

Annuities that Pay Cash Back Rewards

By Kerry Pechter Thu, Apr 25, 2019

Gainbridge, a insur-tech startup, aims to sell fixed deferred and period certain income annuities online. Its sister company, Relay, uses annuities to fund cash back rewards cards. Both firms are part of Group1001 (formerly Delaware Life Holdings).



Holland's 17th century tulip craze serves as a foil for annuities in a recent TV [commercial](#) from Gainbridge, a new online annuity sales platform. The lavish 90-second costume drama, produced by [Bullish](#), portrays deferred and immediate income annuities as prudent alternatives to financial fads.

"With uncertainty surrounding 'hot' investment areas like cryptocurrency, and the bull market in general, we want to showcase that our annuities are incredible products to grow and protect savings," Andres Barragan, Gainbridge's chief experience officer, told a reporter for [Campaign US](#) in March.

[Gainbridge](#) isn't the only insur-tech startup hoping to sell annuities directly to consumers, but it and its sister companies are differentiating themselves in interesting ways. The most notable innovation: the use of income annuities to fund cash back charge cards that provide spending allowances for anyone from aging parents to college-age grandchildren.

While Gainbridge per se is new to the annuity business, its backers are not. Its parent, Group1001, a \$36 billion insurance holding company, owns Delaware Life, a top-20 issuer of fixed indexed annuities (FIAs) in 2018 (with a 2.02% share of the \$68.47 billion FIA market, according to Wink's Sales & Marketing Report, 2018); Clear Spring Insurance, an issuer of workers compensation insurance, and Relay, a planned spending program (see below for details).



Dan Towriss

Group1001 CEO Daniel J. Towriss is an actuary who, as Guggenheim Partners' insurance expert, led a team of private investors who formed Delaware Life Holdings. In 2012, that entity paid \$1.35 billion for Sun Life Financial's US annuity and life insurance businesses. Delaware Life Holdings later separated from Guggenheim and rebranded as Group1001.

Gainbridge; Click-and-buy a MYGA or SPIA

Gainbridge sells individual multi-year guaranteed rate annuities (MYGAs) and period-certain single-premium immediate annuities (SPIAs). The five-year MYGA shown on the website offers a 3.85% annual percentage yield (APY) which, in the example, produces a \$54,355.69 payout on a \$45,000 investment.

That rate beats most of the comparable contracts at immediateannuities.com, where five-year MYGA rates range from 2.85% to 4.00% per year, depending on the strength rating of the issuer and the minimum investment. The best five-year certificate-of-deposit (CD) rates are 3.00% to 3.10%, according to nerdwallet.com.

Gainbridge's annuities come from Guggenheim Life & Annuity (A.M. Best strength rating of B++), which is owned by Guggenheim Partners.

"We can offer you this rate because we've replaced old-school paperwork and complexity with simplified products and smart tech," according to a blurb on Gainbridge's yellow-and-black website. The Gainbridge MYGA, which will be issued in three-year, five-year, and 10-year maturities, has the usual market-value adjustment for withdrawals exceeding 10% of the contract value.

"We chose to source the annuities for both products from Guggenheim Life to avoid cannibalizing the other entities in Group1001 and to keep the issuer at arm's length," Terrence Richardson, Group1001's spokesperson, told *RIJ*.

"We're targeting new segments of the market that our other brands are not, segments like do-it-yourself investors and extreme savers. Each of our four brand continue to target differentiated segments of the wider annuity market," he said.

"It's for people who want diversification of their assets and are do-it-yourselfers. We're imagining two scenarios, mature investors looking for peace of mind and fixed returns without all the bells and whistles that some annuities have. We're also looking for self-

directed people and online natives ages 50 to 60 who want a dependable annuity. We just started in five states and have expanded to 18 states as of today. We have a roadmap to get certification in 49 states.” [New York State is excluded.] Gainbridge is also reaching out to a sports-minded audience. It advertised during the 2019 NCAA basketball tournament and is a sponsor of this year’s Indianapolis 500 auto race.

For people who want guaranteed immediate income over five or ten years, Gainbridge sells five-year or 10-year period-certain SPIAs. The example on the Gainbridge’s website shows a monthly payout of \$794.20 for a purchase premium of \$45,000. (That’s eight dollars a month more than a five-year SPIA at immediateannuities.com.) Investors who want to withdraw their unpaid-out principal can do so by paying a 4% commutation fee.

Relay: A cash back rewards card

With Relay, Group1001 is taking annuities in a new direction. In return for a lump sum payment, you get an immediate annuity that deposits a monthly allowance in a prepaid Relay card. It works like a debit card, but when the cardholder uses it in “credit” mode (without using a PIN number) to make a retail purchase, he or she earns a discount or “cash back” reward. The cash back rewards are a substitute for the internal returns that a period-



certain income annuity would otherwise earn.

In the example on the website, visitors specify how much monthly income they want and for how long, and a wizard calculates the lump sum required. For instance, if someone wanted \$975 a month for five years, they would need to pay about \$57,000. According to the website, they would get 5% back on eligible purchases. A comparable annuity at immediateannuities.com would pay \$995 a month, but would not provide rewards.

Group1001 envisions grandparents using Relay to provide monthly allowances for grandchildren in college, or people who want to provide a controlled level of spending money for elderly parents. “Grandparents might invest \$10,000, and the student gets \$200 a month plus three to five percent cash back,” Richardson said. “They could spend \$200, earn

\$10 in rewards, and then have \$210 to spend the following month.”

Relay users receive a prepaid VISA card issued by Sunrise Banks of St. Paul, MN. “You get issued a piece of plastic, and a smartphone app where you can see all of your transactions, your balance, and your rewards earnings,” he told *RIJ*.

Users have to be careful not to use the card at ATM machines, where they will pay a fee and not earn any reward. If a retailer defaults them into a PIN-mediated debit purchase, they also don’t earn a reward. Cash rewards are not taxed, so Relay doesn’t have to issue 1099 forms for them. Since Relay doesn’t take IRA money as premiums, there are no taxes on distributions.

These products diverge from the traditional purposes of annuities, such as longevity risk pooling, lifetime income, or tax deferral on the growth of after-tax money. So it remains to be seen how they will resonate in the marketplace. Richardson said that Group1001’s research has identified a substantial demographic of frugal “planners and savers” who patrol the Internet for optimal returns or attractive cash back rewards programs. “Our target audience ‘gets it,’” he said. “But we’re not trying to game the system. This is for long-term planners and savers.”

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