
AIG, BofA Merrill Lynch collaborate on index annuity option

By Editorial Staff *Thu, Apr 2, 2015*

Through a daily “non-discretionary process [that] eliminates the impact that emotions may have on allocation decisions,” AIG said in a release, the contract moves money into cash when short-term volatility rises above a certain level.

American General Life Insurance Company, an AIG company, has added a new managed-volatility indexing option, the ML Strategic Balanced Index, to certain of its Power Series index annuities, which also offer lifetime withdrawal benefits.

The new option is a blend of the S&P 500 Index (without dividends), a proxy for equities, and the Merrill Lynch 10-Year Treasury Futures Total Return Index, a proxy for fixed income investments.

Through a daily “non-discretionary process [that] eliminates the impact that emotions may have on allocation decisions,” AIG said in a release, the contract moves money into cash when short-term volatility rises above a certain level and out of cash when volatility falls. In times of extreme volatility, 100% of the assets in ML Strategic Balanced Index may go to cash.

Like almost all fixed indexed annuities only more so, the new option is aimed at “individuals who want more growth potential than traditional fixed income investments, but don’t want to take on the risk of investing directly in the equity market,” said Mike Treske, executive vice president and chief distribution officer at AIG Financial Distributors, in the release.

“Indices that blend multiple asset classes are increasingly popular in the index annuity space,” Treske added. “We think this new index will help us increase our share of the growing index annuity market.”

The new option can earn interest in two different ways, the release said. Instead of a cap on the annual interest that contract owners can earn, the accounts will have “spreads” or declared percentages. Investors earn the gain in the index minus the spread.

The ML Strategic Balanced Index was developed by Bank of America Merrill Lynch (BofA Merrill). AGL currently has an exclusive license to use the index for U.S. fixed index annuities and life products.