Principal Financial Joins the DIA Club

By Editor Test *Thu, Apr 18, 2013*

The Principal Financial Group is stepping up its individual retirement income business by introducing a new deferred income annuity and engaging annuity consultant Moshe Milevsky, vice president Jerry Patterson told RIJ.

The Principal Financial Group this week became the latest member of the retirement industry to offer a deferred income annuity, following the trail blazed by New York Life in July 2011 and trodden since then by MassMutual, Northwestern Mutual, Guardian Life, Symetra and others.

Jerry Patterson, vice president for retirement income strategy at the Des Moines company, said that The Principal, like its competitors, is focusing on the 10,000 Baby Boomers who retire every day—many of whom are, as he put it, drawing their last paychecks on a Friday and waking up Monday morning not knowing what to do next.

The Principal will be working with Toronto-based annuity consultant Moshe Milevsky and his Qwema Group to help train advisors and educate consumers, Patterson said. The Principal's producers will employ the same Retirement Security Quotient communications concept that Milevsky created for ManuLife a few years ago and which ManuLife affiliate John Hancock, for one, has used.

The RSQ program, among other things, explains that retirees face three big risks—inflation, sequence-of-returns, and longevity—and that they should use a combination of three products—mutual funds, variable annuities with living benefits, and life annuities—to mitigate those risks, respectively.

"We're making a big investment in Moshe Milevsky and Qwema and the thinking around their tool and their algorithm," Patterson told *RIJ* yesterday. "We want to give advisors a powerful way to have a conversation with clients about the tradeoff between annuities and mutual fund and the balance between guaranteed and non-guaranteed products."

The company's DIAs will be distributed primarily through its career agents and through the bank channel.

"Our mantra around this market," he added, "is that it's time for less conversation and more action. The industry spent 10 years talking and thinking about the retirement challenge, and now we have 10,000 Boomers a day pouring into retirement. It's no longer about what they could have or should have done. It's about how someone who hits 65 deals with the fact that his paycheck is gone."

By definition, a DIA allows people to buy income that starts no sooner than 13 months after purchase. According to feedback from sellers of DIAs, Boomers are buying them for "pension replacement" and scheduling income to begin with five to 10 years.

In general, they aren't using them as "longevity insurance," a term that typically refers to deeply-discounted, non-cash value contracts that don't pay out unless or until the owner reaches age 85 or so. o

The Principal Deferred Income Annuity allows contract owners to delay income for up to 30 years. Four times during the life of the contracts, once payments begin, the contract owner can withdraw six month's worth of payments at once. Purchasers can use qualified or non-qualified money to buy the contracts, and can buy single or joint-and-survivor contracts. There is a return of premium death benefit before income begins, and an optional return of unpaid premium death benefit after payments begin. Payouts can be automatically raised by up to 5% per year or they can track the Consumer Price Index.

Patterson said that, in preparing its DIA for market, Principal drew on its experience with creating deferred income solutions for athletes, whose earning potential is heavily weighted toward their younger years, and many of whom go bankrupt because they don't have a plan for spreading their youthful income over their lifespans.

"We've created highly customized plans to meet interesting needs," he said. "We look at plans for job categories where there's a high degree of bankruptcies. Professional athletes, for instance, have a high rate of bankruptcy. Their pensions don't kick in until they're 50."

Principal also has a single premium immediate annuity (SPIA) business, where it has $2 billion to $3 billion" in assets under management, Patterson told RIJ. Principal also has an Income Protector program where it can help people turn their fixed deferred annuities into income annuities. But that program has not been heavily promoted.

The Principal ranked 19th in variable annuity sales in 2012, with $870 million in premia, according to LIMRA. Morningstar reported that The Principal had about $6.7 billion in VA assets under management as of the end of 2012, giving it a rank of 26.

Asked if his company might introduce DIAs to its retirement plan business, as an in-plan annuity option, Patterson said doesn't see any activity in that area soon. "We're cautious about being first to market anything that might have disruptive impacts on customer relationships, and customers are not screaming for it. Portability is still a big issue. But we keep a close eye on it."