
Target Practice: AIG and Milliman's New Annuity

By Editorial Staff Thu, Jan 27, 2022

AIG combines elements of a variable annuity, a registered index-linked annuity, and of Milliman's Defined Outcome ETFs into a series of Advanced Outcomes Annuities.

“Structured” annuities and exchange traded funds (ETFs) have proliferated in recent years as a kind of Goldilocks investment for people who want exposure to stocks and are willing to give up some of their potential reward for partial protection against risk of loss.

Now AIG, the giant annuity manufacturer, and Milliman Financial Risk Management, have taken elements of structured Registered Index-Linked Annuities (RILAs) and of Defined Outcome ETFs (a series issued by Innovator Capital Management and subadvised by Milliman) into “[Advanced Outcomes Annuities](#),” a suite of variable annuities issued by American General Life, an AIG company.

Like RILAs, these funds use pairs of put and call options to capture part of the performance of an equity index. The indexes in these funds are the price-only versions (no dividend yield) of the large-cap S&P 500, the tech-heavy NASDAQ-100, the Russell 2000 small-cap index and the global MSCI EAFE.

Along with downside protection, an investor in these funds enjoys the tax-deferral of an annuity and the liquidity of an ETF. While the funds have specific start dates and term lengths (six months, one year or six years), their prices change daily and investors can enter or leave when they want or need to.

Like B-share variable annuities, the Advanced Outcomes Annuities are sold through broker-dealers by commission. Their fees resemble the fees of B-share products. They have surrender fees (7% in year one), annual contract fees (1.25%) and fund fees (0.99%). They also have an optional guarantee against long-term loss.

Prospective investors in these funds should be aware that AIG signaled in October 2020 that it plans to divest or spin off its life and retirement businesses, including annuities. MetLife made a similar move in 2016 when it created Brighthouse Financial. AIG declined to comment on what that might mean for contract holders.

The latest funds

The most recent flight of Advanced Outcomes Annuity offerings include five one-year funds, two six-month funds, and two six-year funds. During each term, the funds are priced daily. Investors can jump into and out of the funds to create their own durations, but their performance will vary depending on the fund's prices when bought and sold.

"Each fund has its own target payout profile, each has its own upside target and downside protection target. These are managed like registered index-linked or structured annuities. But our product is not a RILA, it's a variable annuity," Adam Schenck, managing director, Head of Fund Services at Milliman FRM, said in an interview.

The amount of the investor's money that is used to buy options on one of the indexes depends in part on the performance of the "collateral fund" into which most of the money is invested. Most of the collateral fund is invested directly or indirectly in fixed income investments.

One year crediting term funds:

- Milliman Buffered S&P 500 with Spread Outcome Fund (buffer against first 10% of index losses; upside performance in excess of an initial "spread" is uncapped)
- Milliman Floored S&P 500 with Par Up Outcome Fund (possible loss capped at -10%)
- Milliman Buffered S&P 500 and NASDAQ-100 with Stacker Outcome Fund (buffer against first 10% of index losses)
- Milliman Buffered S&P 500 and Russell 2000 with Stacker Outcome Fund (buffer against first 10% of S&P 500 losses)
- Milliman Buffered S&P 500 and MSCI EAFE with Stacker Outcome Fund (buffer against first 10% of S&P 500 losses)

Six-month crediting term:

- Milliman Buffered S&P 500 with Par Up Outcome Fund (loss limited to first 10% of index loss)
- Milliman Parred Down S&P 500 with Par Up Outcome Fund (loss limited to 50% of S&P 500 Index loss)

Six-year crediting term

- Milliman Buffered S&P 500 with Par Up Outcome Fund. Over six years, losses are limited to 50% of S&P 500 price index losses; gains are provided by a participation rate.
- Milliman Parred Down S&P 500 with Par Up Outcome Fund (loss limited to 50% of index loss)

Bryan Pinsky, president, Individual Retirement, AIG Life & Retirement, said these products were designed in part on the basis of feedback from financial advisers. That feedback led to the "Capture-Reset-Reinvest" feature for liquidity. It also led to three crediting methods:

- Participation rates that offer fixed percentages of the index gain or loss during the investment term
- Spreads (uncapped participation in all index gains in excess of an initial expense or "spread")
- Stacker cap (the market gains of an index such as NASDAQ-100 added to the S&P 500, each up to a pre-defined level)

"As we talked to advisers, we heard loud and clear their desire for flexibility. Because of the nature of the funds, the duration can be whatever they want it to be. The six-month strategy lets them capture gains and reset more frequently," Pinsky told *RIJ*. "It brings Milliman's expertise from the Innovator Defined Outcome ETFs into AIG's tax-deferred wrapper."

AIG also adds optional guarantees that stop the total possible loss over six years at either -10% or -20%.

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