Building a Personal Pension, a Month at a Time

By Kerry Pechter *Thu, Feb 22, 2018*

Recent filings show that Prudential plans to launch a direct-sold, auto-pay, multi-premium fixed deferred income annuity called GIFT, or Guaranteed Income for Tomorrow.

Prudential Financial intends to join a quiet but intriguing new trend in retirement income: The sale of multi-premium deferred income annuities more or less directly to the public through the Internet.

The new Prudential product is called Guaranteed Income for Tomorrow, or GIFT, and it will be "initially distributed through direct response solicitation through our Group Insurance business," according to Prudential's 10-K **report** for 2017, filed last Friday, February 16.

A Prudential Financial spokesperson declined to comment on the product, but it is described in a **filing** by Prudential Annuities Life Assurance Company with the Washington DC Department of Insurance and Securities Regulation (a local, not federal agency) last August 17.

Prudential's GIFT will be marketed at first through Prudential's group insurance business, which currently offers a guaranteed lifetime income benefit rider, called IncomeFlex, to participants in the full-service defined contribution plans that Prudential administers.

"It's a DIA [deferred income annuity] with a minimum delay of 13 months," said Tamiko Toland, head of annuity research at CANNEX, which provides annuity data to broker-dealers. "It's marketed to group participants but it's an individual contract. It's a direct offer from Prudential to participants."

"It doesn't appear to be a replacement for IncomeFlex [Prudential's 401(k) in-plan lifetime income offering], since it's not offered through the [401(k)] plan itself," Toland said. "It's non-qualified so it's not a QLAC [qualified longevity annuity contract]. This will be web-based and they are creating a platform specifically for that purpose. It requires a registration process and initially [contract owners] must receive all documentation electronically."

Another industry source told *RIJ*, "It's a payroll deduction program. [Prudential is] offering it as a part of the employee benefits options. The employee can have money put into their 401(k), into their medical benefits, and also into the GIFT annuity." Foresters Financial offers a similar payroll-deduction annuity, the source added.

Matt Carey of **Blueprint Income**, a direct-sale online platform that currently sells multi-premium DIAs from several life insurers, told *RIJ* this week, "It's great to see more insurers get into this market and we think highly of the Prudential team working on it. The future of the annuity market is digital. And the low minimum subscription DIA is the right way to re-imagine what an annuity should be—simple, low barrier-to-entry and built exclusively to provide income. We think what Prudential's doing is further validation of that."

Contract owners would presumably buy a chunk of future income every time they make an automatic payment from their bank account or payroll deferral. In theory, buying a pension could become as easy and as painless as paying a monthly Netflix bill or making any other type of automatic payment.

How much would it cost to buy a personal pension on a monthly installment plan? According to the calculator on Blueprint Income's website, at today's rates, a 40-year-old male could get an income of $1,000 per month for life starting at age 65 by making an initial purchase payment of $5,000 and subsequent monthly contributions of $127 per month (rising 10% per year for 25 years) or $233 per month (rising 5% per year).

A similar calculator offered on Nationwide's GRIN (Guaranteed Retirement Income from Nationwide) **website** shows that a 35-year-old male contributing $300 per month for 30 years would receive $1,118 a month for life starting at age 65. (For more on GRIN, see below.)

According to the Washington, DC, filing, Prudential is leaving open the possibility that it may market the product through advisors as well as online and that it may accept tax-deferred as well as post-tax money. At present, the offering is for single-life contracts only. Contract owners will be able to change their income start date at least once. The minimum contribution is $100. The latest income start age is 84.

GIFT "will be marketed through direct response solicitation to consumers," the filing said. "We intend to collect the information needed to issue the annuity via a secure online process described in the attached Appendix A. In the future, we may offer the submitted annuity through traditional channels including advisor-sold channels."

Like most deferred income annuities, GIFT will have no cash value. But a death benefit equal to the paid-in premium (adjusted for taxes and fees) will be paid if the contract owner dies before income payments begin. An installment refund equal to un-disbursed premium will be paid to the beneficiaries if the contract owner dies before the entire premium has been paid out.

"Annuity income payments from this contract will be in the form of payments for life with an installment refund. Annuity income payments under this contract may not be accelerated, advanced or commuted. The contract has no cash surrender value and surrender/withdrawals are not permitted. A death benefit, equal to the purchase payment(s) adjusted for any premium taxes, is payable upon death before annuity income payments begin," the DC filing said.

Americans arguably need vehicles for buying retirement income with incremental contributions to a deferred annuity over their lifetimes. Defined contribution plans typically do not and cannot easily offer such a service (TIAA's 403(b) plan is an exception), although MetLife attempted to introduce an in-plan multi-premium personal pensions with its unrealized SponsorMatch venture before the financial crisis.

So far, mutual insurers New York Life and Guardian offer multi-premium deferred income annuities direct to consumers (with the mediation of insurance-licensed agents) through the Blueprint Income (formerly

Abaris.com) website, Blueprint Income's Carey said.

Nationwide has been testing the same concept, which it calls GRIN, within the state of Arizona. "With GRIN, we're selling a DIA on a stand-alone basis" rather than as a part of a comprehensive retirement plan, Eric Henderson, Nationwide's senior vice president for annuities, told *RIJ* last November. "We're relying on the simplicity of the offer: 'You give us $100 a month today and we'll pay you $210 a month in retirement,' for instance."

GRIN's target market is middle-class people in mid-life who do not have 401(k)s and do not work with financial advisors. "If you look at it mathematically, the DIA makes a lot of sense," Henderson said. "If you look at it emotionally, it can be a hard sell because there's no immediate gratification. So it becomes a matter of how you position it and how you talk about it."