Retirement Income
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Aria enhances its RetireOne contingent deferred annuity

By Editor Test *Fri, Jul 12, 2013*

A retail CDA—aka stand-alone living benefit, or SALB—lets RIAs add lifetime income rider insurance to clients' portfolios without changing the tax treatment of the underlying investments.

Aria Retirement Solutions has announced an enhanced version of its contingent deferred annuity (CDA) product, RetireOne Transamerica II solution. A registration statement for the product was filed with the Securities and Exchange Commission May 15.

The product is designed for use by registered investment advisors (RIAs) and their clients who want to add longevity protection to a portfolio of mutual funds or exchange-traded funds without purchasing a variable annuity contract. A CDA—once known as a stand-alone living benefit, or SALB—lets RIAs add lifetime income rider insurance to clients' portfolios without changing the tax treatment of the underlying investments. There's no surrender fee for letting the coverage lapse.

Aria Retirement Solutions provides the technology platform for the product, Transamerica Advisors Life provides the lifetime income guarantee and a variety of low-cost fund managers provide the investments.

Like a lifetime income benefit in a variable annuity, a CDA guarantees an income for life by putting a floor under the amount of assets on which the client can base an annual income for life. The income amount is also determined by the client's age (age 60 or later) when he or she initiates the guaranteed income stream.

In Aria's CDA, the income amount also depends on the 10-year Treasury rate. For instance, at today's rates, a 65-year-old single client could take 4% of the guaranteed benefit base per year for life. At a rate of 7% or more, the client could take 5.5% per year for life.

Like variable annuities with living benefits, retail CDAs aren't necessarily cheap. Counting the RIA management fee (1% to 1.5%), the management fees on the underlying funds and ETFs, and the insurance fees, the total drag on the insured investments can exceed 3% a year, depending on the risk of the investments being wrapped.

Aria CEO David Stone told RIJ that the CDA fees aren't comparable to VA fees, because the client would be paying the RIA management fee anyway and the funds and the ETFs in the CDA are ultra-low cost. A typical retail variable annuity will charge about 2%-2.5% for the base annuity and the living benefit rider. Throw in the fund fees and the all-in cost is frequently 3%-3.5%," Stone said in an email.

"With our CDA, we just offer the insurance component, which can be as low as 65 bps after all breakpoints," he continued. "If we combine the insurance with a portfolio of low cost ETFs, the all-in investment related costs can be 90-95 bps. So, essentially for the cost of an actively managed mutual fund, a consumer can get guaranteed income for life.

"Of course, the fees can go up for portfolios with greater risk or higher fees or if the advisor wants to use the account to deduct their fees. But we believe the majority of advisors will look to keep the all-in cost (before the RIA fees) to between 90-150 bps. Also note, we work with advisors who just assess a flat fee or charge much less than 1-1.5%."

So far, Aria may be the only firm that markets CDAs to retail investors and their advisors. So far, market penetration of the still-novel product category has been slow. The product is not available in all states.

RIAs can't wrap Aria's longevity protection around just any investment portfolio they like. They must choose from among products in the 16 asset categories available under the Aria contract. There's a different cap on portfolio allocations for each asset class. The caps are as low as 5% for emerging market small equities or alternative assets and as high as 100% for balanced funds and investment grade bond funds.

Eligible investments are listed on Aria's website, www.retireone.com. They include funds and ETFs from Dimensional Fund Advisors (DFA), iShares, Schwab, Vanguard, and others. The program offers nine investment "Profiles" or "Strategies." Their risk levels vary and the fees correspond to the risks.

According to the SEC filing, each eligible investment has a "Fund Factor," which Aria defines as "the factor derived from the use of a proprietary algorithm that attempts to assess the relative risk associated with each Eligible Fund. The algorithm factors criteria such as market data, historical volatility and other measures of exposure."

There are several fee options for advisors to choose from, depending on whether they want the insurance fee and the advisor's fee to be taken from the guaranteed benefit base or from a separate cash account, and whether the RIA charges a management fee of 1% or 1.5% per year.