Retirement Income
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PacLife launches fixed annuity with GLWB and roll-up

By Kerry Pechter *Fri, Dec 6, 2013*

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On December 2, Pacific Life introduced Pacific Income Advantage, a single-premium fixed deferred annuity with a lifetime withdrawal benefit option and an annual 6% simple increase in the benefit base until any withdrawal—including a required minimum distribution—is taken, for up to 10 years.

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In addition to the GLWB and the roll-up, the product provides the features common to multi-year-guarantee fixed deferred annuities. That includes preservation of principal, interest rate guarantees, tax deferral and a death benefit. One industry observer suggested that, from the manufacturer's point of view, the product's deferral bonus might be looked at as an expression of the mortality credit and the interest accrual.

The Income Advantage requires a single premium of at least $25,000, according to the manufacturer's fact sheet. Guaranteed interest rate terms can vary from one to 10 years. The cost of the income rider is 75 basis points (a maximum of 95 bps) for both the single and joint life options. The roll-up is equal to 6% of the purchase payments received within 60 days of contract issue.

The payout rate from age 65 to 69 is 5.25% for single life and 4.75% for joint life. It's a half a percentage point lower for those ages 59½ to 64 and a half a point higher for those ages 70 to 79. At age 80, the payouts jump to 6.75% for single life and 6.25% for joint life.

The product is a bit like a SPIA with liquidity and a lower payout. For a premium of $100,000, a 65-year-old couple could, after 10 years, turn on a guaranteed lifetime income of at least $8,400 a year (5.25% of $160,000). Exact payouts would vary by contract, depending on changes in interest rate term or interest rate at reset.

A product like this offers more liquidity and legacy value (via the death benefit) but probably less income than a deferred income annuity (DIA). A cash-refund DIA purchased by a 65-year-old couple today for $100,000 would, after 10 years, pay about $11,400 a year, according to Cannex data. Certain fixed indexed annuity contracts today would provide roll-ups as high as 8.5% for 15-year and a 6% payout for a 75-year-old couple.

Roll-ups have been a key selling point of deferred annuities with living benefits over the past five or eight years. At a time when money market funds earn less than the inflation rate, a roll-up of 5% or more looms large in the public imagination.

Indeed, anecdotal evidence shows that many if not most annuity owners (and even some advisers) perceive the roll-up is the equivalent of guaranteed growth rate. The roll-up, of course, doesn't increase the surrender value of the contract; it merely increases the size of each payment. The manufacturer can also offset the impact of a roll-up by reducing the payout percentages.

At the end of the guarantee period of the new Pacific Life product, the owner has a 30-day window to renew at available rates without risking a market value adjustment. The product can be sold to annuitant/owners up to age 85. The option to annuitize the contract can't be exercised after age 95.

A withdrawal charge is assessed for the length of the guarantee period, for up to seven years. For partial withdrawals over 10% of the contract value in any given year, a market value adjustment will be assessed. The product is not available in New York.

There's a curious comment in the press release on this product. It says "Guaranteed Withdrawal Benefit annual credits increase the protected value and will be treated as earnings when withdrawn." That's a bit puzzling. The annual credit—the roll-up—enhances the benefit base, not the account value.

The roll-up merely increases the rate at which the client withdraws his own money; why count it as "earnings"? The point is probably moot for contracts purchased with fully-taxable qualified money, but it may be significant for contracts purchased with after-tax money.