Get a Downside Buffer with Your Variable Annuity

By Kerry Pechter *Thu, May 13, 2021*

Delaware Life executives Tom Seitz and Dale Uthoff explain their new variable annuity, Accelerator Prime, with RIJ. Like hot-selling registered index-linked annuities, it offers a downside "buffer."

Delaware Life is one of the new breed of life insurers that was born or renamed after the Great Financial Crisis, when big asset managers like Guggenheim, Apollo and Goldman Sachs helped gobble up stressed blocks of annuity business at bargain prices from US insurers like Sun Life Financial, Aviva, The Hartford, and others.

Based in Waltham, Mass., Delaware Life emerged from the 2013 Guggenheim-led purchase of Sun Life Financial's annuity business. **Group 1001**, a holding company whose CEO is Guggenheim Insurance senior managing director Dan Towriss, now owns it. Delaware Life first sold fixed deferred annuities, then added fixed indexed annuities (FIAs). In 2020, it ranked 12th in FIA sales ($1.6 billion) and 13th in fixed deferred annuities ($1.1 billion) in the US, according to LIMRA.

Many of the big insurers that once sold tens of billions of dollars in variable annuities (VAs) with living benefits and generous income bonuses—including Prudential, Equitable (then AXA-Equitable), and MetLife—have retreated from that business. But Delaware Life, which still owns a run-off block of Sun Life variable annuities, introduced a VA with GLWBs and an annual increase in the income base in November 2018.

By the end of this month, the firm plans to launch a second VA contract, **Delaware Life Accelerator Prime**. In addition to income riders for deferred income, the contract features an optional downside buffer. The buffer resembles those offered by the hot-selling registered index-linked annuities (RILAs). But Accelerator Prime is no RILA: the owner invests directly in funds, not in options on an index.

Dale Uthoff

"We're looking to diversify into variable annuities," said Dale Uthoff, the senior vice president and actuary who runs Delaware Life's VA business, in a recent interview with *RIJ*. "In that sense, we're going in the reverse direction of the traditional VA issuers. There are some synergies between hedging FIAs and VAs. In a VA, there's an implied put option, and on the index annuity there's a call option. We do believe that's a benefit. They have different risk profiles and a different customer base."

"It competes directly with the RILA," said Tamiko Toland, head of annuity research at **CANNEX**, which collects, computes, analyzes, and distributes annuity data to annuity distributors and advisers.

Variable annuity with a buffer

Accelerator Prime has a profusion of features and options packed into a single product, built for sale by commission primarily through banks and wirehouses. Its main differentiator among its peers is that downside buffer, or "Guaranteed Market Protection Benefit."

This GMPB comes in two term lengths. Its Armor Flex 7 version protects the policyholder from loss to principal of up to 10% over seven years. Its Armor Flex 10 version protects against losses up to 20% over 10 years. Net losses beyond those lower bounds are the contract owner's loss. The GMPB rider costs 45 basis points a year when purchased alone and 10 basis points when purchased with a GLWB.

Unlike a typical RILA, the GMPB offers only a downside buffer, without an upside cap or participation rate. Since the owner of a VA invests directly in funds, rather than buying a collar of options on a market index, an upside cap or participation rate is irrelevant. A RILA owner, however, can use an all-equity index, while Accelerator Prime owners who choose the GLWB or GMPB riders must invest in 25 or so “cautious” or “moderate” asset allocation funds.

Overall, the Accelerator Prime offers 96 fund choices from 20 asset managers, including well known providers of actively managed funds, such as American Funds, Goldman Sachs, Morgan Stanley, T. Rowe Price, Franklin Templeton, MFS, Lord Abbett, Columbia Threadneedle, Valmark’s TOPS, and others.

There are two GLWB income riders, with either a 6% (Income Boost) or 7% (Income Control) simple annual increase in the benefit base for up to 10 years. (The benefit base is the notional minimum amount which, when multiplied by the age-related payout percentage, determines the annual lifetime income benefit.) There are two GMAB (Guaranteed minimum accumulation benefit) riders, which protect most or all of principal over seven or 10 years.

The Accelerator Prime comes with all the fees you’d expect in a traditional VA with multiple insurance riders. All-in fees, including a GLWB or GMAB, investments, an optional death benefit, and the annual fee for mortality and expense risk, could range to 3% or more. (Investment and m&e fees are based on the account balance; rider fees on the benefit base). The seven-year surrender charge period for each premium payment has an initial penalty of 8% for excess withdrawals.

A scratch-pad calculation showed that if a 55-year-old couple invested $500,000, they could get about $44,625 for life starting at age 65—substantially more than they could get from a deferred income joint-life annuity purchased at age 55 for $500,000, according to immmediateannuities.com. if the benefit base at age 65 were $1 million, the owner of the Accelerator Prime could expect to pay rider fees on the $1 million throughout retirement and other fees on the account balance. If either spouse outlives the account value, the insurer would pay at least $44,625 per year for as long as he or she lives.

Distribution strategy

Delaware Life packed so many options into one contract because many of the larger broker-dealers have room for only one VA contract per issuer on their platforms. “There’s limited shelf-space at broker-dealers,” said Tom Seitz, president of Delaware Life Marketing and former executive vice president at Sun Life Financial Distributors, in an interview. “We offer a core chassis but with a lot of flexibility.”

Tom Seitz

In 2014, when the company was selling only fixed annuities, it distributed through insurance marketing organizations (IMOs), which act as wholesalers between insurers and insurance agents. Delaware Life began distributing through banks and broker-dealers in 2017 and 2018. It began employing its own wholesalers and “created an ‘impact’ model versus a ‘coverage’ model, so that we can drill down into territories,” Seitz told *RIJ*.

“Now we have more than 15 IMOs, and 75 to 80 banks and broker-dealers,” he added. “We’re not trying to be all things to all people. We’ve been targeting specific organizations and broadening the product portfolio.” The company responded to the communication barriers imposed by the COVID-19 pandemic by investing in the **Allego** sales platform, data mining tools and other digital technology.

Delaware Life is not currently marketing no-commission annuities to fee-based Registered Investment Advisors through web platforms like DPL Financial Partners or RetireOne. “We have not actively gone after RIAs or invested in the platforms,” Seitz said. “We’re looking at them, but we’re going to let the dust settle on that. We have enough on our plate with our current model.” Group 1001 has its own web-based distribution platform, called **Gainbridge,** which sells Guggenheim Life and Annuity fixed deferred and single-premium immediate annuities.

Delaware Life has had growing pains in its short life. Because the company didn’t have its own administrative system when it bought Sun Life Financial’s annuity business, service problems “began when Delaware Life transferred a group of annuity contracts to a third-party administrative platform,” according to the Massachusetts Attorney General, which investigated customer complaints about the insurer.

Delaware Life eventually agreed to pay $214,000 in 2018 to some 2,000 customers to settle “allegations of delayed payments under annuity contracts,” and $30,000 to the Commonwealth of Massachusetts. According to an Attorney Genera’s office **release**, “After becoming aware of the problems, Delaware Life began taking steps to address associated errors and implement system improvements.”