Switcheroo: New FIA credits benefit base, not account value

By Editorial Staff *Thu, Jul 30, 2015*

In most annuities with living benefits, the notional "benefit base" grows by a guaranteed "roll-up" amount each year, while the contract's account value depends on market performance. In Fidelity & Guaranty's new FIA, the opposite happens.

Fidelity & Guaranty Life, the Baltimore-based insurer that was purchased by Harbinger Capital from Old Mutual plc in 2011, has a new fixed indexed annuity designed to provide income payments for retirees, called FG Retirement Pro.

F&G described the product as unique in allowing the “benefit base” (the notional amount guaranteed minimum withdrawal benefit’s monthly payment gets calculated), rather than the account value, to grow through an interest crediting mechanism determined by the appreciation of equity index options.

Meanwhile, the account value (the cash value of the contract) grows by an annually declared fixed interest rate. In states that allow it, the contract also offers an optional 7% premium bonus that vests over time, a 13% cap on annual point-to-point increases in the benefit base, and an income multiplier (200% for single annuitants and 150% for joint annuitants) for contract owner who become ill.

Asked to comment on this type of product design, a consulting actuary who is not familiar with the product offered this observation by e-mail:

“The cost of a GLWB [to the issuer] is somewhat proportional to the gap between the cost of the withdrawal path vs. the account value/surrender path. A proxy for the withdrawal path is the benefit base (BB), although the true cost is the present value of the withdrawal income and the exercise probabilities.

“Some products have tried to manage this gap by having the BB grow in some way that is related to interest crediting. For example, there is “stacked” BB crediting consisting of a constant plus credited interest. Basically, it is good to keep the BB and the AV from diverging too much.

“With hedge budgets being fairly low, it may be that BB growth based on credited interest is generally, on average, lower than a competitive fixed roll-up rate. If F&G has become aggressive on hedge budgets/interest crediting, the gap between a fixed roll-up and this may be narrow.

"With roll-ups where they were, step-ups were a rarity. They had minimal financial impact. If the case is that the AV and the BB both grow by credited interest, then there never would be a step-up; however, that would have minimal financial impact.

"On the surface, this F&G product seems to add nothing for the customer (unless I am missing something) except some simplification by eliminating a much misunderstood roll-up rate."

"The design of FG Retirement Pro puts strong indexing opportunity into the income feature. The product's "innovation lies in its income potential," said Brian Grigg, vice president of annuity distribution at FGL. Any agent who has sold indexed annuities clearly understands the upside potential of index credits tied to a well-known index, such as the S&P 500. FG Retirement Pro takes it to the next level and builds a benefit base on indexing. And, the caps have the potential to be very strong.

"The competitive arena for FIAs for many years now has been with income. Early versions provided a fixed roll-up rate as a way to grow a benefit base. FG Retirement Pro combines the fixed rate with the potential of a higher overall roll-up rate through indexed interest credits to the benefit base."

FG Retirement Pro is available for sale immediately. A call requesting comment from FGL was not returned by deadline.