ARIA, PIMCO and Transamerica partner on bond-based CDA

By Editor Test *Thu, Jun 20, 2013*

This late-breaking story contains a link to the prospectus, filed May 15 with the SEC, for a new contingent deferred annuity, also known as a stand-alone living benefit, or SALB. The product is designed for the registered investment advisor channel.

A new contingent deferred annuity product (CDA)—aka stand-alone living benefit (SALB) aka unbundled guaranteed lifetime withdrawal benefit (GLWB)–has been jointly announced by Aria Retirement Solutions, Transamerica Advisors Life and bond giant PIMCO.

[News of this product broke close to deadline for the June 21 issue. More news and analysis of the latest ARIA/Transamerica/PIMCO CDA will be forthcoming.]

Transamerica filed a prospectus for the new product on May 15 with the Securities and Exchange Commission. The product, which doesn't appear to have a trade name at this time, would be marketed to fee-based registered investment advisors (RIAs) who want to offer their typically high-net-worth clients a loose, flexible lifetime income guarantee.

If it works like ARIA's RetireOne program, each of the three partners plays a different role. ARIA will administer the product through its online platform; PIMCO will provide the underlying pool of fixed income investments, and Transamerica will provide the guarantee that the pool will provide income for life as long as the end-client (or couple) doesn't exceed a designated annual spending limit.

CDAs are a compromise built specifically for RIA channel, which isn't receptive to annuities because they're too restrictive in terms of investment options and because RIAs, unlike broker/dealer reps, don't sell products for commission; they earn management fees based on the value of the assets they manage.

But the insurers and RIAs have a motive for working together. Insurers can't afford to ignore the rich and growing RIA channel, and RIA's can't ignore their older clients' need for lifetime income protection. CDAs are designed to be a compromise. The RIA client gets a lifetime income guarantee and the client's assets remain with the RIA instead of in an insurance company separate account. (Variable annuities create tax problems; all withdrawals are taxed as ordinary income.)

The asset provider (PIMCO in this case) earns fees based on the market value of the product they supply, the insurance company (Transamerica Advisors Life in this case) earn fees based on the size of the guarantee, and the RIA earns a percentage of the client's portfolio for financial advice and portfolio management.

There's a bit of a catch for the RIAs and their client. They can't buy a lifetime income rider for any bundle of assets they happen to manage. Risk exposure and insurance costs would be prohibitively high. Instead, the CDA offers RIAs an insurable range of investment options; the riskier the option, the higher the insurance fees. The RIAs, it is hoped, will accept that minor loss of choice as long as the assets are under their control and not in a variable annuity separate account.