

'Freedom' is the key to Sammons' new variable annuity

By Editorial Staff Thu, Jul 26, 2018

'The unique feature is the Freedom Date,' said Bill Lowe, CEO of Sammons Retirement Solutions. 'If you buy this at age 60, at age 80 you have 100% access to the accumulation value without negatively affecting the lifetime payment account.'

What makes a skeptical advisor sit up and notice a new variable annuity contract? Three factors rank high: ample equity exposure, a guaranteed floor income, and maximum ability to access the money in the contract.

In their unusual new LiveWell Freedom Variable Annuity contract, Sammons Retirement Solutions and Midland National Life have done a creative job of arranging the product's moving parts to respond to those criteria.

"You can't come out with something that's like everybody else and expect to change the market," Sammons CEO Bill Lowe told *RIJ* in a phone interview this week. "Variable annuities with GLWB [guaranteed lifetime withdrawal benefits] riders were selling better when the benefits were higher. First, you have to have upside potential. So we allow up to 80% equity exposure."

LiveWell Freedom VA owners are required, in fact, to allocate between 60% and 80% of the premium to one or more of only five equity fund options. The product has an annual roll-up linked to the returns of the S&P 500 Index as well as a novel "Freedom Date."

Bond Funds
BlackRock Total Return V.I. Fund Class III
Janus Henderson Flexible Bond Portfolio Service Shares
MFS VIT II Corporate Bond Portfolio Service Class
PIMCO VIT Total Return Portfolio Advisor Class
Western Asset Variable Core Bond Plus Portfolio Class II
Equity Funds
American Funds IS Blue Chip Income and Growth Fund Class 4
BlackRock Large Cap Focus Growth V.I. Fund Class III
BlackRock S&P 500 V.I. Fund Class III
Deutsche Equity 500 Index VIP-B
Oppenheimer Main Street Fund/VA Service Class

The Freedom Date provision allows the contract owner to take money out of the contract without affecting the annual income payment after a 20-year holding period (25 years if the

owner is under age 60 at time of purchase. (There is no guarantee, however, that there will be a positive balance in the contract after 20 years of withdrawals and fees. But the high equity allocation makes it conceivable.)

"The unique feature is the Freedom Date," Lowe said. "If you buy this at age 60, at age 80 you have 100% access to the accumulation value without negatively affecting the lifetime payment account. And after that point, we no longer charge for the rider." In other words, clients don't have to outlive all of their own assets before starting to receive the insurer's money. "Normally, with a GLWB, the insurer doesn't pay those benefits until you run out of money," he added.

The design of the roll-up is also novel. "You've seen those contracts with a five percent or six percent roll-up," Lowe said. "We tied the roll-up to the S&P 500." Each contract year after purchase, the income base increases by 2% plus 75% of the gain in the S&P 500. The annual roll-up stops at the first withdrawal, or when the income base reaches 200% of the value of the original premium.

The insurer pays for these benefits in part by lowering the generosity of the withdrawal rates. Between the ages of 60 and 64, withdrawals are limited to 3.5% of the benefit base (which unlike the account value, is not exposed to market depreciation) per year (3.0% for joint-and-survivor contracts). For ages 65 to 69, withdrawals are capped at 4% per year (3.5% for joint contracts). Withdrawals in excess of the cap reduce the account value and the annual payout.

As for the roll-up's promise of 75% of the gain in the S&P 500 Index during each contract year, the insurer uses a portion of the annual 1.45% GLWB rider fee (based on the value of the income benefit) to hedge against higher-than-expected gains in the index. The GLWB fee is assessed every year that the contract is in force, and not just in years when a roll-up is earned.

In addition to the GLWB rider fee (which the insurer can adjust as high as 2.50% during the life of the contract), there's a .90% annual mortality and expense risk fee (which the insurer can apply to distribution costs) and an annual administrative fee equal to 0.35% of the account value.

Investment fees on the 10 mutual fund options (see box below) range from 0.61% per year to 1.10% per year. None of the funds have "volatility controls" that act as built-in buffers on their appreciation. When the contract owner or owners die, a death benefit equal to the

remaining account value is paid.

The contract has a seven-year surrender period with a maximum penalty of 8% on withdrawals that exceed the free withdrawal limit, which is equal to 10% of the account value, the regular income payment if income has begun, or the amount of the contract owner's requirement minimum distribution from a qualified contract purchased with pre-tax money.

The LiveWell Freedom variable annuity is distributed through banks, independent broker-dealers and full-service broker-dealers (wirehouses). "We're generally focused on the regional full services distributor," Lowe said. Asked if the LiveWell contract might cannibalize some of Midland Life's fixed indexed annuity sales, he said, "It's a completely different buyer. [The FIA buyer] One is conservative and values the protection of principal. The [VA buyer] says, 'I'd like to have more upside.'"

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