
AIG offers fixed-rate annuity with an income rider

By Editorial Staff *Thu, Dec 22, 2016*

The product offers a 1.5% annual return for seven years and, for 95 basis points a year, a living benefit with a 7.5% simple-interest annual deferral bonus during the first 10 years. The payout rate at age 65 is 5.6% (5.1% joint).

American International Group, which sold \$13.6 billion worth of annuities in the first three quarters of 2016—second to Jackson National’s \$14 billion—has introduced a new seven-year fixed annuity with a lifetime income rider.

Issued by American General Life Insurance Company, Assured Edge Income Builder is available in over 20 banks and broker-dealers with “broadening of the distribution” in coming weeks, AIG announced this week.

Sellers of fixed-rate annuities, unlike sellers of variable or indexed annuities, do not have to satisfy the Best Interest Contract requirement of the new Department of Labor conflict-of-interest rule, which is set to go into effect next April unless it is frozen or unwound by the incoming Trump administration.

AIG sold \$6.1 billion worth of variable annuities, \$4.7 billion in fixed-rate annuities and \$2.8 billion worth of indexed annuities in the first three quarters of 2016, according to the LIMRA Secure Retirement Index. No other issuer’s sales are so broadly diversified across all three types of annuities.

Although the product offers a low guaranteed annual return for the first seven years—at 1.50%, it’s well under what many predict will be the prevailing rates by the end of 2017—there’s a 7.5% simple-interest annual deferral bonus on the benefit base of the living benefit, which costs 95 basis points per year.

“The initial crediting rate for Assured Edge is currently set at 1.50% per year for a 7-year guarantee term. After that initial 7-year period we will declare renewal crediting rates annually,” said Brian Pinsky, senior vice president, individual retirement products at AIG, in a release.

According to product literature, there’s a market-value adjustment which may penalize surrenders when interest rates have risen) as well as a surrender charge during the seven-year contract period. The initial minimum premium is \$25,000.

The payout rate is 5.6% at age 65 for single life contracts, and ranges from 4.1% at age 50 to 6.35% at age 80. At each age, the payout for joint life is .5% lower. The payout rate is based on the contract owner's age at the time of purchase—not at the time when income begins, when owners will have significantly less life expectancy, on average.

Prevailing interest rates have been trending upward since mid-2016. The current yield on five-year AA-rated corporate bonds, according to Yahoo.com, is 2.41%. The Federal Reserve is expected to raise its benchmark rate at least twice in 2017.

A product like Assured Edge would produce less guaranteed annual income than a deferred income annuity, but offer liquidity during the income period. Purchased at age 65 with a \$100,000 premium, Assured Edge would produce an annual income of \$9,800 after a 10-year deferral for a single person.

A DIA would produce significantly more monthly income. According to immediateannuities.com, a single-male-life-with-cash-refund DIA with a \$100,000 premium would pay out about \$12,000 a year after a 10-year deferral period. Death of the contract owner, before or after the income start date, would result in the return of unpaid premium.

New York Life offered its version of fixed annuity with a lifetime income rider in 2015. Called Clear Income, it offers a 5% compound annual growth in the benefit base during a 10-year deferral period. The payout rate is based on the age of first withdrawal; at age 65, it is 5.5% for a single life and 5.0% for a joint life policy. The minimum premium is \$50,000.

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