
\$10 million a week in sales for New York Life's deferred income annuity

By Editor Test *Wed, Nov 9, 2011*

Low CD rates and equity volatility may be helping sales of the Guaranteed Future Income Annuity, which has collected \$100 million in premia since July to become NY Life's hottest launch ever.

Last July, when New York Life introduced its deferred income annuity—Guaranteed Future Income Annuity—the product seemed to make lots of sense. It allows individuals to buy personal pensions with multiple premiums (\$10,000 initial minimum), and at a discount, in advance of retirement.

But the product also appeared to face hurricane-force headwinds, from two angles. First, many Americans continue to resist illiquid and irrevocable financial products. Second, the Federal Reserve's sustained low interest rate policy would appear to hurt income annuity payouts. Last spring, when New York Life first discussed the product publicly, Moody's Seasoned Aaa corporate bond yield averaged about 5.13%. In October 2011, it was 3.98%

So the big mutual insurer's announcement this week that it had sold \$100 million worth of the GFIA—20% of New York Life's total income annuity sales—within three months of the product launch, was fairly remarkable.

Compared with, say, ETF sales, that's not a fortune. But for a somewhat experimental income annuity, it's noteworthy.

The product is “the fastest off the blocks of any New York Life annuity product launch in memory,” said Chris Blunt, the executive vice president and head of Retirement Income Security at New York Life. “The sales estimate for the product for all of 2011 was surpassed after 10 weeks on the market.”

From New York Life's viewpoint, Fed policy may even be helping its product. Compared with today's ridiculously low yields on short-term investments, the annual payout from a deferred income annuity can look downright lavish.

“We believe that consumers have been craving a product like this,” said Matt Grove, a New York Life vice president. “2010 Macro Monitor data reveals that, on average, 35% of the assets of pre-retirees ages 50-64 are in cash or other low-yielding cash equivalents. This product gives consumers exposure to longer duration bond portfolios, they benefit from compounding, [and if you] include return of premium and mortality credits, deferred income annuities can have substantially higher payout rates than other fixed income investments,” he said.

The core market for the product is someone between the ages of 55 and 65 who intends to retire in five to ten years. To that person, New York Life believes that the payout rate of its product will look very good compared to the current yield of 1.2% on a five-year certificate of deposit.

"By investing in the Guaranteed Future Income Annuity, a 57-year-old man could guarantee a 7.8% per year lifetime payout rate at age 62," the company said in a release this week.

But how good is that? Certainly, there's a discount at work. The yield on a life-only single premium income annuity at today's rates is only about 6.9%, according to immediateannuities.com.

To look at it another way, it would cost a 62-year-old \$113,000 today to buy a life-only annuity that paid out \$7,800 a year. New York Life's hypothetical 57-year-old will get \$7,800 a year five years from now by paying a \$100,000 premium today. To reach \$113,000 in five years with comparable safety, that person would have to find a no-risk investment earning 2.5% a year. As we know, that's not easy right now.

The longer the contract owner chooses to delay income, of course, the higher the effective payout rate. Last summer, New York Life estimated that a 57-year-old male purchaser could get an annual payout of 11.3% by waiting until age 66 to receive income.

The product offers its biggest discounts to people who use it as longevity insurance, and choose not to take income until age 80 or beyond. According to an earlier New York Life estimate, a 65-year-old man who invests \$100,000 (in after-tax money) in the GFIA would receive \$65,500 per year starting at age 85, if he lived that long.

But not very many people are inclined to make that bet, which would maximize their "mortality credit"—the dividend that accrues to all living policyholders. Indeed, even New York Life's annuity-loving customers are apparently willing to give up yield to make sure they don't forfeit any of their principal.

Virtually all of the people (98%) who have bought the GFIA so far have taken the default option to receive a return-of-premium death benefit if they die during the deferral period. About 20% of the policies so far have been joint-life, Grove said, and of those, about one in four are life policies with a period certain of 10 to 15 years. A period certain of 15 years ensures that at least the premium will be paid back to the contract owner or beneficiaries.

The biggest appeal of this product—like other lifetime income products—is undoubtedly its ability to confer peace of mind on people. It allows a risk-averse person who doesn't have a defined benefit pension to buy one privately and achieve a DB-style sense of security. If he or she can get an "early-bird discount" on that purchase, so much the better.