NYLife Targets VA Buyers with New DIA

By Editor Test *Wed, Jul 13, 2011*

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With its new deferred income annuity, announced Monday, New York Life isn't merely trying to expand its big share of $7.9 billion immediate annuity market. It's aiming for a piece of the $100+ billion variable annuity market. Issuers of VAs with 10-year roll-ups and 5% annual payouts may want to take heed.

New York Life formally announced its new product, the Guaranteed Future Income Annuity, on Monday, months after it was described at a retirement industry conference. The multi-premium contract allows a person to build a personal pension with a series of contributions leading to lifetime income beginning at a pre-determined but flexible start date.

True, VA issuers have already tried, without huge success, to put a deferred income annuity inside a VA. (See today's story on the Hartford). But New York Life hopes that advisors and clients will crunch the GFIA's numbers and decide that it's worthwhile to swap some liquidity for a bigger income in retirement.

"Liquidity is the enemy of mortality credits," says the GFIA product manager, New York Life vice president Matt Grove. "This product is generating as much income as possible." (See GFIA fact sheet and brochure.)

Here's how the GFIA would typically work: people in their 50s pay into the GFIA for several years and then get a guaranteed lifetime payout of 9-12% for life (depending on age and options like cash refund, joint-and-survivor or period certain). It's intended to challenge the VA's winning formula: a guaranteed lifetime income benefit with a deferral bonus that delivers at least 10% of premium after 10 years—plus liquidity and exposure to equities.

How could GFIA compete with liquidity and upside potential? Apparently, many VA owners opt for income after deferring for only a few years, and reap guaranteed income much less than 10% of premium. Income-wise, GFIA matches up well against that. "We're targeting the short deferral market," Grove told RIJ.

"The GLWB and the GMIB [guaranteed minimum income benefit] are designed to maximize value over a 10- to 12-year period, but only 30% to 40% of owners are exercising that option," he added. "In a qualified account, over a four-year deferral period, you would need market returns of more than 20% a year to do better in a GLWB than in the GFIA."

That's the beauty part. Of course, with an income annuity, the beauty part is also the catch. To maximize income, you have to make irrevocable payments ($10,000 initial minimum). Every payment you make—and with the GFIA you can start making payments as long as 40 years before you retire—is irrevocable. You can add a cash refund feature and you can accelerate a payment or two. But the value depends on the illiquidity.

It's impossible to say what any specific person's experience would be with GFIA until they plugged in all the specifics. But Grove said that if a man put $100,000 into the GFIA at age 55 with the intent to take lifetime income at age 65, he would receive an annuity at age 67 with a net present value of $205,050. In other words, it would take an average investment return of about six percent over 12 years to match the GFIA's internal rate of return.

A deferred income annuity is, of course, an old concept made new again. All deferred annuities are called annuities precisely because they allow the contract owner to convert the assets to a guaranteed lifetime income stream.

In practice, few people who buy deferred annuities eventually "annuitize" them. But all deferred annuities—variable, fixed, indexed—can be annuitized. Indeed, the privilege of tax-deferred growth was conferred upon deferred annuities because they can help Americans achieve the socially desirable goal of financial security in retirement.

Nor is New York Life the first company to try to entice Baby Boomers with the concept of a multi-premium income annuity. The Hartford's Personal Retirement Manager, for instance, is a variable annuity that includes a deferred multi-premium income annuity sleeve.

Variable annuities like that haven't caught on in general—but New York Life, with its career agents and almost uniquely successful track record selling SPIAs, may have better luck. New York Life, the world's largest mutual life insurer, is by far the leader in sales of individual single-premium annuities in the U.S., with sales of $1.9 billion in 2010 out of a total market valued at $7.9 billion.

It sells the contracts through its career agents, through the Fidelity Investments website, and through other distribution channels. About 60% of its SPIA purchasers take the cash-refund option, Grove said. That shows how much people—even SPIA buyers—are willing to give up income to avoid premature forfeiture.

In a press release, New York Life, the world's largest mutual insurance company, offered the following hypothetical examples (all based on single life-only contracts; joint contracts, cash refund, or inflation-protected contracts would presumably have smaller payout rates):

A 57-year-old man who might otherwise move part of his money into a five-year certificate of deposit (currently yielding 1.68%) to safely fund for his retirement could instead put the money into the Guaranteed Future Income Annuity and receive a life-only payout of 11.3% starting at age 66.

A 65-year-old man who invests $100,000 (in after-tax money) in the GFIA would receive a guaranteed, life-contingent $65,500 per year payment starting at age 85. This "longevity insurance" could release him from under-spending or hoarding the rest of his assets against the possibility of living to 95 or 100.

The release also noted that policyholders would have:

- The ability to make subsequent premium payments during the deferral period—the time between the

initial investment and two years prior to the income start date.
- The ability to change the income start date once for any reason. The ability to move the start date is not available for the life-only option and can only be moved back a maximum of five years from the original income start date.
- The ability to customize their payment stream to include another person, inflation protection, and a cash refund feature.