Retirement Income
JOURNAL

AIG indexed annuities to offer PIMCO custom index

By Editorial Staff *Thu, Nov 9, 2017*

'The Index aims for a high equity allocation in up markets and has the ability to allocate up to 100% equities. In down markets, allocations can be quickly shifted to fixed income to help reduce risk,' an AIG press release said.

American International Group, Inc., will offer the new PIMCO Global Optima Index for its Power Series of fixed index annuities (FIAs), which are issued by AIG subsidiaries American General Life Insurance Company (AGL) and the Variable Annuity Life Insurance Company (VALIC).

At mid-year 2017, AIG was the second leading seller of fixed annuities ($4.05 billion, including fixed rate and indexed), the third leading seller of individual variable annuities ($3.38 billion) and the third-leading overall seller of annuities ($7.39 billion) after Jackson National and New York Life.

The PIMCO Global Optima Index uses quantitative rules to adjust its allocations among U.S. equities, international equities, and U.S. fixed income assets, according to a release. Equity weightings are rebalanced monthly using a “smart beta” approach. Within a particular market size or capitalization level, it looks for “momentum” sectors where asset prices are rising or “value” sectors where assets appear underpriced. Allocations between equities and fixed income are adjusted daily for risk management.

The new index also appears to offer, for the purpose of risk-reduction, something akin to constant proportion portfolio insurance, according to a press release this week. With this method, generally, the manager of a balanced fund with a downside guarantee would shift out of equities and into bonds when equity prices fall, and do the opposite when equity prices rise.

This technique enables the shift the holdings entirely to safe assets (bonds and/or cash) before the overall value of the product’s assets falls below the level needed to meet the guarantee. If it fell below that point, the issuer would have to make up the difference, possibly losing money on the product. Issuers can use this type of safety technique to offer an “uncapped” crediting rate—which some investors prefer in an FIA—that has no apparent upper limit on client gains.

“The Index aims for a high equity allocation in up markets and has the ability to allocate up to 100% equities. In down markets, allocations can be quickly shifted to fixed income to help reduce risk. Cash may also be used in times of extreme market volatility,” an AIG press release said.