
Neapolitan Annuity

By Editor Test Tue, Oct 27, 2009

Hartford Life's new Personal Retirement Manager is three products in one. It bundles a deferred income annuity with a variable investment and a fixed return account.

After the VA arms race ended in armageddon last winter, the big annuity manufacturers tasked their actuaries and product developers to engineer a new breed of income products that wouldn't backfire like GLWBs.

Life insurance companies have largely decided that stocks are too risky to guarantee, despite the sentiments of Jeremy Siegel's famous book, ["Stocks for the Long Run."](#)

One of the newest designs is Hartford Life's Personal Retirement Manager, which the Simsbury, CT insurer calls "a way to combine long-term investment growth and guaranteed lifetime income potential in a single, user-friendly, tax-deferred retirement planning vehicle."

The Personal Retirement Manager is like Neapolitan ice cream: it's three flavors in one. Contract owners can allocate their assets bucket-style among mutual funds in a variable account, a fixed return account, and a "Personal Pension Account" or PPA that's actually a deferred income annuity.

There's also a process baked into the product. It lets retirees gradually transfer money (\$10,000 initial minimum) whenever appropriate from their variable and fixed accounts into the PPA—perhaps between ages 60 and 70—before turning on lifetime income.

"For years, everybody knew that if you wanted income, the SPIA was the most efficient way to deliver it," said John Diehl, CFP, senior vice president with The Hartford's Investment & Retirement Division. "So we looked at the basic concept of the SPIA, and we looked at the reasons those products don't sell, including the fact that the advisor loses track of the assets. We thought that if we offset that, we could get a more successful product than a SPIA and a cheaper, more effective product than a GLWB."

More appealing

From a marketing perspective, the Personal Retirement Manager is meant to disarm all the usual client objections to income annuities by giving them almost complete access to their money. The unspent income stream can even be refunded. The product is also vastly less risky to the issuer than a GLWB.

"We tried to take away all the negatives that get in the way of the annuity decision," Diehl said. "And by packaging investment and income in one product, we let people bite off as much as they can chew at any one time. We said, 'Let's make income delivery appealing.'"

You can't make an income annuity more liquid without hurting the payout rate, however, and the income stream from the PPA is lower than the rate from a fixed life-only income annuity. It's hard to make apples-

to-apples comparisons, however.

For instance, according to Diehl, a 60-year-old man would pay \$100,000 today to lock in a \$9,348-a-year commutable income from the PPA starting at age 70. For comparison, Vanguard would charge a 70-year-old man \$110,355 for a life-only immediate income annuity (or about \$126,000 for a cash refund income annuity) paying \$9,348 a year starting today. Bear in mind that the PPA's \$100,000 would grow at a guaranteed annual rate of three percent during the 10-year waiting period.

As envisioned by Hartford Life, the contract owner would transfer money in steps from the variable account and/or the fixed account to the PPA, until the PPA has enough money in it to buy a life annuity that pays a suitable guaranteed rate of income at a pre-selected start date.

"You can imagine a scenario where people are dollar cost averaging into an income stream," Diehl said. "With SPIAs (single-premium immediate annuities), you'd have to add contract after contract in a ladder. He could in theory turn on part of the PPA. If he had \$150,000 in PPA, he could turn on 25% and let the rest ride."

Contract owners can lock in an annuity payout rate at the time of purchase by setting an income date. But, for flexibility, the contract owner can decide to switch on income up to three years before or after the pre-selected start date and receive the same payout rate, adjusted for age.

"It's like Social Security, where you can claim a different level of benefits over a range of years," Diehl said. If you say you want to retire at 67, we'll be able to quote you an income level if you retire anytime between age 64 and 70. If you go outside the window, you'll have to take a payout based on current interest rates."

To resolve the usual objections to income annuities—their irrevocability, lack of liquidity, and lack of a death benefit—Hartford Life has added liquidity back in. The owner can access the money in the variable account at any time; he can also access the fixed account, subject to a market value adjustment if interest rates have change.

When the owner dies, his beneficiaries can receive not just the assets in the variable and fixed accounts, but also the unspent PPA contributions, grown at a compounded rate of (currently) three percent per year.

The product comes in four share classes, A, B, C, and I. The A share has a maximum front-end load of 5.5% and ongoing insurance costs of 50 basis points a year. The B shares have ongoing costs of 50 basis points, including M&E and administrative charges, and an eight-year CDSC period with an initial surrender fee of seven percent. The C shares cost 135 basis points a year. The I shares, designed for fee-based advisors, cost only 30 basis points a year.

Total annual fund operating expenses for all classes range from 44 basis points to 237 basis points. Fund providers include AIM, Alliance Bernstein, Fidelity, Franklin Templeton, American, Hartford, MFS, Lord Abbett, Putnam and Wellington Management.

The product is designed to be friendly to fee-based advisors. Before the client switches on income, the advisor can earn management fees on the assets in all three accounts—the variable, fixed, and the PPA.

Even after income begins, in contrast to a SPIA, the advisor can continue to earn a management fee on the unpaid balance of the PPA. “So for the advisor who says, ‘I’m still providing services, but the asset is gone from the books,’ we’ve made it attractive,” Diehl said.

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