

Northwestern Mutual adds DIA with upside potential

By Editor Test *Wed, Oct 3, 2012*

Unlike the mutual insurer's existing Select DIA, where the future income is fixed, the new Select Portfolio DIA allows contract owners to apply Northwestern Mutual dividends to their annuity.

How Northwestern Mutual Calculates a Dividend
(Actual values for an existing Northwestern Mutual policy issued in 1991)

Guaranteed Cash Value (beginning of year 21).....	\$ 51,303*
Gross Annual Premium	+ 1,579†
Mortality & Expense Charge (based on actual company experience)	- 179
Balance (policy value @ beginning of year)	\$ 52,703
Interest Credit (based on actual company experience)	+ 3,083*
Policy Value (end of year).....	\$ 55,786
Guaranteed Cash Value (end of current year).....	53,819*
Dividend (for current policy year).....	\$ 1,967

* These values are determined on the guaranteed basis that was established at the time of policy issue.
 † The interest credit (\$3,083) is equal to the 2012 Dividend Scale Interest Rate for unborrowed funds for most traditional permanent life insurance policies with direct recognition (5.85%) multiplied by the policy value at the beginning of the policy year after mortality & expense charges are taken out (\$52,703).

Northwestern Mutual has introduced a *Select Portfolio* deferred income annuity designed to protect retirees from the impacts of longevity risk, inflation risk, and investment risk, in part by providing opportunity for gains through dividend accumulation.

Unlike the carrier's existing *Select* DIA, where the future income is fixed, the new DIA allows contract owners to apply Northwestern Mutual policyholder dividends to their annuities. "The beauty of this annuity is its upside potential—the guaranteed income will never go down, and any dividends could increase it," said David Simbro, senior vice president, Northwestern Mutual, in a release.

According to Simbro, *Select Portfolio* allows contract owners to take any of the dividends issued by the mutual company in cash or apply them to increase their guaranteed income, or combine the two strategies. Dividends are not guaranteed, but Northwestern Mutual has paid dividends on eligible life policies every year since 1872.

As a mutual life insurer, Northwestern Mutual returns to policyowners the money earned over what is needed to pay benefits, run the company and maintain its financial strength ratings (A++, superior; the highest possible rating from A.M. Best).

The insurer recently announced that it expected to pay almost \$5 billion to 3.3 million policyholders for 2012. About 90% of the money is expected to go to owners of permanent life policies, with an estimated \$120 million to term life policyholders and \$27 million to annuity owners of record. Below is a chart showing how the company calculates dividends for permanent life policyholders on the basis of their policies' cash values.

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Individuals can purchase the *Select* Portfolio Deferred Income Annuity where available with a lump sum payment of tax-qualified funds, such as funds held in a 401(k) plan or a traditional or Roth IRA.

Northwestern Mutual also markets a *Select* immediate income annuity and a *Select* fixed deferred income annuity, which are components of the recently launched Northwestern Mutual Retirement Strategy.