Symetra Offers Fee-Based Fixed Indexed Annuity

By Kerry Pechter *Thu, Jul 27, 2017*

Distribution of the Symetra Advisory Edge and Advisory Income Edge products began in April through Merrill Lynch, Commonwealth and Raymond James.

Symetra Life Insurance Company, the Bellevue, WA-based unit of Sumitomo Life, has introduced two no-commission fixed indexed annuities (FIAs) for distribution by fee-based advisors: Symetra Advisory Edge, for accumulation, and Symetra Advisory Income Edge, which offers a guaranteed lifetime withdrawal benefit.

Kevin Rabin, vice president of Retirement Products at Symetra, said the company has been rolling out distribution of the fee-based FIAs since April, starting with major brokerages Merrill Lynch, Commonwealth and Raymond James.

The April roll-out was timed to match the initial effective date of the Department of Labor's fiduciary rule, whose current version—now under review by the Trump administration—adds regulatory hurdles to the sale of FIAs and variable annuities (VAs) to rollover IRA owners if the manufacturer pays a commission to the advisor and recoups the commission through fees or product pricing.

With some brokerage firms retreating from offering commission-paid FIAs and VAs, and many brokerage advisors switching to a pure fee-based revenue model, some life insurers have designed fee-based products to give them an FIA they can sell. Instead of earning a commission, advisors can charge their own advisory or "wrap" fee for managing client assets, including the annuity value.

"We had contemplated developing this type of product before the fiduciary rule, but the rule tipped us over the edge," Kevin Rabin, Symetra's vice president for Retirement Products, told *RIJ* this week. "Some distribution firms told us they are going advisory-only for qualified dollars."

Stripping out the commission from the FIA doesn't necessarily make the product cheaper for investors to own, because advisors add their own charge. But a fee-based design does allow the issuer to raise the limits, or caps, on the maximum amount of interest the issuer credits to the contract each year. That gives the owner more growth potential.

"Speaking at a high level, when we cut the commission to zero and put that [extra premia] into the caps, we could offer something close to 150 basis points more on [contracts linked to] the S&P 500 Index and 250 basis points more on [contracts linked to] the JP Morgan Efficiente Index, versus the commissionable product. That helps in the marketability of the products," Rabin told *RIJ*.

The Advisory Income Edge version of the FIA offers a lifetime income withdrawal benefit for an added fee of 1.05% per year. Fixed payout rates start at 2.50% of the account balance per year at age 50 (2% for joint-and-survivor contracts) and increase by 50 basis points for every year post-purchase that the owner or owners defer taking income. The half-percent boost is credited each year for up to 10 years.

Withdrawal Benefit Basics, continued

Lifetime Withdrawal Options

You can select either Level or Index-linked withdrawals. This choice is made at the time you choose to begin lifetime withdrawals. Once an option is selected, it cannot be changed.

1. Level withdrawals

Guaranteed, level amount for life.

Single Life

Age at Issue	Base Withdrawal Percentage	Annual Increase (10 Years)	Withdrawal Percentage: End of Year 5	Withdrawal Percentage: End of Year 10 or Later
50-54	2.50%	0.50%	5.00%	7.50%
55-59	3.00%	0.50%	5.50%	8.00%
60-64	4.50%	0.50%	7.00%	9.50%
65-69	5.00%	0.50%	7.50%	10.00%
70-74	5.50%	0.50%	8.00%	10.50%
75-79	6.50%	0.50%	9.00%	11.50%
80+	7.00%	0.50%	9.50%	12.00%

Joint Life

Age at Issue	Base Withdrawal Percentage	Annual Increase (10 Years)	Withdrawal Percentage: End of Year 5	Withdrawal Percentage: End of Year 10 or Later
50-54	2.00%	0.50%	4.50%	7.00%
55-59	2.50%	0.50%	5.00%	7.50%
60-64	4.00%	0.50%	6.50%	9.00%
65-69	4.50%	0.50%	7.00%	9.50%
70-74	5.00%	0.50%	7.50%	10.00%
75-79	6.00%	0.50%	8.50%	11.00%
80+	6.50%	0.50%	9.00%	11.50%

2. Index-linked withdrawals

Guaranteed withdrawals for life with potential for increases each year.

