

## Bonuses enhance yield in Allianz Life's new indexed annuity

By Editorial Staff     Thu, Mar 5, 2020

*Low interest rates send players in different niches of the retirement business in different directions toward different solutions for different types of customers. Here's how the leading FIA issuer cracks the nut.*



When stocks and bonds are trading at record or near-record prices and risk premiums shrink to almost nothing, investors, advisers and product developers have to get creative in their search for safe yield. All of today's fruit is high-hanging.

In the absence of attractive bond yields, some life insurers offer annuity contracts with bonuses. Allianz Life of North America has led the indexed annuity market for some two decades with its bonus products. It rolled out the latest version this week.

[\*\*Allianz Benefit Control\*\*](#) is the product's name. If the contract owner earns an annual credit from the appreciation of the underlying equity index-linked options, Allianz Life enhances the credit and, as directed by the owner, adds it to one of the two sleeves in the contract.

One sleeve is the contract's account value. That's what owners receive if they cash out today (net of surrender fees and market value adjustments). The second sleeve is the "protected income value" or PIV. The insurer multiplies the PIV by an age-adjusted payout percentage to calculate the annual income that owners can receive for the rest of their lives.

Owners who want the highest possible future income can raise their PIVs by 250% of annual earned interest, if any, and also raise their account values by 50% of their earned interest. In other words, if someone earns 4% for the year, the PIV goes up by 10% and the account value goes up by 2%. That's option one.

Alternately, owners can raise their PIVs by 150% of earned interest and raise their account values by 100% of earned interest. If someone earns 4%, the PIV goes up by 6% and the account value goes up by 4%. That's option two.

The product [\*\*brochure\*\*](#) offers an example. It hypothesizes a 58-year-old woman who makes a \$100,000 contract payment. She plans to retire at age 65. Allianz Life immediately raises

her PIV to \$110,000 with a 10% purchase bonus.

In her first year of ownership, she earns 4%. If she has chosen option one, her PIV goes up by 10% and her account value goes up 2%. If she has chosen option two, her PIV goes up by 6% and her account value goes up 4%.

When she reaches age 65, her PIV has grown to a projected \$186,000 or so. At that age, her age-adjusted payout percentage is 3.75%. She's entitled to about \$7,000 a year for life. That income can go up if she earns additional interest from the fixed indexed annuity, which keeps on going even after income begins. If for some reason she needs nursing home care, she could double her annual rate of withdrawal under the contract's Alliance Income Multiplier benefit. Future annual withdrawals will be substantially lower, however.

The contract is complex, to be sure. Part of the complexity comes from the flexibility. The product can be used for accumulation or income. Liquidity is available but limited by the surrender fee, which starts at 9.3% in the first year and declines to 1.05% in the tenth year. The bonuses need to be weighed against the low payout percentages, which reach no higher than 4.75% for a single contract owner age 80 or more.

Part of the complexity also stems from the fact that the "planning process"—the kind of planning that a fee-based or fee-only adviser might provide to a client—is pre-baked into the product and lasts for the life of the client. The adviser or agent who sells an annuity contract is getting paid a commission by the issuer for distribution services, not necessarily for giving advice.

To use an analogy from the Internet world, buying an indexed annuity with lots of complex flexibility is like buying software as a service (SaaS). SaaS products often give their subscribers a lot of cloud-based functionality but rely largely on the subscriber to run it. There's telephone or chat support after the sale, but the value of the product depends a lot on the subscriber's own capability and perseverance.

Few fee-only advisers would sell a product like this, even if it were available on a no-commission basis. They earn asset-based, hourly, or by-the-project fees for offering guidance, not products. If they were looking for a scalable way to help mass affluent clients, such a product might fit into their practices.

But it probably wouldn't suit their personalities. Fee-only advisers tend to regard annuities and other packaged products the way master woodworkers regard ready-made retail furniture. They're certain they could produce something better and cheaper on their own

workbenches.

But the larger point here is that low interest rates—which have lasted for years and could last for many more—send players in different niches of the retirement business in different directions toward different solutions for different types of customers. For life insurers who manufacture indexed annuities, bonus contracts like Allianz Benefit Control make the most sense.

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