MetLife's New DIA, and Its Competition

By Kerry Pechter *Fri, May 16, 2014*

This story includes a handy chart that can help you compare the features of the deferred income annuity contracts currently offered by eleven U.S. life insurers. MetLife's is the newest and most flexible.

The expression "arms race" doesn't suit the staid world of income annuities, but MetLife's announcement of a new deferred income annuity (DIA) this week raised the pace of competition a bit in this newish and fast-growing annuity product category.

The new contract, called MetLife Guaranteed Income Builder, appears to be the first DIA to offer the option of a commuted value during the deferral period. Contract owners don't have to die to get their money back. If they haven't started receiving income payments, they can surrender the contract and receive at least 92% of their purchase premium.

This feature has a price: Contract owners will get lower monthly payouts if they choose it. But MetLife expects people to welcome the opportunity to choose. "People have a fear of locking up their money," said MetLife senior vice president Elizabeth Forget.

"We don't have any data yet [on the way it affects sales], but it adds a lot to the conversation at the point of sale. People may or may opt for it. It could be like the inflation protection option. Everybody wants it until they see how much lower it makes the monthly payment."

All or most competing DIA contracts offer an optional cash refund death benefit during the deferral period equal to the premium (or 90% of premium growing at a compound 3%) as well as a cash refund or installment death benefit equal to any unpaid premium during the income period. Death benefits undermine (but don't eliminate) the best feature of an income annuity—the boost that comes from pooling mortality risk—but it's hard to sell these products without them.

New York Life remains the issuer to catch in the DIA race, if it can be called that. The big mutual, according to the industry data it cites, sold 40% to 50% of the $2.2 billion in DIA premium gathered in 2013. Northwestern Mutual is, anecdotally, the closest follower, with about a quarter of the market.

Click on table below to compare the features of different products.

Deferred Income Annuity Issuers, Products and Features (Note: This chart includes best available information as of May 15, 2014. Subject to revision.)

	A.M. Best Rating	Minimum Premium	Flexible/ Single premiums?	Flexible start date?**	Death benefit option	Life, period certain, single, J&S income options?	Annual inflation adjustment?	Commuted value refund?	Annual dividend?	Accelerated payments?
American General (AIG) American Pathway DIA	A	$20,000	Single	1x change, +/- 5 years	Yes	Yes. Optional medical underwriting	1-%-5% or CPI-Urban	No	No	N/A
First Investors Life Single Pay (Foresters)	A	N/A	Single	N/A	Yes	Yes	N/A	No	No	6 months payments in lump sum
Guardian Secure Future Income	A++	$10,000	N/A	1x change, +/- 5 years	Yes	Yes	1%-5%	No	No	6 months payments in lump sum
Lincoln Deferred Income Solutions	A+	$10,000	Single	1x change, +/- 5 years	Yes	Yes	1%-4%	No	No	6 months payments in lump sum Up to 3x
MassMutual RetireEase Choice	A++	$10,000	Flexible	1x change, +/- 5 years	Yes	Yes	1%-4%	No	No	6 months payments in lump sum Up to 5x
MetLife Guaranteed Income Builder	A+	$2,500	Flexible; $500 min.	2x change, +/- 5 years of original start	Yes*	Yes	2%-4%	Yes, in deferral period	No	N/A
New York Life Guaranteed Future Income Annuity II	A++	$5,000	Flexible	1x change, +/- 5 years; not with life-only.	Yes	Yes	1%-3%	No	No	6 months payments in lump sum
Northwestern Mutual Select and Select Portfolio DIAs	A++	$10,000 (Q-money only for 'Portfolio'	Single	No	With single life only.	Yes	Use dividends to buy more income w/'Portfolio'	No	Only with 'Portfolio'	Use dividends as cash out w/'Portfolio'
OneAmerica Secure Income Stream Annuity	A+	$5,000	Flexible; $1,000 min.	1x change, +/- 5 years; not with life-only.	Yes	Yes	1%-3%	No	No	6 months payments in lump sum
Principal DIA	A+	$10,000	Flexible	1x change, +/- 5 years; not with life-only.	Yes	Yes	1-%-5% or CPI-Urban	No	No	N/A
Symetra Freedom Income Annuity†	A	$10,000	Single	N/A	Yes	Yes	Up to 6.5%	No	No	N/A

