New CDA offered by Great-West Life for Bank-Affiliated B/Ds

By Editor Test *Wed, May 9, 2012*

The new "contingent deferred annuity," which attaches a lifetime income guarantee to a portfolio of Vanguard exchange-traded funds, offers potentially higher payouts rates if the 10-year Treasury rate rises.

Eager to capture a piece of the vast non-annuity market for asset protection, Great-West Life & Annuity Insurance Co. has created a contingent deferred annuity or CDA—sometimes known as a stand-alone living benefit or unbundled GLWB—for the bank-affiliated broker/dealer market, the company has announced.

The product, SecureFoundation Smart Future, allows advisors to attach a lifetime income guarantee to a balanced portfolio of exchange-traded index funds from Vanguard. The living benefit doesn't offer a deferral bonus, but it does offer upside in the form of an annual step-up the benefit base (if the account value hits a new high water mark on the contract anniversary) and in a feature that potentially allows the payout rate to rise when the 10-year Treasury rate rises.

The CDA's minimum payout bands themselves are conservative: just 3% for single contract owners ages 59½ to 64, 4% for those ages 65 to 69, 4.5% for those ages 70 to 74, and 5% for those ages 75 and older. But these rates can rise to ceilings of 5.6%, 8%, 8.3% and 8.5%, respectively, if the 10-year Treasury rate goes up sufficiently, according to the prospectus.

For instance, if a hypothetical 72-year-old contract owner had a benefit base of $80,000 and the 10-year Treasury rate were 5% on his contract anniversary, his payout would be 5% times a stipulated "age adjustment factor" of 1.1, or 5.5%. His annual payout would be $4,400 (.055 x $80,000).

The cost of the Smart Future CDA, referred to as a certificate rather than a policy or rider, is currently 1% a year and is guaranteed to be no lower than 0.70% and no higher than 1.5% while in force. There's a $10,000 investment minimum.

The only investment option is the Maxim SecureFoundation Balanced ETF Portfolio, a 60% equity/40% fixed income fund-of-funds consisting of the Vanguard S&P 500 ETF, S&P Mid-Cap 400 ETF, Russell 2000 ETF, MSCI EAFE ETF, MSCI Emerging Markets ETF and Total Bond Market ETF. There's a 5% upfront load on the portfolio's A shares, which have an annual expense ratio of 64 basis points. The portfolio's S shares have an annual expense ratio of 74 basis points.

CDA product filings are likely to become more numerous now that the National Association of Insurance Commissioners has clarified that these hybrid investment/insurance products should be regulated as variable annuities rather than as securities alone.

"The regulatory environment is getting supportive of CDAs," Chris Bergeon, vice president of Financial Institutions Markets at Great-West Life & Annuity. "The NAIC provided guidance in February, and the commissioners have since concluded that [CDAs] should be viewed as variable annuities. The Smart Future solution was designed with input from our bank-affiliated broker-dealer partners, and we piloted it with one of them."

Great-West Life is rated Superior (A+) by A.M. Best, Excellent (Aa3) by Moody's, Very Strong (AA) by Fitch and Very Strong (AA) by Standard & Poor's.