Allianz Life adds living benefit to structured index annuity

By Kerry Pechter *Thu, Aug 30, 2018*

The new Allianz product offers four index options, two death benefit options, five combinations of performance caps and downside buffers and a living benefit rider with deferral bonuses and a fixed or potentially rising income.

The idea of tacking a lifetime income benefit rider onto a buffered or structured indexed annuity is relatively new. Since AXA invented the buffered concept eight years ago, this type of product has been designed for accumulation and for investors who haven't started thinking about retirement income per se.

But last May, Lincoln Financial's new "Level Advantage" structured index annuity featured Lincoln's patented i4Life variable income annuity as a option. Now Allianz Life has fitted a living benefit rider to its existing Index Advantage structured index annuity. The earlier version had an annuitization option but no living benefit.

The new product is called Allianz Index Advantage Income Variable Annuity. Other companies in this space can be expected to follow suit. [See today's covered story on an ETF version of a buffered product.]

Structured annuity sales in the second quarter were $2.4 billion; up 12.6% from the previous quarter, according to Wink, Inc.'s latest survey. While AXA US is still the top issuer of structured annuities, with a 40% market share, the Brighthouse Life Shield Level Select 6-Year was the top-selling structured annuity contract for the quarter across all channels.

In terms of risk and return, structured index annuities occupy a middle ground fixed indexed annuities (FIA) and variable annuities (VA) in the annuity product spectrum. They offer more upside potential but less protection than an FIA. Conversely, they offer less upside potential than a VA but a measure of protection against loss that VAs don't offer (except indirectly, through volatility-controlled funds).

The new Allianz product is loaded with options, which makes it flexible (which advisors like) but complex (which advisors say they don't like). It offers four index options, two death benefit options, five combinations of performance caps and downside buffers and an income rider as standard equipment. There's no deferral bonus (aka "roll-up") on the income rider, but contract owners receive a modest hike in the annual payout percentage for every year they delay taking income after the initial purchase.

The product's minimum purchase premium is just $5,000. It has a six-year surrender penalty schedule starting at 8.5%. There's a 1.25% annual product fee (most of which reimburses Allianz Life for the commission it pays the agent) and a 0.70% annual fee for the income rider. The product currently comes only in a commissioned version.

Matt Gray

Matt Gray, senior vice president for Product Innovation at Allianz Life, told *RIJ* that Index Advantage is designed to compare favorably on price with variable annuities that have income riders.

"In looking at the traditional VA marketplace, we saw that advisors and broker-dealers don't like the all-in fees of 330 to 350 basis points. We also saw, based on our 'Chasing Retirement' study, that there's a large population of consumers who feel behind in their savings and want to catch up."

Gray said that Allianz Life is emphasizing "the power of *and*" in the product. Where a traditional VA with living benefit offers income based on the higher of the benefit base or the account value, Index Advantage Income offers retirees a chance for higher payouts if they delay income and upside potential over the entire life of the product—even after income begins.

Contract owners get potential for gain through the ownership of options on any of these equity indexes:

- S&P500
- Russell 2000
- NASDAQ 100
- EURO STOXX 50

The product also offers five combinations of upside potential and downside protection:

- *Index Performance Strategy.* This option offers the highest caps (14% on the S&P500 Index). The issuer absorbs initial losses up to 10%, with the owner responsible for net losses beyond 10%.
- *Index Precision Strategy.* This option offers a fixed rate (8% on the S&P500 Index) whenever the return of the index is zero or positive. The issuer absorbs initial losses up to 10%, with the owner responsible for net losses beyond 10%.
- *Index Guard Strategy.* This option offers somewhat lower caps than the Performance Strategy (10.25% on the S&P500). The owner absorbs the initial losses up to a floor of -10%.
- *Index Protection Strategy with a Cap*. Like a traditional fixed indexed annuity, this option protects the owner from any loss (assuming no early surrenders) and has relatively low caps (4.50% on the S&P500).
- *Index Protection Strategy with DPSC (Declared Protection Strategy Credit).* This option also protects the owner from any loss. It offers a fixed payout (4.10% on the S&P500) whenever the return of the index is zero or positive.

Once income starts, the client uses only the last two strategies above.

While gains from these strategies can boost annual income levels for contract owners, it’s important to remember that the product’s biggest benefits accrue to contract owners who live the longest and collect income for the highest number of years. The insurer doesn’t pay out any of its own money until after the client’s own money has been exhausted by income or fees.

By the same token, the longer the contract owner waits before taking a monthly income, the greater the annual income level. That’s based on the assumption that the income will be paid out for fewer years. The advantage of this type of product over a conventional fixed income annuity is greater liquidity and the chance (under one of the options) for rising income in retirement.

Here’s a hypothetical example of how this product would work, suggested by an example that Allianz Life uses in the brochure for this product:

A 55-year-old single woman puts $300,000 into the Index Advantage product. If she retires immediately, she can take out 4.50% or $13,500 per year. But the payout percentage rises by 30 basis points for every year she defers income. If she retires at age 60, she can take out 6% of her accumulation. If she retires at 65, she can take out 7.5% and if she waits until age 70, she can take out 9% per year.

In Allianz Life's example, the woman waits 10 years, until she turns 65, to begin taking income. By then, she has accumulated a hypothetical $500,000. She then has two ways of taking income: a fixed income or a reduced initial income that can increase when one of the available market indexes goes up.

For instance, she can take the "level income" option and receive $37,500 per year for life (0.075 x $500,000). Or, if she can choose the "increasing income" option and take a lower initial payout of $32,500 but maintain exposure throughout retirement to one of the four market indexes. After the $32,500 income begins, she must use one of the two Index Protection Strategies for future growth.

Gray said that the income from Index Advantage Income should compare favorably with the income from a traditional VA with a guaranteed lifetime withdrawal benefit.

"In back-test studies we've done, 61% of the time the contract owner had a starting income that was at least 10% more than the income produced by a traditional variable annuity," he told *RIJ*. "The average starting income was 34% higher than a VA's. Fourteen percent of the time, a variable annuity would produce a starting income at least 10% higher than Index Advantage, with an average starting income that was 18% higher."