Innovative Two-Stage Income Annuity Proposed

By Editor Test *Wed, Sep 9, 2009*

The payout from Phoenix's Retirement Income Options variable income annuity is life-contingent and variable during the "early retirement" stage, but pays a fixed income with a death benefit during the optional "later retirement" stage.

Hartford-based PHL Variable Insurance Company has filed a prospectus with the Securities & Exchange Commission for an income annuity that delivers income in two stages: a variable income in “early retirement” and a fixed income in “late retirement.”

Under the terms of the Phoenix Retirement Income Options contract, which has no confirmed date of availability to the public, a contract owner (or joint owners) would invest at least $25,000 in non-qualified money between ages 60 and 90 and then select an “early retirement” period lasting at least 10 years.

At the end of the early retirement period, if still living, the owner or owners would have a one-year window to take the commuted value of their contract in a lump sum or to convert the contract to a fixed income annuity.

Insurance companies are typically not allowed to comment on a new offering until the SEC has approved the prospectus.

The Retirement Income Options contract has a number of unusual features. Prospects are urged not to invest more than 15% of their wealth in the contract. During the variable income period, the contract is life-contingent; during the fixed income period, the contract pays a death benefit. During the variable period, the contract owner can defer unneeded income to the fixed period.

According to the filed prospectus:

- The annuity payments in the early retirement phase are designed to be very small initially, but are also designed to increase each year.
- Annuity payments in the later retirement phase are designed to be level and significantly larger than those in the early retirement phase.
- The contract provides an ability to defer each early retirement phase annuity payment, or a portion of such payment until the later retirement phase-“when the owner is expected to have fewer sources of available income and higher expenses and therefore a greater need for larger retirement income payments.”
- The annual mortality and expense risk fee is 1.25% and the fund expense ratios range from 32 basis points to 61 basis points.

The AIR, or assumed interest rate, of the variable income annuity during the early retirement period is set at 4.5%. If the underlying assets appreciate at an annual rate of more than 4.5%, the next income payment will be larger than the initial payment. If the assets appreciate at a lower rate, the next income payment will be smaller than the initial payment.