The Bucket

By Editorial Staff *Tue, Jun 19, 2012*

Brief or late-breaking items from Towers Watson, CBOE Futures Exchange, Sharebuilder 401k, Prudential Financial, Bankrate.com, Insta40.org, USAA, Mass Mutual Retirement Services and the Phoenix Companies.

Low Rates Weigh on Life Insurers: Towers Watson

With U.S. interest rates at their lowest since right after World War II, chief financial officers (CFOs) at North American life insurance companies — particularly those with significant exposure to fixed-rate products — are under substantial financial pressures. According to data from a recent survey from global professional services company Towers Watson, Life Insurance CFO Survey: Low Interest Rate Environment, life insurance CFOs said the current low interest rate environment is their primary business concern, as almost half (45%) of the survey respondents emphasized that a prolonged low interest rate environment is the greatest threat to their business.

Further, life insurance CFOs are not optimistic about the immediate economic future. Eighty-seven percent of all respondents believe there is a 50% or greater likelihood of a major disruption to the economy in the next 12 to 18 months, with 27% saying there is a 75% likelihood and 7% saying the likelihood of a major disruption is almost certain.

Against this backdrop, CFOs do not expect the low interest rate environment to change quickly. Over two-thirds (68%) said they expect a three- to five-year period of low interest rates, followed by a gradual increase. When asked to consider their organization's interest rate risk exposure, CFOs' metrics of greatest concern were their levels of statutory capital (63%), followed by their level of statutory earnings (53%).

In response to the low interest rate environment, CFOs said they are considering or taking a number of actions to control interest rate risk. More than half (57%) said their company has established risk tolerance limits for interest rate risk; however, 43% have not done so, and over 40% of CFOs with established rate risk tolerance limits indicated they have breached them.

CFOs have increased the cost of insurance rates for interest-sensitive products as a way to better manage their interest rate risk. Forty-three percent of respondents said, based on future expectations, the language of their policy forms allows them to change cost of insurance (COI) rates under the universal life products they sell based on investment earnings, while 50% said they can change COI rates for variations in mortality alone. Many are taking advantage of this provision in their policies. In the past five years, just over a third of respondents have increased COI rates, expense loads or both on at least some part of their life block.

Survey respondents have also implemented product change strategies, or are considering implementing them, as a result of the low interest rate environment. Nearly all respondents have taken significant steps, and virtually all (96%) have reduced their minimum guarantee on fixed-account products. Over half (56%)

have adjusted their premium rates, reduced living benefit guarantees or adjusted fees on annuity products (56%), or ceased or significantly curtailed sales of some products (54%). One-quarter have even taken the step of exiting product segments, and another 13% plan to do so in the next six months.

CFOs predict growth, despite current environment

Despite their unfavorable near-term outlook on the economy, CFOs are more optimistic about improvements in their financial results. Seventy-one percent of respondents expect increases in new life and annuity premiums of 4% or more in the first quarter of 2012, compared to the same period in 2011. Over 80% expect GAAP net revenue to grow by 4% or more in the first quarter, compared to the same period in 2011. When compared to expectations from Towers Watson's last CFO survey, this represents a notable increase in optimism: When asked about expectations for the third quarter of 2011, only 43% predicted increases in new life and annuity premiums of 4% or more, and just 50% anticipated a GAAP net revenue increase of 4% or more. Adding to the sense of optimism, 50% of respondents predicted GAAP net income will increase by 4% or more compared to the first quarter of last year.

About the survey

Thirty CFOs, 19% of the 162 North American life CFOs invited, participated in the survey. Because each survey question was not applicable to each participating company, the respondent base varies from question to question. The respondents are primarily from large and midsize life insurance companies in North America; 67% of respondent companies have assets of $5 billion or more, and 20% are multinationals.

