Retirement Income
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Contingent Deferred Annuities: Still a Rare Bird

By Editor Test *Wed, Jul 11, 2012*

Only two life insurers—Transamerica Advisors Life and Great-West Life & Annuity—can be said to be actively marketing contingent deferred annuities, aka stand-alone living benefits. Phoenix is on the cusp.

Since 2007, eight life insurance companies have filed prospectuses with the Securities & Exchange Commission for contingent deferred annuities. Currently, ARIA's RetireOne (insured by Transamerica) and Great-West's SecureFoundation products are being marketed.

The Phoenix Companies has several CDA prospectuses pending SEC approval, and Nationwide Financial has put the marketing of its Portfolio Innovator on hold, pending technical integration with distributor platforms. It has been widely reported that Prudential Financial intends to create a CDA this year.

Here are summaries of the CDAs, including both those that are active and those that have been withdrawn or are inactive for various reasons:

Transamerica/ARIA Retirement Solutions (Active)

In December 2011, Transamerica Advisors Life filed a prospectus for a group fixed contingent annuity that is currently marketed by ARIA Retirement Solutions as RetireOne, a CDA aimed at the fee-based advisors at large custodial firms like Charles Schwab—the firm where the people who founded ARIA were once employed.

The annual expense of the guarantee (or certificate) starts at 1% of the account value for portfolios with no more than 50% equities and rises to 1.75% for portfolios that hit the limit of 80% equities. International exposure is limited to 25%, small/midcap to 10% and alternatives to 5%.

Big deposits earn fee discounts: the fees on a $2 million contract go as low as 85 basis points. On the other hand, clients who take advantage of quarterly high-water marks to step up their benefit base to the account value will have to pay more for the privilege. The maximum contract fee is 2.50%.

As for approved investment options, the current batch includes over 140 funds and ETFs from families that RIAs like: American Funds, DFA, iShares, Pimco, Schwab, TIAA-CREF, Vanguard and other favorites. Stone expects a lot of RIAs to build new insured portfolios from these approved options at their custodian of choice, rather than try to put an income floor under an existing portfolio.

But what's novel about ARIA isn't the pricing or the investments. It's the technology that lets the insurance company watch the investments on any of 50 different custodians and hedge them as they fluctuate.

"ARIA's technology allows us to receive files from the custodians so that we can monitor the positions as we would any of our variable annuity subaccounts, and to use our risk management protocols and hedge accordingly," a Transamerica executive told RIJ last spring. "We can see the same type of data, as if it were on our own platform."

Phoenix Guaranteed Income Edge (Pending SEC approval)

PHL Variable Insurance (Phoenix) filed prospectuses in April 2012 for the Phoenix Guaranteed Income Edge, an insurance policy designed to provide lifetime income for advisory clients of Lockwood Advisors who have chosen the LIS^2 (Lockwood Investment Strategies Longevity Income Solutions program).

PHL Variable Insurance's financial strength is rated B+ by A.M. Best, Ba2 by Moody's and BB- by Standard & Poor's.

This certificate offers a 5% [of the retirement income base] payout starting at age 65. You can mix and match various asset classes of ETFs and mutual funds within three ranges—up to 60% equities, 80% equities, and 100% equities—and you pay a higher insurance fee as you go up in equity exposure. For instance, it costs 140, 200, and 265 basis points for the three equity exposures for a single life, and 215, 300 and 390 basis points for a joint and survivor. The maximum fee is 500 basis points.

The exact funds and ETFs available are not named in the prospectus. On top of the insurance fees, there's a 50 bps fee for participating in the LIS^2 program, plus the ETF or fund fees, and an unspecified Lockwood financial advisor fee. Policyholders can pay the fees from a side account. The minimum contract amount for participation is $250,000.

Income Edge is also being offered to clients of J.P. Turner & Co. Capital Mgt., Portfolio Design Advisors, Eqis Capital Management, Inc., and Institute for Wealth Management LLC.

Great-West SecureFoundation Group Fixed Annuity (Active)

On May 1, Great-West Life & Annuity Insurance Co. filed a prospectus a group fixed deferred annuity certificate. This appears be a rollover IRA version of the Great West's existing stand-alone-living-benefit for retirement plan participants. It will be offered to certain IRA owners who invest in the Maxim SecureFoundation target date funds, with target dates of 2015 through 2005, with the usual five-year intervals between.

