Talking DIAs with Matt Grove of NY Life

By Kerry Pechter *Tue, May 15, 2012*

New York Life launched its Guaranteed Future Income Annuity, a deferred income product, in mid-2011 and has found traction among pre-retirees who want income about 10 years later. We spoke about it with Matthew Grove, vice president of Guaranteed Lifetime Income at the mutual insurer.

RIJ: New York Life's deferred income annuity, the Guaranteed Future Income Annuity, was introduced in July 2011. Who are the target clients for that product?

Grove: We realized in late 2010, when we started developing Guaranteed Future Income Annuity, that while guaranteed income was a big deal for people in their 60s and 70s, there was a bigger opportunity among people in their 50s and 60s who needed income later [in life]. There are more people in that group, and they have more money. And, while there's still a fair degree of pension ownership among today's retirees, people in their 50s and 40s have less pension ownership. So we thought we could pivot off our Guaranteed Lifetime Income product and extend our existing brand.

RIJ: From what we've heard, sales are going better than expected.

Grove (at right)**:** We were shocked at the response from the field [agents]. We launched in July with low expectations. Usually, it takes a while to educate the field [agents]. We expected $20 million in sales and got $200 million. The number today is more like $400 to $450 million, and sales are accelerating.

RIJ: What's driving those numbers?

Grove: The most important factor is that we went against popular opinion on positioning the product. The conventional wisdom is that income annuities are about longevity insurance, and that the typical purchaser would be a 60-year-old leveraging to age 75. Although there is a market there, we positioned GFIA as a solution that provides the financial security that a pension once provided, targeted at a person in his or her mid-50s who is buying a guaranteed income stream that starts in their mid- to late-60s. For them, the need is more personal. It's less abstract than deferring income to a time when you might not be alive. It's also a more positive message. A lifetime income product is about protection against living too long. GFIA is about having more income during retirement.

RIJ: It's interesting that your sales are strong in a low interest rate environment.

Grove: Counter-intuitively, it's an economic analysis that's driving sales. People are convincing themselves that it would be a good investment, quantitatively. We just launched ads with the slogan, Get More Income. It showed that a 58-year-old who deferred income for nine years would get 30% more income from GFIA than from a GLWB with a 5% roll-up for nine years and then a 5% withdrawal from the benefit base. It's really about relative value. The client is asking, 'What are my alternatives?'

RIJ: But what if people are comparing the annuity to a systematic withdrawal plan from an investment portfolio?

Grove: We have a concept called 'required yield.' If Choice A was GFIA, and you got a 10% payout 10 years from now, and if Choice B was a systematic withdrawal plan with a pre-determined distribution rate of 5% from an investment portfolio starting ten years from now, what returns would you need to earn over ten years to match the first-year income that you'll get from the annuity? That's the hurdle rate you have to get over in order to match the first-year income [from an investment portfolio with that of an annuity]. We find that those hurdle rates are typically very high.

RIJ: It's surprising that a deferred income annuity is getting so much traction, relative to expectations at least, when you consider that the required minimum distribution rules force most rollover IRA owners to start taking money out of their accounts at age 70½.

Grove: A lot of people would defer longer if not for the required minimum distributions. We see in our nonqualified business that people would like to defer past that age. The Treasury Department has a proposal out right now that would relax the age 70½ restrictions, with some constraints. That would expand our market.

RIJ: By taking income earlier, aren't people also giving up some of the so-called mortality credits that come from investing in an income annuity?

Grove: The mortality credit becomes compelling at about age 70. But if you look only at the mortality credit you're failing to understand the true value of the product. Firms like Fidelity and others that are focused on retirement income are selling income annuities to a younger population. They've done their homework, and they understand the value of income annuities in the broader portfolio. The entire point of Modern Portfolio Theory, the bedrock of it, is that you have to look at all of the assets in the portfolio in conjunction with each other. Thinking about them as stand-alone investments makes no sense whatever. It's the same when you add annuities to the mix.

RIJ: So you're making the argument that income annuities have benefits aside from mortality credits?

Grove: There are reasons why income annuities improve outcomes. They aren't correlated with the market. And they remove sequence of returns risk from one segment of the portfolio. Most of the problems that people will have are related to sequence of returns risk. That's the single biggest threat to their financial health in retirement.

RIJ: You've said elsewhere that many clients are choosing cash-refund GFIAs. Doesn't that structure wipe out the mortality credit?

Grove: It's not accurate to say that you're wiping out your mortality credits by choosing a cash refund. You're still pooling mortality. With the cash refund, we guarantee the principal but not the interest. We're mortality-pooling your interest, while also giving you the benefit of a steady payout. Although an economist might tell you to buy a life annuity, most people are uncomfortable with the idea that if they were hit by a truck they would lose their money.

RIJ: Some people might prefer to buy an immediate income annuity later than buy a deferred income annuity today. Is there any point in acting now?

Grove: When we write a single premium immediate annuity, the average duration of the liability is eight or nine years. So we buy a bond portfolio with an eight- or nine-year duration. The duration of the GFIA is 18 years. Because of the upward sloping yield curve, we can earn higher returns and that drives higher payout rates.

RIJ: Some people say that New York Life sells the most income annuities because it has such a strong career agency, and that career agents have an easier time selling annuities. Is there any truth to that?

Grove: We have a 30% market share. The nearest competitor has a 5% to 10% share. Our career agency represents about half of our income annuity sales, so we would still be number one if we had no career agents. There is no special aspect of career agency that favors income annuity sales, with the possible exception that the career agency is more insurance-focused and the third-party distributors are more asset-management oriented.

RIJ: What about the fee-based advisor channel? There's a lot of money there, but it's resistant to annuities.

Grove: There have been attempts to establish annuities as a viable fee-based option. We have created a no-load version of our income annuity. We've begun to see some major distributors say that they would count the value of an annuity to their AUM. There might be no explicit charge for managing the annuity. Its value would just be counted toward their book of business. There have been discussions about charging a reduced fee for the annuity assets, more like 30 basis points.

RIJ: It's not easy to change the way advisors think about income annuities.

Grove: The economics of the advisor business were built around asset accumulation. But in retirement, for many customers, the asset base will be shrinking. The time that needs to be invested in client relationships can also go up because you have more people who are worried. But our understanding is that retirement-based practices are going pretty well, and that advisors [who specialize] in retirement aren't overwhelmed by calls from their clients. It's a good demographic for advisors.

RIJ: Thank you, Matt.