New single-day volume record set at CBOE Futures Exchange

CBOE Futures Exchange (CFE) announced that Monday, June 18 was the most active trading day in CFE history. Volume totaled 160,552 contracts traded throughout its full suite of products. Monday's volume surpassed the previous high of 152,133 contracts set on August 5, 2011.

In addition, trading volume in futures on the CBOE Volatility Index (the VIX Index) also established a new single-day record today as 159,744 contracts traded, eclipsing the previous record of 152,067 contracts, also on August 5, 2011.

During May 2012, trading volume, both exchange-wide and in VIX futures, exceeded two million contracts for the first time. Total exchange volume hit 2,022,433 contracts, while 2,000,154 VIX futures contracts changed hands. Through the end of May, CFE's year-to-date trading volume stood at 7,838,752 contracts, 76% ahead of the 4,463,758 contracts from 2011.

CFE currently offers futures on ten different contracts, including:

- The CBOE Volatility Index (the VIX Index)

- Weekly options on VIX futures (VOW)
- CBOE mini-VIX (VM)
- CBOE NASDAQ-100 Volatility Index (VXN)
- CBOE Gold ETF Volatility Index (GVZ)
- CBOE Crude Oil ETF Volatility Index (OVX)
- CBOE Emerging Markets ETF Volatility Index (VXEM)
- CBOE Brazil ETF Volatility Index (VXEW)
- CBOE S&P 500 3-Month Variance (VT)
- Radar Logic 25-Metropolitan Statistical Area (MSA) RPX Composite Index (RPXCP)

‘ShareBuilder 401k’ aims to help firms assess plan fees

Retirement plan service provider ShareBuilder 401k has introduced tools that enable companies to calculate the fees they and their employees are paying, and determine whether or not those costs are reasonable. The tools are available at www.401kFeeSaver.com

“At ShareBuilder 401k, we encourage employers to keep employee fees below one percent,” said ShareBuilder 401k general manager Stuart Robertson.

ShareBuilder 401k now offers a free online “fee checker” that quickly and easily calculates a 401(k) plan’s employee fee percentage. Employers simply enter their plan’s total assets (or average annual balance) and total investment product fees listed in their 401(k) plan fee disclosure document, and a quick estimate and assessment of their plan’s fees is produced.

For a full custom cost comparison, employers submit their fee disclosure documents to 401kpros@sharebuilder.com, and within 48 hours, ShareBuilder 401k will return a breakout of potential cost savings for both employer-paid and employee-paid costs on an annual basis and over a five-year horizon.

Since 2005, ShareBuilder 401k’s pricing has been available on its website, and in 2007 the company began advocating for an industry benchmark of less than one percent for “all-in” employee-paid fees in 2007. It is in the process of sending disclosures to clients in advance of the July 1 deadline.

All ShareBuilder 401k products offer auto-enrollment, auto-re-balancing, Roth, and signature-ready 5500s. Each plan provides access to 401(k) consultants, “customer success” managers, implementation specialists and customer care for each participant, the company said in a release.

ShareBuilder 401k provides 401(k) retirement plans with exchange-traded fund (ETF) investments from Vanguard, iShares, SPDR and PowerShares for businesses ranging from the self-employed to those with 500 or more employees at www.sharebuilder401k.com.

“It’s the economy,” smart guy

Americans’ feelings about their own personal finances and the economy likely will influence the outcome of the 2012 presidential election more than anything that the candidates do on the campaign trail, according to a survey by Bankrate.com.

Nearly 6 in 10 Americans reported their personal finances will be either the “single most important” or “one of several important” factors in determining their vote in November, according to a recent Bankrate survey.

Princeton Research Associates International conducted the survey via phone interviews from June 7 to 10, with a nationally representative sample of 1,000 adults in the continental U.S. The margin of error is plus or minus 3.6 percentage points.

The public appears evenly split between the two candidates. Of those surveyed, 21% said their personal financial situations would be better under former Massachusetts Gov. Romney and 21% said they would be better under President Obama. Eight percent were undecided.

