Sun Life's New VA Riders Have New Risk Controls

By Editor Test *Wed, Dec 15, 2010*

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Sun Life Financial Inc. has launched two new variable living benefit riders, an Income Maximizer that provides an annual 8% simple interest roll-up of the guaranteed income base until withdrawals are taken and an Income Maximizer Plus that also offers a 2.5% increase in income payments every year after the contract owner turns on the guaranteed income.

The riders are available on Sun Life Financial Masters variable annuities, including the Masters Flex II (4-year surrender, 1.65% M&E), Masters Choice II (7-year surrender, 1.35% M&E), and Masters Extra II, a bonus contract with 1.70% M&E).

Through the third quarter of 2010, Sun Life, the U.S. unit of Toronto-based Sun Life Financial Services of Canada, was ranked 11th in variable annuity sales in the U.S., with $2.52 billion in premiums so far this year, according to Morningstar. In mid 2009, Sun Life was the 15th-ranked seller of VAs in the U.S.

These gains came after the migration of three former Lincoln Financial Group executives to Sun Life, whose U.S. headquarters is in Wellesley, Mass., in October 8. Former Lincoln CEO Jon Boscia came out of retirement to take over Sun Life's U.S. operations. Wes Thompson, then the head of Lincoln's retirement solutions, and Terry Mullen, who ran Lincoln Financial Distributors, went to Sun Life at the same time.

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In describing the Maximizer Plus, Deschenes did not use the term "inflation-protection" to describe a feature that offers the same 2.5% uptick in payout each year, regardless of whether the Consumer Price Index goes up by more or less than that—and even if it goes down. "Think of it as a merit increase," he said. "We're saying, 'It's like a continuation of the 2.5% raise that you expected when you were working.'"

The increases don't come free, however. A 65-year-old contract owner would get annual payouts starting at 4% of the income base if he or she opted for the Maximizer Plus, instead of the 5% payout on the Maximizer.

For example, the income from a $100,000 benefit base would be $4,000 the first year, and go up to at least $4,100 the second year, to $4,202.50 the second year, and so on. "It crosses over at about age 74," Deschenes said. Also, Maximizer Plus costs 125 basis points a year, compared to 110 basis points (130 bps for joint life) for Maximizer. The Maximizer rider fee is capped at 1.75%, which gives Sun Life some flexibility to adapt to volatility while limiting the investors' exposure to rising costs.

The Maximizer provides an 8% increase in the benefit base every year until the contract owner takes a withdrawal from the contract. This is up from the 7% roll-up previously offered on Sun Life variable annuities. If the owner takes no withdrawals for 10 years, the benefit base is automatically at least double the initial premium.

Like most variable annuities with living benefits, this product isn’t cheap. According to an example on Sun Life’s website, insurance and average investment management costs of 111 basis points could push the product’s expense ratio to 3.65%, or almost half of the 8% return that investors typically hope for from balanced portfolios and not far below the typical annual income payment in retirement.

Deschenes said Sun Life has instituted some new risk management techniques since the financial crisis. “Last February, we put four core retirement funds in the contracts that have internal volatility controls. Those funds are partly self-hedging because they change the asset allocation” in response to volatility. “We also gave ourselves the ability to change the price on the rider if future market conditions and volatility require it,” he told RIJ.

“Some of our PIMCO funds, for instance, also manage to a maximum 15% decline by buying out-of-the-money puts inside the fund. If the cost of the puts exceeds their budget, they’ll buy fewer puts and reduce the equity exposure of the fund,” Deschenes said, noting that MFS and Ibbotson worked with Sun Life on risk management strategies.