is for women (and men) who wish to avoid subjecting their savings to market risk, and who crave guaranteed income that lasts for life."

AI Digital-Humans Enhance Education and Client Experience (UX)

The agent's Learning Center Home page.

Artificial intelligence is quickly altering businesses and consumers' expectations. This signals an emerging challenge for agents as new AI- centric competitors will soon enter the annuity marketplace. These new entrants will feature a novel user experience (UX) that is sure to capture the imagination of a segment of annuity purchasers. By introducing Wealth Ladders, YOU will be able to offer agents a solution that helps them remain on par with evolving UXs.

DOL 4.0 provides an opportunity to leverage AI to create an enhanced UX that more effectively frames the value of an annuity-centric strategy for retirement income. Agents need an answer for elevating the UX they project online.

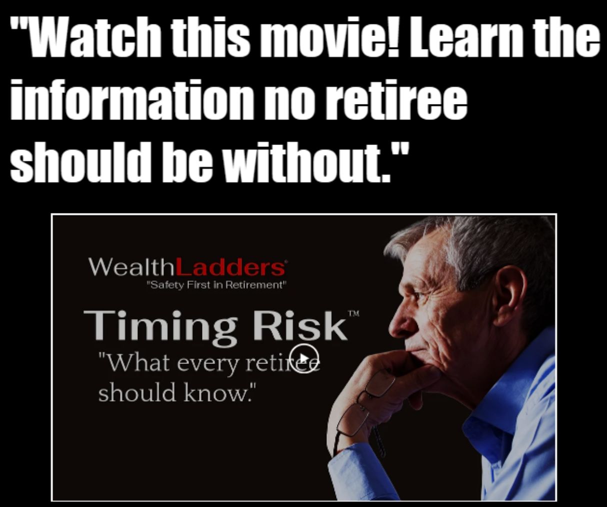
WealthLadders delivers it.

An AI Avatar strengthens the agent's client communications.

"Boomer" women's retirement section of the advisor-customized Learning Center

Additional Screenshots from the Agent-Customized WealthLadders Learning Center.

The experiences that advisors project online must be improved. The current state of user experience (UX) from insurance agents is too far behind the curve to make a tangible difference in most marketing scenarios. The WealthLadders agent-customized Learning Center sets an entirely new standard of excellence. Click on any of the images to visit a live Learning Center.



Technology-Driven Ecosystem of Innovative Educational and Marketing Components

Wealth Ladders offers a robust set of deliverables to support your marketing and sales activities. The collection of primarily digital tools, including income planning

An impressive lineup of tools to support agents' annuity sales.

software, agent personalized Learning Centers, high-end video content, and Digital Human "sales assistants" will be viewed by agents as a revolutionary solution for strengthening their capacity to thrive in a DOL Yet, all these tools also serve to lower insurer liability potential.

Digital-Assisted Selling

Digital-Assisted Selling (DAS) is an important strategic advantage with powerful implications for cross-selling and the mitigation of financial liability potential.

Scene from WealthLadders client video sales presentation.

Enables you to deliver perfect, compliant educational presentations on the advantages of Constrained Investor income planning:

- Builds demand for WealthLadders.
- Elevates your trust and credibility.
- Leverages your relationship with non-annuity clients.
- Facilitates referral gathering

Provides a mechanism for marketing and sales if you are unable to meet with prospects in person.

Click the image to see an example of an agent's MYGA Learning Center.

The App That Makes Digital-Assisted Selling™ Possible

(In case you are interested in technology)

Wealth2k's AdvisorAccess application is the "backbone" app that enables easy management of a technology-driven sales platform such as Wealth Ladders. The application enables advisors to create an income plan that is personalized for each client.
AdvisorAccess manages consumer-facing marketing components on a per- agent level. The application also manages user information, activity reporting, compliance queues, broker-dealer disclosures, State-mandated agent licensing disclosures and client information.

AdvisorAccess manages the complex and diverse business rule requirements of multiple broker-dealers (or wholesaling organizations). Presently, it provides thousands of financial advisors with a single point of access for all the deliverables that comprise Wealth2k's retirement income planning platforms including The Income for Life Model®, plus Womn&Income and NextPhase®. AdvisorAccess makes it possible for Wealth2k to offer Wealth Ladders.

AdvisorAccess includes a common code base for Wealth2k's various sales platforms. All the information displayed to users is role-based. The application uses web services to integrate with Pershing, Albridge, Osaic and other platforms. The system is hosted by AWS ECS Windows Servers for the frontend and AWS RDS Microsoft SQL for the database. Our AWS environment hosts development, testing and production environments in separate VPCs. The server hardware and software licensing are managed by AWS. System backups, downloads, and archives are stored in S3. Software installation, software updates, patch updates and configuration changes are performed by Wealth2k consultant developers.

