Great-West to distribute its new indexed VA to RIAs on the RetireOne platform

By Editorial Staff *Thu, Apr 19, 2018*

RIAs hate annuities--unless they can exchange a client's existing contract for something cheaper and more suitable. Great-West sees opportunity there.

Great-West Financial will distribute its new fee-based index-linked variable annuity, Capital Choice, to registered investment advisors (RIAs) through RetireOne, the independent platform that offers fee-based insurance solutions to RIAs, the two firms announced this week.

“RIAs will now have access to a category of principal protection instruments that haven’t traditionally been available to them,” said RetireOne CEO David Stone, in a release. Founded in 2011, Aria Retirement Solutions’ RetireOne said it has serves over 900 advisors and has nearly $1 billion in retirement savings and income investments under administration.

“ILVAs” and related products–as a group they have no official name–offer performance that’s linked to an index, as do fixed indexed annuities (FIAs). But they characteristically offer investors much higher performance caps than FIAs. In return, investors accept the possibility of market loss (which FIAs guarantee against.)

AXA introduced the product class in 2014 and MetLife, Allianz Life, CUNA Mutual and Great-West followed. Sales grew slowly–people weren’t sure what to make of them–but the category is now a $9 billion to $10 billion business, and one of the brightest sources of sales in an otherwise slow annuity market.

The products are insurance-based versions of structured notes. Some of the them put a floor under client losses, saying that the client can lose no more than 5% or 10% over a given term. Other products, referred to as buffer products, protect contract owners from the first 10% or 20% of losses, but the client absorbs all net loss beyond that point. Some offer a return-of-premium death benefit. As a rule, they don’t offer lifetime income riders.

Great-West Capital Choice

This product is a single-premium indexed variable annuity with a one-year point-to-point crediting method and exposure to four different equity indices: S&P 500, Russell 2000, NASDAQ-100 and MSCI-EAFE. The protection strategy costs 0.4% per year.

“We’ve taken the best elements of the three or four competing products and said, ‘Here’s what we think has resonated with advisors and clients,’” said Lance Carlson, national sales director for individual annuities at Great-West. “We put it all together and now have a product with three or four distinct characteristics that we think will make it sellable.

“For instance, there are other products that charge no explicit fee for the benefit. We charge 40 basis points for the fee-based version, and 120 basis points for the commission-based version. Because of the fee we have a larger risk budget, which means we be more competitive in the cap rate environment. We say, ‘This is what you’ll get and this is what it will cost you.”

As noted above, Capital Choice has both floors and buffers. A client can choose a floor of zero (comparable to a fixed indexed annuity), -2.5%, -5%, -7.5% or -10%. This means the client absorbs any losses up to those percentages but nothing worse. Alternately, a client can choose a 10% downside buffer. If the S&P500 goes down 9%, the client loses nothing for the year. If the index drops 17%, the client loses 7% of his investment.

“We have both a buffer and a floor, and the floor has a lot of intermediate levels,” Carlson told RIJ. “When we were talking to home offices, they said they wanted a minus-five percent floor option. The broker-dealers told us that if they wanted to a minus-five floor, they had to combine a zero floor with a minus-10 percent floor.

“Let’s say the cap rate for a zero-loss floor is 3.85%, while the cap rate for minus-10% floor is 8%. So, on average, they can get an effective cap of about 6%. Our cap for the minus-five floor version is 7.15%. Our return of premium death benefit is also part of the chassis, and we’re writing it up to age 90. So if you’re 82 and you have money to pass on, and you can’t qualify for life insurance, this product can protect that money and give you a chance for growth.

“Also, there are a lot of financial advisors with a huge legacy book of VAs whose owners bought them for income but don’t need the income. Instead of paying 3.5% or 4% fees for that product, they can exchange it for our product, which costs only 0.4% in the fee-based version. That will be a differentiator for us.”

For Great-West’s Carlson, the Capital Choice product is part of a long-term strategy to expand that company’s individual product offerings in the broker-dealer channel and in the US generally. “Most of our $3 billion in profits comes from Canada or the UK. Only 10% of our profits are currently in the US," said Carlson, who came to Great-West from a similar third-party distribution job at MetLife.

"We have not been in the retirement space for individuals, except through our relationships with Schwab and TD Ameritrade. It was a nice little business, but we did not have a big broker-dealer distribution. That's what we have been building over the last two years.

"Instead of 10 broker-dealer relationships we now have 100. We now have 28 wholesalers focused on third party distribution, but to be a top five player we'll need 60 or 70. A couple years ago, we did zero third-party variable annuity distribution; this year we'll do a billion through Schwab and TD Ameritrade. We'd like to get $4 or $5 billion in annuity sales."