Allianz Life’s new binary indexed annuity: A remedy for RMDs

By Editorial Staff *Thu, Apr 4, 2019*

Most retirees don’t want to get involved in the management of RMDs, says Matt Gray (photo), a senior vice president for product innovation at Allianz Life. He's got a new product for that.

Affluent retirees perennially complain about the chore and sting of taking taxable required minimum distributions (RMDs) from their 401(k)s, 403(b)s or traditional IRAs after age 70½. For those who don’t happen to need the money for current income, the RMD means nothing but confusing paperwork and an unwelcome tax bill.

Don’t bother reminding these folks that RMDs are the price of tax deferral or that their qualified accounts are much larger for having grown tax-deferred for the past 20 or 30 years. Better to offer them financial aspirin for their financial headache. That is the intent of Allianz Life’s new two-for-one indexed annuity contract.

The two are called Allianz Legacy Planner and Allianz Legacy Plus, in a package called Legacy by Design. As Allianz Life described it in a press release this week: “Legacy by Design is a combination of two fixed indexed annuities (FIAs) that work together to systematically and efficiently address unneeded RMD income from qualified accounts and the associated taxes, while also potentially enhancing a client’s financial legacy.”

A contract owner would fund the first annuity, Allianz Legacy Planner, with qualified money from an individual IRA or SEP IRA. Starting when the owner reaches RMD age (the year after the year he or she turns 70½ under current law), Allianz Life distributes the correct RMD amount from Legacy Planner and deposits it in Legacy Plus.

“We’ve been thinking about this for a couple of years,” said Matt Gray, a senior vice president for product innovation at Allianz Life. “Boomers first reached age 70½ in 2016. Over the next 20 years, about $10 trillion of their savings will be subject to RMDs. Our research shows that a healthy percentage of that population will not need RMDs for income purposes, and 57% don’t want to get involved in the ongoing management of RMDs. Legacy Planner and Legacy Plus are two legal contracts, but need only one application and one allocation decision. We withhold the tax and send it to the IRS.”

Starting with the first transfer, the Allianz Legacy Plus contract grows annually with each contribution. Growth is supplemented by the increase, if any, in the value of the underlying bonds and index options. The second contract has no sales commission, no surrender period and no limits or penalties on withdrawals.

Although contract owners can convert the Legacy Plus account value to an income stream, Allianz Life positions the product mainly as a way to build a legacy fund for beneficiaries. To emphasis that theme, there's a bonus on the death benefit equal to 25% of the account value at the time of the owner's death, minus any prior withdrawals. No living benefit is available on the product. The annual fixed interest rate is 2.0%.

The contract offers six index options: BlackRock iBLD Claria, NASDAQ-100, S&P500, Russell 2000, PIMCO Tactical Balanced Index, and Bloomberg US Dynamic Balance Index II. Current crediting rates are available **here**.

Crediting methods and available indices are:

- Monthly sum with cap (available on S&P500, NASDAQ-100 and Russell 2000);
- Annual point-to-point with cap (available on all six indices);
- Annual point-to-point with spread (available on the Bloomberg, PIMCO and BlackRock indices);
- Annual point-to-point with participation rate, available on the Bloomberg (80%), PIMCO (80%) and BlackRock (85%) indices. Those indices are volatility-managed.

We asked Gray about the apparent incongruity between a seemingly generous 80% participation rate and a seemingly modest 3.50% cap on, for instance, the same PIMCO index.

"The participation rates are on volatility-controlled indexes that re-allocate between the fixed income and equity components daily based on volatility," he told *RIJ*. "That re-balancing enables us to offer the participation rate strategy on that index. Over the long term, all of the allocations are expected to perform similarly."

That is, an investor should have similar return expectations from either an 80% participation rate or a 3.5% cap on the annual point-to-point crediting method with the PIMCO index. "But we stress the importance of diversification because any one index or allocation can vary a lot from year to year," he added.