Single Life

Age at Issue	Base Withdrawal Percentage	Annual Increase (10 Years)	Withdrawal Percentage: End of Year 5	Withdrawal Percentage: End of Year 10 or Later
50-54	1.25%	0.50%	3.75%	6.25%
55-59	1.75%	0.50%	4.25%	6.75%
60-64	3.25%	0.50%	5.75%	8.25%
65-69	3.75%	0.50%	6.25%	8.75%
70-74	4.25%	0.50%	6.75%	9.25%
75-79	5.25%	0.50%	7.75%	10.25%
80+	5.75%	0.50%	8.25%	10.75%

Joint Life

Age at Issue	Base Withdrawal Percentage	Annual Increase (10 Years)	Withdrawal Percentage: End of Year 5	Withdrawal Percentage: End of Year 10 or Later
50-54	0.75%	0.50%	3.25%	5.75%
55-59	1.25%	0.50%	3.75%	6.25%
60-64	2.75%	0.50%	5.25%	7.75%
65-69	3.25%	0.50%	5.75%	8.25%
70-74	3.75%	0.50%	6.25%	8.75%
75-79	4.75%	0.50%	7.25%	9.75%
80+	5.25%	0.50%	7.75%	10.25%

Your withdrawal percentage increases by 0.50% each year you wait to start taking lifetime withdrawals. Note that you can choose to wait more than 10 years, but the withdrawal percentage will no longer increase after 10 years.

For example, clients who buy the product at age 65 would have an initial payout percentage of 5% (4.5% joint). If they delayed income until age 70 they could take annual withdrawals of 7.5% (7% joint). And they could take withdrawals of 10% (9.5% joint) if they waited until age 75. The minimum initial premium is $10,000.

During the deferral period, the account accrues interest. Clients who want to see their account (and their annual payouts) grow in retirement have the option of keeping their accounts linked to an equity index even after income starts. But the payout rates for that option start at lower levels—for instance, 3.75% for purchases at age 65 to 69 (2.75% joint).

Symetra made a conscious decision to incentivize contract owners to delay taking income by offering incrementally higher payout rates instead of the common practice of offering annual increases in a notional value (known as the “benefit base”). It makes the income benefit easier to understand and more transparent, Rabin said.

When annuities offer benefit base bonuses to encourage deferral, clients often fail to understand the difference between their account value (which is available as a lump sum) and their benefit base (which is not). They also often mistake the deferral bonus on the benefit base for a guaranteed growth rate.

Both Advisor Edge and Advisor Income Edge offer two indexing options. Contract owners can link their contract to the S&P 500 Index or the actively-managed JP Morgan ETF Efficiente 5 Point to Point Index.

As of June 2017, the Efficiente Index was composed of an all-ETF (exchange traded funds) portfolio of 20%

SPDR S&P500, 20% iShares MSCI EAFE, 20% iShares iBoxx investment-grade corporate bonds, 10% iShares iBoxx high yield corporate bonds, 10% iShares MSCI Emerging Market equities, 15% iShares JPMorgan USD Emerging Market bonds, and 5% SPDR Gold Trust.

The composition of the Efficiente 5 Index changed over the course of 2017, as managers invested at times in the iShares Russell 2000 small-cap ETF, as well as in commodities, real estate and cash.

Interest is credited to indexed accounts using a point-to-point crediting method that compares the value of the index at the beginning of the one-year interest term to its value at the end of the interest term, subject to a cap (maximum), according to a Symetra fact sheet for Advisor Edge.

The indexed interest cap is set at the beginning of each interest term. If the index performance is positive, interest is credited for that term, not to exceed the cap. If the index performance is negative, no interest is credited for that term.