The Advisor Access portal is hosted on Apache, Tomcat, Java, and JavaScript. The reports are generated through Crystal Reports. As the platform has been extended, we have added AWS Lambda functions. The database is Microsoft SQL Server. Wealth2k consultant developers are responsible for administering the database. In addition to the agent portal, advisors also receive personalized websites (the Learning Centers) for marketing. These websites are constantly being improved by new templates, designs, and hosting techniques. These sites are customized and controlled in an extremely limited capacity by the advisor consistent with broker-dealer business rules, if applicable. The site templates, web services, and overall site copy are controlled by Wealth2k. Wealth2k conforms to rigorous data security requirements as defined by our enterprise clients including Pershing/BNY Melon, Albridge and Osaic.


Matt Jackson
Safe Money Solutions for Retirement
Home
Retirement Risks
For Women
Annuity Owner Protection
About Matt
Contact Matt
Dosclosure

Conclusion

When the Department of Labor proposed its fiduciary rule, gloom befell the insurance industry. After all, ERISA fiduciary is a process-based business model while insurance agents have been trained in and work in a transaction-based model that is all about product sales. But having worked for years on the Constrained Investor process, I knew that in a fiduciary marketplace, it would be the ideal path for agents to follow, a path that legitimately and proudly demonstrates that a large segment of retirees requires annuities in their income planning,

Agents have everything at stake in getting this right. The ERISA fiduciary standard presents agents with very real challenges including severe financial liability risk and harsh regulatory sanctions if found failing to serve the client's best interest. No agent wants to face restitution, disgorgement of profits, and, or license suspension or revocation. Unlike broker-dealers and RIA's, clients of insurance agents are not bound by arbitration agreements. Conflicts with clients, therefore, will force agents to suffer the financial and otherwise prohibitive costs of defending themselves against lawsuits. You can be certain that a motivated contingent of the plaintiff attorney community will have a sharp eye out for consumers who voice complaints about their insurance agents.

Despite all of these risks, NAIC Best Interest and ERISA fiduciary herald an extraordinary opportunity for enlightened agents to not only maintain their success but increase success while operating as compliant ERISA Investment Advisor Fiduciaries. The key to this is to embrace the Constrained Investor income planning process by using WealthLadders and the Safety-First “Flooring” Process. In this way, you can provide an efficacious, consumer-oriented process for better assessing and serving retirees’ income planning needs. Follow the process and keep the client’s best interest as your top priority, and you will prosper while meeting the ERISA fiduciary standard.

Keep in mind that when it comes to retirement income planning, a large segment of the financial advisor community misfires. Many investment advisors and financial planners view retirement income distribution as simply a reverse of dollar-cost-averaging. Their reliance on strategies such as systematic withdrawal plans combined with Monte Carlo simulations are inappropriate for Constrained Investors. Your insurance background and expertise in protection and liability minimization position you for an outstanding level of success when you adopt Constrained Investor income planning. Agents possess the licensure authorities, training, practical experience, and safety-first orientation that is needed to properly build the client’s income “floor.” For these reasons, you should feel optimistic about your future. All you must do is follow the system. Become trained in Constrained Investor income planning, and then go forth and build millions of income “floors” for the millions of America’s Constrained Investors who need truly need them.

ABOUT THE AUTHOR

David Macchia is an author, entrepreneur, public speaker, and marketing communications expert whose work is focused on improving Americans' retirement security. He is a renowned figure in the field of retirement income planning. David is founder of Wealth2k Inc, the nation's leading provider of advisor-centric income planning solutions. He is the creative force behind the popular, Income for Life Model®, as well as Women & Income®, the first retirement income solution developed expressly for "boomer" women.

To prepare financial advisors and insurance professionals for the impact of soon-to-emerge AI-based competitors, in 2023 David formed Wealth2k Innovation Lab, an initiative dedicated to the development of the next generation of consumer-facing life incorporating artificial intelligence generated Digital-Human "sales

David writes frequently about retirement income planning and macroeconomics. His articles have appeared in numerous publications including Advisor Perspectives, Financial Planning, Wealth Management, Research Magazine, Retirement Income Journal, Think Advisor, Financial Advisor Magazine, Insurance News Net, and Retirement Investor. He is the author of two consumer finance books, *Lucky Retiree* and *Constrained Investor: How to Avoid a Devastated Retirement.*

A seasoned public speaker, David has delivered hundreds of seminars and keynote presentations for organizations including the Financial Planning Association, Retirement Income Industry Association, Pershing, Bank Insurance and Securities Association, National Association for Fixed Annuities, LIMRA, Strategic Retirement Institute, and the Insured Retirement Institute.

David is a leading advocate for women's retirement security Through his writing, lectures, and podcast appearances, he has called for changes in the ways that the wealth management industry communicates with and serves female investors.

David earned an MBA, with Honors, from Boston University Questrom School of Business. He holds the RMA and CBBP professional designations.

THE MACCHIA MINUTE
VIDEO DAILY in

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WEALTH2K
INNOVATION LAB

75 Arlington Street, Suite 500
Boston, MA 02116
Telephone: (800) 200-9404
Email: david@wealth2k.com