# Hancock Offers Lifetime Income with a Cheap, Simple A-Share VA

By Editor Test *Wed, Jun 10, 2009*

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John Hancock, the U.S. unit of Canada's Manulife Financial, has launched an A-share variable annuity with a simplified lifetime income guarantee. The company hopes it will appeal to a broad swath of retirement-bound Boomers ages 55 to 75.

Unlike the widely-sold B-share variable annuities of the past decade, the John Hancock "AnnuityNote" charges a 3% front-end load, has no surrender period or surrender charge, and sports annual costs of only 1.74% (1.20% for the income rider and 0.54% for investment management). The minimum purchase premium is $25,000, in either pretax or after-tax money.

John Hancock was the sixth biggest seller of variable annuities in the U.S. in the first quarter of 2009, with sales of $2.06 billion. Only MetLife, TIAA-CREF, AXA-Equitable, ING and Prudential sold more. The company was the 14th biggest seller of fixed annuities in the quarter, with $702 million in premiums.

AnnuityNote is both cheaper than earlier VAs with lifetime income guarantees and less risky to the issuer. Contract owners must wait five years after purchase to take guaranteed lifetime income of five percent per year. The income base can step up to the account value only once, on the fifth anniversary, and is adjusted for withdrawals. There is only one investment option, a passively managed balanced portfolio.

The contract reflects several of the design changes that actuaries have advised variable annuity manufacturers to make to their living benefit products. Those changes are driven by two factors: more complex living benefits proved too vulnerable to market upheaval and low interest rates, and more complex products are likely to require prohibitive levels of reserves after the anticipated adoption of principles-based accounting standards.

The simplicity of the new product may also reflect the fact that the issuer has a Canada-domiciled parent. Canadian financial firms tend to operate in a simpler manner than U.S. firms—banks and insurance companies are monitored by a single regulator in Canada—and have generally weathered the financial crisis better.

"We have witnessed unprecedented market volatility and deterioration in investor confidence. Our new AnnuityNote helps generate a future lifetime income that is not impacted by market downturns. It also has lower costs and a much more simplified design," said Marc Costantini, president of John Hancock Annuities.

The product targets "advisors and clients who may in the past have avoided annuities for reasons such as cost and complexity," said Robert Cassato, executive vice president, distribution. "We think many cost-conscious advisors will now be inclined to consider converting a portion of their clients' retirement savings into predictable, guaranteed income."