Sources: Corporate websites, LIMRA Secure Retirement Institute. Not all features may be available in all states. Some products have nursing home and terminal illness waivers.
*MetLife allows contract owners to split their assets and set up two different start dates.
†Marketed as an advanced life deferred annuity, with income beginning at age 85.
**Generally, qualified contracts must be purchased by age 67-69, depending on the contract, and begin paying out by age 70½. New York Life allows qualified deferral to age 75.

The new MetLife DIA—it replaces an older "longevity insurance" DIA that provided income from age 85 on—also lets contract owners move their income start date twice (most products allow only one change) during the deferral period. They can move the start date up to five years earlier or five years later than the original start date. This option is available to people with contracts that have guaranteed periods or a cash refund feature.

In another nod to the vagaries of life and consumer indecision, MetLife lets DIA owners in the deferral period split their original purchase premium into two parts and buy two income streams with different start dates. Both start dates have to be inside the 10-year window around the original start date.

Evidently hoping to appeal to a younger audience, MetLife has a minimum premium of only $2,500. Most DIAs have minimum purchase premiums in the $5,000 to $20,000 range, with $10,000 the most popular. Contract owners can add as little as $500 at a time thereafter.

MetLife will distribute the Guaranteed Income Builder through its affiliated advisers and through third-parties. Four of its competitors—Guardian, MassMutual, New York Life and Principal are sold—and are said to be selling very well—through the Fidelity Insurance Network.

Not mentioned in the MetLife product literature is the availability of an option to withdraw up to six months of monthly payments in a lump sum after income payments begin. Several companies allow contract owners to do this once. Lincoln Financial's Deferred Income Solutions contract permits this convenience three times.

So far, Northwestern Mutual Life is the only issuer to offer DIA contract owners the option of receiving the same annual dividend that its life insurance policyholders receive. The dividend, though not guaranteed, has lately been 5.5% or thereabouts.

People who buy the Select Portfolio version of the DIA receive a slowly rising percentage of the full dividend each year during the deferral period and may receive the full dividend by the time they take income payments. Contract owners can take the annual dividend in cash or use it to buy additional income, or do some of each.

The Select version of the product offers no annual dividend. But it does offer a significantly higher level of *guaranteed* income than the Select Portfolio. In the hypothetical illustration in Northwestern Mutual's product literature, the guaranteed income in Select for a $200,000 premium, a five-year deferral, and a single life contract for man taking income at age 65 is $13,700 a year.

For the same owner, the guaranteed income in a Select *Portfolio* contract would be only $10,374 at age 65, if all dividends (based on the 2013 dividend) in the deferral period were spent on more income. But by the start date, when the full dividend kicked in, the total income (if 80% were taken in cash and 20% were used to buy more income) would be $13,666. By age 70, in the hypothetical, income would be $15,004.

That sounds good, but there's another factor. The amount of the dividend is linked to amount of unreturned premium. The dividend check could therefore shrink over time, depending on how much of the check the owner uses to buy more income.

In terms of marketing, most of the eleven DIA issuers seem to be recycling story lines that have been used for years in the SPIA space. DIAs are variously pitched as ways to cover any essential expenses that Social Security and pensions don't; they protect against the risk of outliving one's money; they can provide the safety that allows retirees to take more equity risk with their remaining assets; the income can help cover health care expenses later in life.

Judging by the illustrations in their product literature, Symetra (and First Symetra) and First Investors (Foresters) may be the only issuers who are still positioning their DIA as pure longevity insurance—not providing income until age 85—to protect against outliving one's money or ending up a "burden" on one's children.

Symetra's product literature describes a hypothetical 68-year-old woman who uses 10% of her $500,000 in savings to buy an income of $2,475 a month at age 85. First Investors' literature offers an illustration of a single 65-year-old man who pays $100,000 (one-seventh of his assets) for an income of $3,312 per month at age 85. Both examples use a life-only contract to show the maximum income available.