The Bucket

By Editorial Staff Wed, Apr 25, 2012

Brief or late-breaking items from National Academy of Social Insurance, New York Life, LPL Financial, Fortigent, BNY Mellon, Investor Analytics, National Exchange Traded Funds Association, and the American Association of Long-Term Care Insurance.

NASI offers 'exit strategy' for Social Security payroll tax holiday

With the "payroll tax holiday" set to end on December 31, a new fact sheet from the National Academy of Social Insurance suggests an "exit strategy" that could attract broad public support and help strengthen Social Security for the long term.

The exit strategy would gradually restore the workers' contribution rate to 6.2% of earnings over several years, in order to smooth the transition from 4.2% (the reduced "holiday" rate) and avoid a sudden impact on the still-fragile economy.

One option would then be to gradually raise the rate from 6.2% to about 7.0% for workers and employers alike, to address Social Security's projected long-term revenue shortfall.

In combination with other changes, such as lifting the cap on earnings taxable for Social Security (now set at $110,100), a very gradual increase in contribution rates could keep the program in balance throughout the retirement of the baby boomers and beyond.

Social Security has four dedicated sources of income: contributions from workers and employers; dedicated reimbursement funds from general revenues; income taxes on benefits that some beneficiaries pay; and interest on the reserves held in the trust funds. The reimbursement funds ensure that revenue not collected during the temporary tax reduction is being made up dollar-for-dollar.

The National Academy of Social Insurance (NASI) is a nonprofit, nonpartisan organization made up of the nation's leading experts on social insurance.

LPL Financial completes acquisition of Fortigent

LPL Investment Holdings Inc., parent of LPL Financial, has announced the completion of its parent company's acquisition of Fortigent, LLC, provider of high-net-worth solutions and consulting services to RIAs, banks, and trust companies.

A new sister company of LPL Financial, Fortigent will maintain its brand and team, and will continue to deliver research, reporting and practice management solutions for banks, trust companies and independent advisory firms. The acquisition will allow LPL Financial to support a wider range of financial advisor business models, according to a release.

Financial terms of the transaction were not disclosed.

Northwestern Mutual sells Russell Investments Center in Seattle

In what is believed to be the largest single asset office sale in the western United States since 2006, Northwestern Mutual has sold the Russell Investments Center to CommonWealth Partners for $480 million.

Northwestern Mutual bought the 42-story, 872,000 square foot office building in the fall of 2009. The Russell Investments Center, located at 1301 Second Avenue in Seattle's business district, was constructed in 2006.

The company increased the property's market value by raising occupancy from a virtually empty building to 95% leased. In December, the company listed the building for sale as part of ongoing management of its real estate investment portfolio.

"This transaction is an example of how we actively manage our $5.8 billion real estate equity portfolio to generate strong returns on behalf of our policyowners," said Paul Hanson, managing director–real estate, Northwestern Mutual. "The company's real estate strategy typically focuses on long-term holds; however, the Seattle market rebounded quickly, creating an excellent opportunity for the company to realize a gain for our policyowners."

Northwestern Mutual's real estate investments are part of its $166 billion general account investment portfolio, which backs the insurance and annuity products that are actively managed for the benefit of policyowners. The company manages its real estate equity portfolio through buying, developing and selling assets in various markets across the country.

CBRE, the world's largest commercial real estate services firm, served as broker for the transaction through a team led by Vice Chairman Kevin Shannon. The sale is not expected to cause disruption for tenants with long-term leases, including Russell Investments, Boeing, Nordstrom, Dendreon, JP Morgan Chase and Zillow.

NETFA, the first US-based ETF trade association, is formed

Senior executives of leading US-based exchange-traded fund (ETF) companies have agreed to launch the National Exchange Traded Funds Association (NETFA) to represent and promote the US ETF industry. The new chairman of NETFA is John Hyland. The vice-chairman is Adam Patti.

Over the last five years, assets in US-listed ETFs have grown an average of 24% annually, from $408 billion on December 29, 2006 to $1,211 billion as of March 30, 2012. There are over 1,400 ETFs listed on US exchanges as of March 30, 2012 (source: 2011 ICI Factbook, Index Universe).

NETFA will provide industry statistics and commentary on ETF related issues to the US financial media, and advance industry issues with regulators, government agencies and interested third parties.

BNY Mellon and Investor Analytics introduce liability modeling

BNY Mellon announced that it is adding enhanced liability modeling to its risk management solution for institutional clients. The new service, based on capabilities provided by Investor Analytics, will enable clients "to evaluate both asset holdings and liabilities in a common risk framework," the company said in a release.

"The enhancements enable clients to evaluate funded status and assess the risk analytics for total and individual assets and liabilities compared to selected benchmarks. In addition, clients will be able to model the behavior of assets and liabilities under possible market stresses and yield curve changes," the release said.

"We'll provide our pension plan sponsor clients with a more complete picture of the impact of market events on their fund obligations," said John Gruber, global product strategy head of the Performance & Risk Analytics group of BNY Mellon Asset Servicing.

"Our Risk Management service now provides asset owners with the ability to view and analyze how plan assets, liabilities and funding levels behave in response to a complete range of market shocks, scenarios and stresses," said Damian Handzy, CEO of Investor Analytics.

New York Life introduces three-year term for MVA fixed annuity

New York Life has introduced a three-year initial interest rate guarantee and matching three-year surrender charge period on its Secure Term MVA Fixed Annuity.

The new offering provides a guaranteed 1.15% rate tax-deferred, over the three-year term, compared to the national average of 0.69% for three-year CDs.

The three-year term complements the product's existing five-, six-, seven- and eight-year terms, and is now available to consumers through New York Life's agency sales force as well as through select third parties.

According to LIMRA, New York Life was the largest seller of market value adjustment fixed annuities in the fourth quarter of 2011, with $134.3 million in sales. In the first quarter of 2012, New York Life exceeded its fourth quarter sales with a company-record-setting $262.1 million in sales.

The Secure Term MVA Fixed Annuity offers the following features:

- Multiple initial interest rate guarantee periods, including the new three-year term.

- Tax-deferred growth.
- Access to the funds when needed through a surrender-charge-free window during each policy year.
- A guaranteed death benefit where beneficiaries receive the policy’s full accumulation value.
- The ability to convert accumulated assets to guaranteed lifetime income.

Linked LTCI attracting younger buyers

An increasing number of national insurance companies are offering protection that combines life insurance with potential long term care insurance benefits. According to the 2012 Buyer Study conducted by the American Association for Long-Term Care Insurance, these linked benefit (also called “combination”) products are gaining favor with individuals in their 40s and 50s.

The Association’s annual study of leading insurers found that 53% of buyers of these hybrid policies were under age 65 in 2011 compared to only 48% in 2010. Some 42.5% of male and 38.5% of female buyers were between ages 55 and 64 explains Jesse Slome, director of the national trade group. Nearly 10% of buyers were between ages 45 and 54.

The AALTCI study reported sales for the participating linked benefit insurers increased 14% in 2011 and the premium increased almost 20%.