The buyers purchase the certificate ten years before the fund with the appropriate retirement date. Since you're investing in a balanced fund-of-funds that presumably gets more conservative toward retirement, the fee is low—90 basis points per year (1.5% maximum).

Like a GLWB, the SecureFoundation CDA has age bands for determining payout rates in the income phase: 4% a year if income starts between age 55 and 64, 5% if between 65 and 69, 6% if between 70 and 79 and 7% if after age 80. Those are for single contracts. The payout rate for joint contracts is a half-percent lower for each age band.

Nationwide Portfolio Innovator (On hold)

On April 29, 2011, Nationwide filed a prospectus for its Portfolio Innovator, an "individual supplemental immediate fixed income annuity contract," to be offered to clients who invest in "eligible" portfolios managed exclusively at Envestnet, the Chicago-based regional broker-dealer.

The contract requires a minimum investment of $100,000, and contract owners could pay an insurance fee of 90 basis points for a 45% equity portfolio with no allocation to large cap core funds, to as much as 130 basis points for a 70% equity portfolio with up to 30% large cap core funds and up to 25% international developed market equity exposure. The non-equity portion of each portfolio can be funded with taxable bonds or municipal bonds.

Income can start at age 65 and the payout rate is 5% (4.5% for joint contracts). Nationwide said last March that it intends to distribute the Portfolio Innovator through Morgan Stanley Smith Barney when the two companies' platforms are integrated.

Genworth Life Harbor (Withdrawn)

On May 3, 2010, Genworth filed a prospectus for a Life Harbor contract, to be offered to clients of Genworth Financial Wealth Management. When Genworth got out of the variable annuity business, it got out of the CDA business too, a company spokesman told RIJ. The minimum investment was $50,000 ($100,000 for ETF accounts) and the insurance fee for a "moderate" 60% equity/40% fixed income portfolio was 85 basis points (100 basis points for a joint contract) or a fee of 100 bps (120 for joint contracts) for a moderate growth 70% equity/30% fixed income "moderate growth" contract, with investment fund options managed by Callan, Goldman Sachs, JP Morgan, Litman/Gregory, Avatar Associates, New Frontier Advisors, and State Street. Contract owners could withdraw 5% for life starting at age 65.

Allianz Life CDA (Never launched)

On October 12, 2010, Allianz Life filed a prospectus for an contingent deferred annuity whose payout bands were linked to the prevailing 10-year Treasury rate. It had a $75,000 minimum, and the only three designated investments were the PIMCO Global Multi Asset Fund, PIMCO Total Return Fund and PIMCO Money Market Fund (PIMCO, like Allianz Life, is owned by Allianz, the German financial giant.) No current insurance charge was specified. The prospectus said only that the charge would be between 0.25% and 1.75% of the benefit base. Under the contract, the payout rate would be 4% with a Treasury rate of less than 3.5%, 5% with a rate of 3.5% to 4.99%, 6% with a rate of 5% to 6.49% and 7% with a Treasury rate of 6.5% or higher.

Merrill Lynch Withdrawal Insurance (Withdrawn)

In 2008, before it was absorbed by Bank of America, Merrill Lynch filed a prospectus for a contingent deferred annuity that it called "withdrawal insurance." The prospectus was later withdrawn. The annuity certificate cost 50 basis points (60 bps for a joint contract) to insure a Morningstar Conservative portfolio, 65 bps (85 bps for a joint contract) to insure a Morningstar Moderate portfolio, and 95 bps (145 bps for a joint contract) to insure a Morningstar Moderate Growth portfolio. Policyholders could withdraw 5% a year if they started taking income between ages 60 and 69, 6% a year if they started between ages 70 and 79, and 7% if they started at age 80 or older.

Allstate Life CDA (Withdrawn)

In December 2007, Allstate Life filed a prospectus for a contingent deferred annuity. The payout rates started at 5% at age 60, and rose 10 basis points per year to 7% starting at age 80 (50 bps less at each age for joint contracts). The eligible investments were 2005, 2010, and 2015 Retirement Strategy target-date funds, and the cost of insuring them was 75 bps, 100 bps and 125 bps, respectively. No fees were assessed during the payout phase. The prospectus also refers to an annual 5% rollup in the value of the benefit base. The prospectus has since been withdrawn.