Risk-sharing brings higher early payouts in Lincoln's new VA income option

By Editorial Staff *Wed, Feb 20, 2019*

Lincoln IRA Income Plus living benefit gives the contract owner a payout rate of up to seven percent at age 70 with the caveat that the rate will drop to 4% if the account value goes to zero. There's also a 6% simple deferral bonus.

- Lincoln Financial Group this week announced the introduction of a new optional income rider designed to maximize retirement income from savings in tax-deferred retirement accounts such as IRAs and 401(k)s during the early retirement years. It's called Lincoln IRA Income Plus.

The actuaries at Lincoln appear to have rearranged their risk budget to plump up the withdrawal rate to as much as 7% per year at age 70—the age when many retirees think about taking their first distributions from IRAs and 401(k)s in order to meet the requirements that begin at age 70½. There's also a 6% annual simple interest deferral bonus in years without withdrawals.

To make this higher payout rate possible, Lincoln shifted some of the back-end risk onto the contract owners by reducing the payout rate if, and only if, the account value happens to go to zero before the contract owner dies. The market risk is buffered a bit by the required to select from among seven risk-managed funds-of-funds.

At age 70, contract owners can begin receiving 7% of their benefit base or 6.25% of their benefit base each year. If they choose the 7% withdrawal option and the account value falls to zero before they die, the withdrawal rate drops to 4%. If they choose the 6.25% option, the withdrawal rate drops to 5% if the account value falls to zero before they die.

The rider costs 1.35% per year. The product fact **sheet** doesn't say whether it's on the benefit base or the account value, or if it runs for the life of contract. The rider is not available for joint life contracts, probably because couples can't merge their qualified accounts.

The annual deferral bonus is 6% simple interest. According to the product fact sheet, the Income Base increases annually by the greater of a 6% simple enhancement or the account value growth. The 6% annual growth will continue for the earlier of 10 years or through age 85 with the 10-year period re-starting upon an account value reset, which would occur if the balance reaches a new high-water mark. The 6% enhancement is not available in any year a withdrawal occurs. Annual market step-ups are available through age 85.

Lincoln isn’t the first variable annuity issuer to impose a downward adjustment of the payout rate if the product becomes in-the-money. In the press release, this feature is presented as a path to higher income in the early years of retirement, when retirees tend to spend the most. But, from a contract owner’s perspective, the adjustment could reduce annuity income by 1.25 or 3.0 percentage points at an advanced age, depending on which payout option he or she chose.

According to a release, the IRA Income Plus living benefit option, which joins Lincoln’s existing selection of living benefit options, has these additional features:

- **Ready-made portfolios.** There are seven managed-risk asset-allocation fund options with equity allocations of 26% to 80%, with expense ratios ranging from 0.99% to 1.11%. The risk management method inside the funds is not described in the fact sheet. Such methods help buffer the funds from positive or negative market volatility.
- **A return of premium death benefit.** Beneficiaries receive the initial investment, adjusted for withdrawals, even if the account value falls to zero.

“LIMRA Secure Retirement Institute research on the state of retirement shows that current retirees are conservative about withdrawing from the assets they’ve saved, and four in 10 pre-retirees are worried about running out of money,” a Lincoln release said.

The majority of retirees take withdrawals from their qualified, or tax-deferred, savings only to satisfy their required minimum distributions (RMDs), the amount that must be withdrawn from qualified accounts once they reach age 70½, the release said.