Retirement Income
JOURNAL

Popular FIA adds new index crediting method

By Kerry Pechter *Wed, Feb 5, 2014*

The new Morgan Stanley Dynamic Allocation Index option on Security Benefit's Secure Income Annuity fixed index annuity offers exposure to a mixture of equity, fixed income and alternative assets that's rebalanced four times a month. It has uncapped crediting.

Security Benefit Life's Secure Income Annuity, the second-best selling fixed indexed annuity in the first three-quarters of 2013 according to Wink's Sales and Market Report, has added a new interest crediting option based on the Morgan Stanley Dynamic Allocation (MSDA) Index.

Secure Income Annuity offers a guaranteed lifetime income rider for 95 basis points a year. The rider includes a seven percent annual roll-up in the benefit base for the first 10 years (or until income payments begin, if earlier). The roll-up is renewable for contract owners under age 80, with the roll-up applied until age 85 or for a maximum of 20 years.

The contract offers an initial premium bonus of between 2% and 8%, depending on the state of issue. According to product literature, an early surrender may force a recapture of part of the bonus.

For the S&P 500 Index, annual point-to-point crediting method, the cap or maximum rate was 3.25% a year as of January 6, 2014. The S&P 500 monthly sum index cap is 1.60%. There's a 10-year surrender period. The payout rate starts at 4.5% at age 55 (4.0% for joint life) and goes up by 10 basis points per year until age 90.

The Morgan Stanley Dynamic Allocation Index is described in the product literature as "a rules-based strategy that consists of equities, short-term Treasuries, mid- to long-term bonds, and alternatives," plus cash, that are in turn made up of sub-asset classes.

Four times a month, the holdings are rebalanced, up to a fixed allocation limit for each asset class. The Index gets exposure to those asset classes and sub-asset classes by holding exchange-traded funds, which are themselves index funds that can be bought or sold throughout the trading day.

For instance, the index can hold up to 100% equities, but no more than 50% domestic, global or emerging market equities. It can hold up to 75% bonds, but no more than 20% high-yield bonds. It can hold up to 50% alternative investments, but no more than 25% gold or real estate.

"On each rebalancing selection date," the literature said, "the index methodology is applied to determine the asset mix that had the maximum historical return with 5% annualized volatility during the prior 63-trading-day period. Over the next five-trading-day rebalancing period, the weight of each sub-asset class is adjusted from its prior level, and the new asset allocation is gradually established."