
Seven Nominees for Our Product Innovation Award

By Editor Test *Thu, Sep 12, 2013*

Products from Great-West, ING-US, Midland National, New York Life, Northwestern Mutual, Sun Life of Canada and Transamerica/AEGON are in contention for the first annual "Innovation in Retirement Income Products" award from RIJ and the RIIA.

Seven distinctive annuity contracts were nominated by *RIJ* readers as candidates for the Retirement Income Industry Association's first-annual "Innovation in Retirement Income Products Award," which this magazine is proud and delighted to sponsor.

The winner of the award, along with two winners of honorable mention certificates, will be named at the RIIA annual meeting on October 6-8 in Austin, Texas. Dimensional Fund Advisors will host the meeting at its headquarters there.

None of the nominees resembles "your grandfather's" annuity, which we'll define as a single-premium immediate annuity (SPIA). Instead, there are two deferred income annuities (DIAs), two fixed indexed annuities (FIAs), a contingent deferred annuity (CDA), a variable annuity (VA) and even (for Canadian retirees) a single-premium immediate variable annuity (SPIVA).

Here, in alphabetical order by issuer, are the nominees:

Great-West Financial Smart Future (CDA)

This is a contingent deferred annuity for retail clients who want guaranteed lifetime withdrawals without the tax implications of a variable annuity and with the low investment costs of an exchange-traded fund. The client's assets go into a Great-West Secure Foundation Balanced ETF, which is wrapped in a stand-alone living benefit, the Great-West Secure Foundation Guarantee. Income payments can potentially rise if the 10-year U.S. Treasury rate rises.

ING-U.S. Lifetime Income (FIA/GLWB)

ING Lifetime Income is a single premium deferred fixed indexed annuity with a guaranteed lifetime withdrawal benefit. During the deferral period, the income base can grow in two ways. After a five-year deferral, the benefit base is stepped-up to 150% of premium, less any withdrawals. After a 10-year deferral, the benefit base is stepped-up to 225% of premium. Contract owners can also benefit from gains linked to the performance of the S&P 500 Index, up to a cap of 6% a year. A client who deferred for seven years, for example, would receive the step-up to 150% at the end of Year Five, plus gains of up to 6% in Years Six and Seven. Under the income rider, the client would then take a percentage (determined by his or her age) of the benefit base for life.

Midland National IncomeVantage (FIA)

This fixed indexed annuity offers three different ways for the contract owner's benefit base to grow during the accumulation period: through a premium bonus, through annual interest credits linked to the performance of an equity market index, and through income deferral bonuses ("roll-ups"). Contract owners take income via a guaranteed lifetime withdrawal benefit. In one hypothetical example, a premium of \$100,000 was augmented in the first year by a \$5,000 premium bonus, a \$5,250 deferral bonus, and a \$2,000 index credit from gains in the S&P 500, for a first-year increase in the benefit base to \$112,500.

New York Life Guaranteed Future Income Annuity (DIA)

The GFIA is a flexible-premium deferred income annuity for both qualified and non-qualified savings, with income beginning on a date chosen at the time of purchase. After an initial premium of at least \$5,000, contract owners can make subsequent contributions of as little as \$100. Future income payments depend on the size of the premium and interest rates prevailing at the time of contribution. Owners between ages 18 and 68½ can purchase a contract with qualified savings; owners up to age 75 can purchase a contract with non-qualified savings. New York Life claims to have 44% of the DIA market, as of mid-2013.

Northwestern Mutual Select Portfolio Deferred Income Annuity (DIA)

Under the unique terms of the Portfolio DIA, the contract owner is eligible for Northwestern Mutual's annual dividend, which was almost 6% in 2013. The contract owner can receive the dividend as cash or as enhanced income, in any proportion. Before income begins, clients can move their income start-date up or back by as much as five years. This is a single premium product, and can be purchased only with qualified money. There's an optional death benefit and several payout structures. Northwestern Mutual claims to have captured one-fourth of the deferred income annuity market in the first half of 2013.

Sun Life (of Canada) SunFlex Retirement Income (IVA)

This Sun Life single premium immediate *variable* income annuity is available to Canadian singles and couples ages 55 and older who want to turn tax-deferred savings into income that can grow over time, starting within one-year after purchase. For downside protection, the contract puts a floor under the payout rate, starting at a minimum of 3.5% of premium per year for a 55-year-old and rising with age. For upside potential, the income levels can rise if the underlying mutual fund investments perform well.

Contract owners can choose the *Future Income Max* or the *Starting Income Max* option (the difference is in their Assumed Interest Rates (AIR), 3.5% and 5%, respectively, which are used to calculate the initial payment). Payments start lower under Future Income Max but have more potential to grow. Payments under Starting Income Max start higher but have less potential to grow. If interest rates rise and fixed payout annuity rates become more attractive, contract owners have the option to convert their remaining assets to a fixed annuity.

Transamerica Retirement Income Choice 1.6 (VA/GLWB)

Recognizing that many people need more income during the initial "go-go" years of retirement, this Transamerica/AEGON variable annuity offers an income rider (Income Link) that lets contract owners

“front-load” their income. That is, they can opt for higher payout rates during the first seven years of retirement (e.g., 10% for the first two years, 9% for first three years, etc.). When that period expires, the contract owner or owners receive four percent of the benefit base for the rest of their lives. The product also has a “Monthiversary” feature that enhances a policy owner’s ability to increase the benefit base. Instead of giving the contract owner only one chance per year (on the contract anniversary date) to step-up the benefit base to the current market value, Transamerica gives RIC owners a one-day window each month to exercise their right to an annual step-up. This makes the likelihood of a meaningful step-up much greater.

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