ING Offers a Simpler, Cheaper Variable Annuity

By Editor Test *Wed, Mar 31, 2010*

The contract costs 2.25% a year, including 100 bps for the income rider, 75 bps for the M&E risk fee, and 50 bps for fund management, says Bill Lowe, president of ING Financial Solutions.

During the variable annuity "arms race," ING was a full-fledged nuclear power. Just two years ago, sales of its LifePay Plus product, with its lavish 7% roll-up, were running over $1 billion a month.

Then the financial crisis hit, ending the arms race almost overnight. ING de-risked its product and pulled in its horns. VA sales in 2009, at $6.7 billion, were down almost 40% from $10.87 billion in 2007.

Now the Dutch-owned firm has undergone a reorganization, combining its annuity and rollover businesses into ING Financial Solutions, and it has revealed its first new variable annuity product design since the crisis.

The new variable annuity contract is Select Opportunities. The 7% roll-up has been stripped away, replaced by a simple ratchet. The price is over 100 basis points lower. It is part of a suite of products that ING introduced this spring under a new strategy that's intended to offer advisors a variety of simplified products rather than multiple versions of a complicated one.

"We closed our other variable annuities as part of a broader strategy to take solutions to the market, as opposed to a single product," said Bill Lowe, president and head of distribution for ING Financial Solutions.

"Before the financial crisis, every company was going after the same advisors with the same product—the variable annuity with a big benefit guarantee," he told RIJ. "Now companies are going after different parts of the market.

"We've decided to go with a multi-product strategy—the fixed, indexed, and variable annuities and a mutual fund custodial IRA-based product. From a risk/reward perspective, we're targeting the adviser with a whole spectrum of solutions," he added.

Select Opportunities is a bundled product, with one death benefit and one living benefit, both standard. It has three age bands and a shortened five-year surrender period that puts it "between a B-share and an L-share." It is offered in a single life version only, with no joint-and-survivor options.

The all-in cost is about 2.25% a year, including 100 basis points for the living benefit rider, 75 basis points for the mortality and expense risk fee, and 50 basis points for the investment management.

"We're going after any advisers who were turned off by variable annuities because of the price," Lowe said. "There's an inflection point where they just wont buy the product."

The client's annual payout rate—4% at age 65, 4.5% at age 70, and 5% at age 75—kicks in when the client enters each age band, regardless of when payments began. "It automatically steps you up, so there's inflation protection," Lowe said.

The contract offers 11 investment options, including three large-cap index funds, a midcap and a small cap index fund, two international equity index funds, a Treasury Inflation-Protected Securities fund, and a money market fund. The equity allocation is limited to 70% of the insured portfolio.

"We tried to keep it as simple as we possibly could," Lowe said. "We're trying to draw in the individual who says 'there's just too much optionality, it's too confusing.' The price is back to where annuities were in the early 1990s."