A Summer Crop of Variable Annuities

By Kerry Pechter *Wed, Jul 29, 2009*

Allianz Life, Genworth Financial, John Hancock Life, and MetLife have all introduced new variable annuity contracts. Of the four new entries, John Hancock's stands out as the simplest and cheapest.

Judging by the latest wave of variable annuity contracts, insurers have chosen to “de-risk” their products in one of two ways: by simplifying them and slashing prices or by maintaining rich benefits and simply charging more for them.

In July, several firms have released new products, including John Hancock and MetLife, who appear to have taken the simpler route, and Allianz Life and Genworth Financial, which appear to carry on the tradition of high costs and complexity.

The products are appearing just in time for the summer rally in equities. The DJIA closed just under 9,100 points on Tuesday afternoon, up from a low of about 6,700 last March. Annuity manufacturers say the new products are not trying to time the market.

Simplify, simplify

With its AnnuityNote contract, John Hancock Life has taken a “less is more” approach. AnnuityNote requires contract owners to make no complicated choices. There’s only one investment option, one income option, and one comprehensive fee.

Investors in the contract must put all their money in a diversified, passively-managed 70% stock/30% bond balanced fund from MFC Global Investment Management. Five years after contract purchase, they can take a lifetime income of five percent per year of their initial payment or their account balance, whichever is greater.

The all-in price, including the cost of investment management and the lifetime income guarantee, is 1.74% per year. All contracts are sold on an A share basis, with a three percent commission. There’s no surrender period and no withdrawal charge.

Tom Mullen, chief marketing officer for annuities at the ManuLife unit, said the product was aimed at the same niche as managed-payout mutual funds, but with a guarantee. “We approached the redesign with the idea that if you could built a mutual fund with a true guarantee, that product would get broad acceptance. While it wouldn’t necessarily fit the mold of the annuity aficionados, it would help us tap into the 80% of the advisors who don’t ordinarily use annuities,” he said.

John Hancock sold $9.6 billion worth of variable annuities in 2008 and $2.1 billion in the first quarter of 2009. Mullen said the company's damage from living benefit guarantees has been "commensurate with our market share" but that the company had no exposure to mortgage-backed securities. The firm's S&P strength rating is AA+.

The complex approach

Allianz Life's new Vision variable annuity prospectus, on the other hand, defies any easy interpretation, even for someone used to reading prospectuses of this type. And the combined annual fees—including a 1.40% M&E fee and fund fees as high as 1.95%—can easily exceed four percent.

The contract offers two main riders, an Investment Protector that costs 80 basis points a year (to a maximum of 2.50%) and that protects the value of the initial investment during a 10-year waiting period. But the owner has to keep track of three values: the actual *contract value*, the *rider anniversary value* (the highest value on any contract anniversary), and the *target value*, which is currently 95% of the target value but could be as low as 80% in the future. It's confusing.

The other rider is the Income Protector, a guaranteed lifetime withdrawal benefit that costs 1.05% (maximum, 2.50%) for a single life and 1.20% (maximum, 2.75%) for two. The guaranteed payout rates are only 4.5% for owners age 65 to 79, and 5.5% for those aged 80 and over. The payments are based on what seemed like a very complex schedule of enhancements to the contract value, ranging from one percent to 2.5% every quarter during the accumulation period—currently as long as 20 years.

As for investments, there's a fairly complex table to determine how much of the contract value can be allocated to a four different groups of investment options. But the principle is simple. Generally, the required allocation grows more conservative as the income start date draws closer. The allocation gets more conservative at a much faster rate when the contract value is lower than the target value.

"In March, we suspended the sales of the previous Vision rider because of the turmoil in the market," said Jasmine Jirele, Allianz Life's vice president of Product Innovation. "With the new rider, we wanted to make the statement that the VA arms race is over, so we took the pulled benefits back. We wanted to make sure what we was offering was sustainable. The pricing and the products reflect what we've learned, and in the industry as a whole we're seeing early signs of rational pricing."

GLWB 'Lite'

On July 20, MetLife introduced its Simple Solutions variable annuity with a guaranteed lifetime withdrawal benefit, which features one income option, only four investment options, and a three-page application. Its five-year surrender period starts with a seven percent withdrawal charge.

The prices are modest, at least compared to VA contracts of the past. The M&E fee is 0.75% and the administration fee is 0.25%. The lifetime income rider costs 1.00% for a single life, and 1.20% for joint coverage (maximum, 1.60% and 1.80%, respectively). The investment options—balanced funds with 35%, 50%, and 65% target equity allocations and a money market fund—cost 59 basis points to 112 bps.

"The goal in creating Simple Solutions was to give individuals and the banks which serve them an easy-to-understand, lower-cost variable annuity with solid basic benefits," said MetLife managing director Kevin Crowe in a release. "Bank representatives may traditionally sell fixed annuities, but this variable product offers additional benefits their clients may need, all packaged in an easy-to-explain product with a simple application."

During the accumulation phase, the guaranteed income base is stepped up to the account balance, if higher, on the contract anniversary. The payout rates are 4% until age 65, 5% through age 75, and 6% thereafter. The owner can also annuitize the contract on a fixed or variable basis.

Another 'Income Protector'

Also on July 20, Genworth rolled out its RetireReady One variable annuity. What's new about this contract, according to a Genworth spokesperson, is its guaranteed lifetime withdrawal benefit rider, called, like Allianz Life's rider, the Income Protector.

For a 1.10% rider fee (maximum 2.50%), this Income Protector offers a payout schedule similar to its namesake: the lifetime income rate for a single life begins at 3% at age 50 and moves up a half-percent every five years before reaching 7.0% at age 80. The withdrawal percentage for a joint account is a half-percent lower in each age band.

Investment options are constrained to a set of three balanced portfolios, with equity allocations of 40%, 60%, or 70%, or to a group of designated BlackRock funds and a GE Investments Total Return Fund.

During the accumulation period, the Income Protector offers a surprisingly big roll-up—6% per year, compounded daily—for those who are willing to wait for 10 years after the contract date. Until then, limited withdrawals are allowed. If exceeded, the roll-up process stops.