MassMutual Rediscovers the Immediate Annuity

By Kerry Pechter *Wed, May 18, 2011*

A few years ago, MassMutual mothballed Jerry Golden's SPIA tool for advisors. Now, post-crisis, the company has re-embraced SPIAs, and sales are up.

While New York Life is the undisputed leader in single-premium immediate annuity sales in the U.S., MassMutual, another big mutual insurer, has been steadily growing its SPIA business.

"We sold $111 million in the first quarter of this year," said Judy Zaiken, assistant vice president at MassMutual. "That's still quite a ways behind New York Life, at $585 million, but we're number two."

The numbers have been climbing since the financial crisis. "In 2008, we sold less than $100 million, and we almost doubled that in 2009, when we were number 14. Then we sold close to half a billion in 2010. It's been a real focus for us," she added.

About one-third of the contracts had premiums of $100,000 to $200,000, the company estimates, and another 27% were purchased with between $50,000 and $100,000. According to the company, it has about 3,200 active SPIA contracts on the books.

MassMutual manufacturers two immediate annuities, the RetireEase fixed contract and the RetireEase Select variable contract. Both offer inflation-adjustment options. The payout starts lower but increases by either 1%, 2%, 3% or 4% a year.

Contract owners can take withdrawals from period-certain contracts if they need money (minimum, $5,000 a year; starting in the second year on life-with-period-certain contracts), subject to "surrender charges" that start at 8% and drop to zero over 10 years. (These penalties are unrelated to surrender charges associated with B-share variable annuities, the company said.) The contracts also offer cash refund and installment refund options.

The variable version of the immediate annuity allows the contract owner to put as much as 100% but no less than 30% of the premium in one of five investment portfolios of graduated risk levels, or into a custom portfolio.

Managers of the separate account investments include Fidelity, Oppenheimer, American Century, ING, MFS, Wellington and several others. The portfolio expense is 125 basis points. An additional 50 basis points puts a floor under the variable payment.

Every successful product needs a story—a unique selling proposition—and MassMutual created one for its SPIAs. Last summer, MassMutual actuary Josh Mermelstein and others published the "Synergy" study that showed how a retirement portfolio consisting of a cash-refund SPIA and an equity-heavy mutual fund portfolio compares favorably with competing portfolio designs, like SWPs and GLWBs.

No one, of course, knows the future. But their exercise shows that if a retiree lives a very long life and encounters adverse market conditions along the way—especially near the beginning of retirement—that having a SPIA pays off. Conversely, a SPIA-free strategy works better (in hindsight) for people who die relatively young or who experience nothing but sunny investment climates.

Four hypothetical $1 million portfolios owned by a 65-year-old man faced off in the study:

- A $760,000 cash-refund SPIA and $240,000 in equity funds.
- A $380,000 cash-refund SPIA and $620,000 in a 70% equity/30% bond portfolio.
- A systematic 5%-a-year withdrawal program from a $1 million, 60% equity/40% bond portfolio.
- A $1 million variable annuity with a 70% equity/30% bond portfolio and a 5% guaranteed lifetime withdrawal benefit—plus an all-equity overflow fund to catch any annual VA withdrawals in excess of $50,000.

The portfolios were tested under 12,678 historical market scenarios simulating a retirement of 35 years in length, along with three special cases—the era from 1966 to 1996, which started flat; from 1973 to 2003, which started down; and from 1982 to 2010, which started with a roar.

The study assumed a 4% return on bonds, before fees, and actual historical equity returns, including dividends. The effects of inflation, taxes and other financial holdings were ignored for simplicity.

The portfolios were evaluated for their ability to provide sustainable income for 10, 20 or 30 years, to provide liquidity (the amount of cash accessible to the owner or the portfolio's liquidation value at death) and the ability to provide a legacy for heirs.

To emphasize the tradeoff between income and liquidity in a VA/GLWB, the study didn't consider assets in the VA "accessible" if withdrawing them reduced the guaranteed benefit base and the annual payout. A VA wholesaler would probably spin it another way, saying that all of the VA assets are potentially accessible.

The results showed, contrary to popular conception among investors, that putting half or more of your retirement money into a SPIA can actually increase your access to your money and your legacy for your children, especially in the long run.

No wonder: If you can live on your SPIA income and don't have to touch your non-SPIA assets during retirement, those outside assets are free to grow and grow. "The beauty of it is the separation of the investment bucket from the income bucket. We wanted to prove the synergies that you get with the SPIA. You can replicate a given income for less dollars, and you can access your money without disrupting your cash flow," Mermelstein said.

When Mermelstein, Zaiken and other team members publicized these findings to the sales force, they learned that many advisors had the notion that all SPIAs were life-only contracts. "Many of the agents weren't familiar with the cash refund feature. Getting that message out has been very helpful," Zaiken said.

Education soon led to higher sales. Ironically, MassMutual cancelled a somewhat different SPIA-driven campaign only a couple of years ago. That earlier program involved a Retirement Management Account technology for advisors, created by living benefit pioneer Jerry Golden.

In the RMA, retiree assets were programmed to transfer from an IRA into an income annuity over time, like fuel pellets into a self-feeding stove. But the RMA's timing was off. It emerged during the 2003-2008 bull market, when variable annuities ruled.

Now, in a more risk=averse world, MassMutual is rediscovering SPIAs. "We did not sell [the RMA] to anyone," said Judy Zaiken. "It's still sitting on the shelf. Some people loved it, but maybe it was over-engineered. Times have changed. But the concept is consistent with what we're doing now."