

Lincoln and BlackRock Launch No-Commission Variable Annuity

By Kerry Pechter Fri, Feb 24, 2017

'Lincoln Core Income' offers 4% guaranteed lifetime income with a 2% COLA, plus a choice of three iShare exchange-traded funds and a death benefit for an all-in cost of about 190 basis points.



Lincoln Financial Group and BlackRock have collaborated to offer a no-commission, no surrender charge variable annuity for fee-based advisors who want to give clients a source of guaranteed lifetime income and who like using low-cost exchange traded funds. The product is called Lincoln Core Income.

“We’re targeting advisors who haven’t traditionally sold or who have never sold variable annuities, because of their perceptions of the cost, and their questions about whether the guarantees offer value at that cost,” said Dan Herr, vice president of Product Development for Annuity Solutions at Lincoln Financial, in an interview.

“With Core Income, the goal was to bring the cost way down and to align the benefit with how fee-based advisors traditionally tell clients to take income,” he told RIJ. “By guaranteeing a safe, COLA-adjusted 4% income, our solution matches the income method that these advisors typically use today. This also fits into the trend toward passive investments.”

Core Income differs from earlier variable annuities with income riders. Since there’s no commission, there’s no surrender charge period or annual mortality and expense risk fee (whose purpose was to reimburse the insurer for paying B-share commissions). The income rider offers an annual cost of living adjustment of 2% to help income keep up with inflation.

The rider, which must be purchased at issue, costs only 85 basis points per year (capped at 1.50%). There’s a return of principal death benefit option for 75 basis points, for a total expense ratio of about 1.9%. Any advisory fees or platform fees charged by the distributors would be extra.

To control its own risk exposure, Lincoln reserves the right to set the payout rates. For all policyholders age 65 or older, it’s currently 4% (3% if the owner or joint-owner is age 60 to

64 at the time income starts):

“The initial percentages applicable to Core Income Benefit elections are determined in our [Lincoln Financial’s] sole discretion based on current economic factors including interest rates and equity market volatility. Generally, the percentages may increase or decrease based on changes in equity market volatility, prevailing interest rates, or as a result of other economic conditions. This percentage structure is intended to help us provide the guarantees under the rider. The initial percentages for new Core Income Benefit elections may be higher or lower than the percentages for existing Contract owners that have elected the rider, but the percentages for existing Contract owners will not change.”

The client can defer the income start date and have the initially-quoted payout rate be increased by the COLA. For example, if a 65-year-old purchaser was quoted a 4% payout rate at issue but chose not defer income for five years, his or her initial payout rate be over 4.4% (because the 2% COLA compounds) of the principal (minus fees) or of the current account value, if higher.

There are three investment options with annual expenses (including initial waivers) as low as 28 basis points. All are ETFs, which reflects the growing flight toward passive investment options among fee-conscious fee-based advisors:

- Lincoln iShares U.S. Moderate Allocation Fund (Standard Class)
- Lincoln iShares Global Growth Allocation Fund (Standard Class)
- Lincoln iShares Fixed Income Allocation Fund (Standard Class)

It remains to be seen whether fee-based advisors will like no-commission variable annuities, or see the advantage in insuring a 4% payout when the 4% payout itself is supposedly protect against running out of money in retirement. But the approach of the applicability date of the 2016 Department of Labor fiduciary rule—the rule took effect last June—has accelerated the shift among advisors away from commission-based to a fee-based revenue model, and insurers must adapt.

In January, Transamerica announced a no-commission variable annuity with a lifetime income benefit rider. The same month, Jackson National Life announced a fee-based version of its popular Elite Access variable annuity, which offers access to so-called liquid alternative investments but doesn’t offer an income rider.

Core Income, however, “has nothing to do with the Department of Labor’s fiduciary rule,

although it will only help this product if that rule goes through,” Herr told *RIJ*.

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