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Bird? Plane? No, It’s a New MetLife VA Rider

By Kerry Pechter *Thu, Feb 19, 2015*

With the new FlexChoice guaranteed lifetime withdrawal rider on its flagship variable annuities, MetLife is betting that it can provide Boomers with a competitive income vehicle that's light on capital consumption.

MetLife has recovered some of its appetite for variable annuities. The giant publicly-held insurer is hoping that an innovative new VA living benefit rider, called FlexChoice, will help it increase its overall retail annuity sales by about 50% in 2015.

“We’ve been in the variable annuity business for a long time of course, but we had a de-risking and, since then, we’ve focused on designing a product that was more competitive,” Elizabeth Forget, the executive vice president of MetLife’s Retail Retirement and Wealth Solutions business, told *RIJ* in an interview this week. “We are ready for growth again, in a measured way, in a way that meets our profitability and capital requirements.”

“We’ve stated publicly that our goal for 2015 is to increase total retail annuity sales by at least 50%,” she added. “We sold $8.2 billion in 2014. We believe that a lot of that growth will come from [FlexChoice], along with the Investment Portfolio Architect investment-only variable annuity and our product with Fidelity, which has a GMAB [guaranteed minimum accumulation benefit] rider.”

After leading all life insurers with more than $20 billion in retail annuity sales in 2011, MetLife decided to pull back. According to LIMRA’s third-quarter 2014 annuity sales report, MetLife ranked eighth in fixed annuity sales at $2.1 billion and $4.74 in variable annuity sales.

FlexChoice doesn’t require purchasers to choose between single or joint life coverage at the time of issue. Most VA contracts create a dilemma for couples, forcing them to pick either the higher benefits and lower costs of single coverage and sometimes requiring them to guess which spouse will live longer. With FlexChoice, singles and couples (as long as the spouse are no more than 10 years apart in age) pay the same fee for the rider and get the same payout rate when the income pe

To use the FlexChoice rider, MetLife VA owners must allocate 80% of assets to these funds…

- AllianceBernstein Global Dynamic Allocation Portfolio
- Allianz Global Investors Dynamic Multi-Asset Plus Portfolio
- AQR Global Risk Balanced Portfolio
- Barclays Aggregate Bond Index Portfolio (Class G)
- BlackRock Global Tactical Strategies Portfolio
- Invesco Balanced-Risk Allocation Portfolio
- JPMorgan Global Active Allocation Portfolio
- MetLife Balanced Plus Portfolio
- MetLife Multi-Index Targeted Risk Portfolio
- PanAgora Global Diversified Risk Portfolio
- Pyramis Government Income Portfolio
- Pyramis Managed Risk Portfolio
- Schroders Global Multi-Asset Portfolio

… And no more than 20% of assets to these:

- American Funds Balanced Allocation Portfolio (Class C)
- American Funds Moderate Allocation Portfolio (Class C)
- SSgA Growth and Income ETF Portfolio
- MetLife Asset Allocation 20 Portfolio (Class B)
- MetLife Asset Allocation 40 Portfolio (Class B)
- MetLife Asset Allocation 60 Portfolio (Class B)

The decision to choose single or joint-life coverage comes later. If and when the account value goes to zero and the contract is in-the-money, and both spouses are alive, they must accept a lower payout rate if they want guaranteed income for as long as both are living.

“When we were designing this product, our research and showed that people are looking for flexibility. The fact that people had to decide at issue whether they wanted single life or joint life was very restrictive, because you have the lower income and higher fee if you pick joint coverage,” Forget told *RIJ*.

“With this product, they can take income at a level they want for either one or two lives. Later, if and when the account value goes to zero and the MetLife benefit kicks in, then they can decide whether to take it for one or two lives.” Contract owners who use FlexChoice get a conditional account balance guarantee: They can lapse the rider on the fifth or tenth anniversary, or any subsequent anniversary, and get at least their premium back.

For people who want flexibility in the size of their income stream, FlexChoice offers two payout regimes, “Level” and “Expedite”. For people who start withdrawals between ages 65 and 75, for instance, “Level” payouts start at 5% then drop to 4% for joint coverage if the account zeroes out. “Expedite” payouts start higher—at 6% for both singles and couples—but if the account goes to zero before the contract owners reach age 80, the new single rate is 4% and the new joint life rate is 3%. (The age of the older spouse is used when determining age of first withdrawal.)

Roll-ups were and remain a key driver of sales of variable annuities, and FlexChoice offers a 5% compound increase in the benefit base (the notional amount to which the withdrawal percentage is applied) for the first 10 years (in years when no withdrawal is taken). That’s well below the double-your-money-after-10-years pre-financial crisis offerings. But clients like to think of a roll-up as a guaranteed growth rate—though the two are not comparable—and 5% sounds like an oasis in the ongoing yield drought.

Given the cost of this product and the restrictions on investments, contract owners aren’t likely to see benefit base gains in excess of 5%. Although the FlexChoice offers optional step-ups when the account value reaches a new high on a contract anniversary, few accounts are likely to grow fast enough to overcome both the expense ratio (about 4% all-in) and the 5% annual roll-up.

The FlexChoice rider fee is 120 basis points. That goes on top of a 105 basis-point mortality and expense ratio for the MetLife variable annuity contract, a 25 basis-point administration charge, an optional 65 basis-point FlexChoice death benefit and fund fees that range from 52 to 190 basis points. Assuming an average fund fee of 100 basis points, the whole package costs over 4% a year.

Even with that level of fees, a contract owner doesn’t have complete investment freedom. He or she must invest at least 80% of the contract assets in a combination of managed-risk funds, and the remainder in balanced funds. The combination of insurance fees and reduced-risk funds creates two levels of risk mitigation for the issuer and two hurdles to appreciation for the contract owner.

“We have heard the ‘belt and suspenders’ objection from advisors, so we made the investment restrictions a bit more flexible,” Forget told *RIJ*. “We tried to do whatever we could, but it’s very expensive to offer these guarantees. We also try to make it as clear as possible that these funds are meant to be more conservative.” MetLife has a third level of risk mitigation available for FlexChoice contracts: On new contracts, it can reduce the roll-up rate or the withdrawal rate during periods of market stress.

It’s interesting to compare the anticipated income rates from the new FlexChoice rider to the latest payout rates for the deferred income annuity that MetLife introduced in 2014. The payout from the MetLife DIA for a 65-year-old couple with a $100,000 premium and a 10-year deferral rate is currently $882 a month for the lives of both spouses, according to Cannex.

If the same couple invested the same premium and chose the same deferral period for a MetLife VA with FlexChoice, the premium would compound to at least $162,900 in 10 years. It would pay out $814 a month for life under the Expedite option but only $679 a month under the level payment option. If account zeroed out before both spouses had died, income for both lives would drop to $407 under the Expedite option and about $340 a month under the level option.

Difference clients and advisors place different values on the added liquidity that’s available under a VA contract. Some will prefer the higher income of the DIA; others will choose the flexibility of the annuity. By offering a range of products, MetLife reduces the likelihood that potential clients will ever need to go elsewhere to find what they need.

“MetLife is committed to the retirement space. Americans need help with retirement,” Forget said. “But we’re still focused on our core strategy, which includes growth overseas and reduced reliance on capital-intensive products. Our strategy has evolved and we feel good about where our annuity business is.”