Retirement Income
JOURNAL

Springtime is for SPIAs, Etc.

By Editor Test *Tue, May 1, 2012*

Here at RIJ, May is the month when we focus on income annuities. Expect to hear a lot about SPIAs, SPIVAs, DIAs, and/or ALDAs over the next several weeks.

During one of the presentations at the 2012 Retirement Industry Conference in Orlando last week, Scott Stolz, a senior executive at Raymond James, asked the presenter, Aviva USA's Mary Beth Ramsey, to explain an apparent annuity anomaly to him.

Why is it, Stolz wanted to know, that a Raymond James client can get more monthly income in retirement—as much as 15% more, he said—from a fixed indexed annuity with a lifetime income benefit than from a deferred income annuity, assuming a 10 to 15 year deferral period?

Ms. Ramsey couldn't comment on non-Aviva products. Approached after the presentation, Stolz said that he was assuming that the deferred income annuity (DIA) offered a cash refund, which provides the annuitant's beneficiary a lump sum equal to the balance of the premium, if any remains unpaid.

A cash refund DIA? That's how many if not most DIA contracts are structured, but is that the best way to judge the potential value of an income annuity to a client? "That's the only way to make an apples to apples comparison," Stolz said with an amiable shrug.

Here at *RIJ*, May is the month that we focus on the income annuity market, and so Stolz' comments were especially timely. As we did last May, we'll devote much of our content each Wednesday this month to the product family that includes SPIAs (single-premium immediate annuities), SPIVAs (single premium immediate variable annuities), DIAs (deferred income annuities), and ALDAs (advanced life deferred annuities).

¶ Among other things, we'll be talking to the leading sellers of income annuities, including New York Life, MetLife and MassMutual, who together account for about half of U.S. SPIA sales each year. New York Life has already collected more than $400 million in premiums for its new DIA, the Guaranteed Future Income Annuity, launched last July.

¶ We'll be asking Gary Baker, president of Cannex USA, for a progress report on the efforts of a Retirement Income Industry Association committee to create compensation practices that make it easier for fee-based advisors to incorporate income annuities into their clients' retirement income plans.

¶ We'll discuss some of the ways that advisors can overcome the objections that clients might have toward income annuities, and explore some of the types of strategies that incorporate income annuities—like the strategy described in *Someday Rich*, the new book from Timothy Noonan of Russell Investments and Matt Smith (Wiley Finance, 2012).

Tune in next week for the beginning of those discussions. But now back to the question that Scott Stolz raised. The unique value of the income annuity arises of course from longevity pooling, which produces the so-called survivorship credit or mortality credit. The survivorship credit enables a life-contingent income annuity to offer more income per dollar of premium for policyholders for as long as they live than a GLWB can.

That's why many academics and some advisors believe in income strategies that leverage the survivorship credit. They generally advise retirees to dedicate the payouts from life annuities to essential living expenses, and to rely on portfolio assets other than life annuities to satisfy their needs or desires for liquidity and bequests.

But, to extrapolate from Stolz' comments, independent investment advisors and RIAs apparently don't think that way. They seem inclined to consider income annuities only in the most diluted forms—when they include a refund or other form of liquidity that weakens or eliminates the survivorship credit. The real challenge for a retirement advisor, it seems to me, would be to find a way to solve the need for liquidity while still capturing the survivorship credit. A DIA or a SPIA without a survivorship credit is a like a one-armed boxer.

Regarding Stolz' original question for Mary Beth Ramsey about how an FIA with a GLWB can produce more income than a DIA, he already suspected the answer. He believes that the issuer of an FIA/GLWB rider can assume a much higher lapse rate than the issuer of a DIA can. Therefore, if lapse assumptions prove true, the FIA issuer won't have to keep as many of its lifetime income promises. "It's a case of 'Everybody *will* get the benefit' [in the case of the DIA]," Stolz said, "versus 'They *may* get the benefit [in the case of the GLWB].'"