Fidelity Outsources GWB Production to MetLife

By Editor Test *Wed, Nov 18, 2009*

The living benefit guarantees became too expensive for FILI, Fidelity's life insurer, to underwrite cost-effectively.

Fidelity Investments has replaced its successful Fidelity Growth and Guaranteed Income variable annuity with a new contract that's similar in name, less risky to the company, more expensive for investors and has a different underwriter: MetLife.

FGGI was "one of the most successful product launches Fidelity has ever had," said Joan Bloom, senior vice president at Fidelity Investments. But after the financial crisis its living benefit guarantees became too expensive for FILI, Fidelity's relatively small captive life insurer, to keep underwriting.

"We sold about $1.5 billion in 16 months" with FGGI, Bloom said. "But this was about volatility and the cost of hedging, and FILI doesn't have the same capability that MetLife has on the insurance side." MGGI got a million dollar contract on its first day, she said.

Now called MetLife Growth and Guaranteed Income, the product will be sold exclusively through Fidelity, which markets no-load mutual funds and other financial products and services directly to investors. Fidelity also sells MetLife fixed annuities and single-premium immediate annuities.

In both the new and the prior product, investors are limited to one investment choice. The new product offers the Fidelity VIP Funds Manager 60% Fund, which holds 60% equities, 35% bonds and five percent cash. The old product offered a Fidelity VIP Balanced Fund. "It's exactly the same investment," Bloom said.

In both contracts, there was a flat two percent surrender charge during the first five contract years and step-ups of the income base to the account value, if higher, on each contract anniversary until age 85. The new product has a return-of-premium death benefit while the ultra-slim FGGI version did not.

The MetLife edition of the product is more expensive than its predecessor. With a $50,000 initial minimum premium, it has an M&E of 1.90% for single life and 2.05% for joint coverage, and current fund fees of 84 basis points. The FILI contract, which required a $25,000 initial premium, charged a single all-inclusive price of only 1.10% for single owners and 1.25% for joint owners.

"Even at that price [274 to 289 basis points], it still provides value to the customer," Bloom said, given the historic returns of the product's 60-35-5 investment allocation. "And it's among the lowest-priced living benefit products on the market."

While the original FILI product offered a flat five percent payout from the guaranteed income base, the MetLife version offers three age bands. It pays out four percent of the base for those ages 59½ to 64, five percent to those ages 65 to 75, and six percent to those who delay guaranteed income to age 76 or later.

People approaching or living in retirement can use a portion of their 401(k), 403(b), IRA or any other savings, to purchase guaranteed lifetime income for an individual or for his or her spouse with MGGI. A MetLife/Harris Interactive poll conducted in September 2009 showed that since the economic downturn, 68% of Americans value portfolio protection against market losses more than stock market gains.

Among older baby boomers (ages 55-65) this conservatism is acute, with 16% in the MetLife poll saying that they are "more focused on having reliable monthly income versus focusing solely on the size of their nest egg."