

HOW TO SELL INSURANCE

as a Registered Investment Adviser



INSURANCE IS AN ASSET CLASS

The insurance world is changing and insurance companies are developing more and more insurance products for RIAs. With people living longer and healthier lives, clients are increasingly worried about running out of money during retirement. Insurance products like annuities can help mitigate the risk of longevity and provide higher net worth clients uncapped tax deferral opportunities.

THE IRS SAYS IT'S ALRIGHT

In a series of Private Letter Rulings, the IRS accepted the position that advisory fees on fee-based annuities should be treated like any other retirement account or internal mutual fund expense and ruled that since the payment of the fees were "integral to the operation of the contract," those fees should be considered an expense of the annuity itself and not a tax event for the client.

THE CAVEAT

The Private Letter Rulings do state that in order to receive the favorable tax treatment, annuity advisory fees can't exceed 1.5% per year, must be paid by the annuity carrier to the RIA, should only pertain to the advice on that particular annuity, and must be explicitly authorized by the owner.

SELL INSURANCE AS AN OUTSIDE BUSINESS ACTIVITY

If you are a licensed insurance agent, you can sell commission-based insurance products to clients as an outside business activity. Be sure to properly disclose the activity and how you are paid in your Form ADV Part 2B. Make sure you are properly licensed to sell insurance in the states in which your clients reside.

UTILIZE FEE-BASED INSURANCE PRODUCTS IN YOUR PRACTICE

A fee-based annuity, whether variable or fixed, charges an on-going asset-based fee instead of a commission. Insurance companies created this product so that registered investment advisers may sell it.

BE SURE TO INCORPORATE POLICIES AND PROCEDURES ABOUT THE SALE OF FEE-BASED INSURANCE PRODUCTS

Like any other advice you provide clients in your RIA, you have to ensure that that recommendations for the purchase of insurance products are in the best interests of your clients and are suitable in light of their financial circumstances.

STILL NOT SURE?

It's okay. The good thing is there are experts you can turn to. Give us a call to discuss how you can incorporate a variety of insurance solutions into your practice. Call us at 704-990-0942 to speak with one of our licensed planning consultants.