Another 50% said the eventual winner wouldn’t make much difference to their personal finances. According to Matthew Singer, a professor of political science at the University of Connecticut, neither candidate has convinced voters they can fix the U.S. economy.

“Presidential approval ratings zig and zag in close concert with Americans’ feelings of financial security,” said Greg McBride, CFA, senior financial analyst for Bankrate.com. “Since late 2010 through May of 2012, the correlation is 0.84. A reading of 1.0 would be a perfect correlation.”

Short on savings? Work a few years longer.

A new Center for Retirement Research at Boston College report highlights the difference a few extra years of work can make toward ensuring that the vast majority of Americans can achieve retirement security.

The National Retirement Risk Index has shown that an increasing percentage of households will not be ready to retire at age 65, from 30% in 1989 to approximately 50% today. The National Retirement Risk Index is sponsored exclusively by Prudential.

Despite this, however, the new report finds that by working five years longer than the assumed retirement age of 65, the percentage of American households prepared to retire increases to 86%.

A new Prudential paper, “Planning for Retirement: How Much Longer Do We Need to Work?” discusses some of the implications of this report for individuals, employers, financial advisors and policymakers.

The paper notes additional ways to achieve better retirement outcomes, including increasing retirement savings, enhancing employer-sponsored retirement programs that encourage greater saving, increasing the awareness of products that can help retirement savings last through retirement, and requesting that policymakers support regulations such as a creating safe harbors for employers who wish to add guaranteed lifetime income products to their defined contribution plans.

Specifically, the paper lays out several steps that individuals can take to help themselves along the path to retirement security, including:

- Planning for the possibility of working a few years longer than the traditional retirement age of 65. Doing so has the triple benefit of delaying the receipt of Social Security by a few years to increase monthly benefits, earning wages and accumulating savings for a few more years, and drawing down on savings for fewer years in retirement.
- Ramping up the rate of savings to increase the probability of retiring at age 65 or earlier.
- Insuring retirement income against the risks of longevity and market uncertainty through guaranteed lifetime income products.

The paper encourages employers to consider helping workers achieve retirement security by:

- Enhancing defined contribution plans by adding features such as automatic enrollment, automatic escalation of contributions and in-plan guaranteed lifetime income products that increase savings.
- Encouraging employees to track their savings progress in terms of an income goal, rather than a savings goal, at a realistic target retirement age.

For financial advisors, the paper notes the importance of:

- Developing an appropriate target retirement age that is customized for each individual.
- Showing the positive impact that a few extra years of employment can provide in terms of increased financial security.
- Framing the retirement planning in terms of future retirement income rather than a savings objective.

For policymakers, the paper highlights ways they can help Americans achieve a more secure retirement, including:

- Creating safe harbors that address potential employer concerns regarding the addition of guaranteed lifetime income products to defined contribution plans.
- Passing legislation that makes it feasible for more employers to offer a retirement savings plan in the workplace through Multiple Small Employer Plans.
- Adopting proposed regulations that require defined contribution plans to project future monthly income on participant statements.

“Insta40” aims to reduce tax on IRA withdrawals

Insta40.org, a system that helps retirees over the age of 60 gauge how much they can withdraw money from their traditional IRAs without triggering an income tax bill on the withdrawal, has been launched by an entrepreneur named Dino Kapadia.

"After accessing www.insta40.org, registering and receiving a password, users can plug in exemptions, income and deductions either from a previous Form 1040 or estimated numbers for the current year," Kapadia said in a release.

"Using the 'What If' formula, the retiree can now determine an IRA withdrawal amount that will bring that negative taxable income up to almost zero. As the retiree is still well within "zero" as a taxable amount, that IRA withdrawal is income tax-free," the release said.

Kapadia suggests logging in and assessing your situation two to four times each year.

Roger Yule, a CPA familiar with Insta40's benefits, said: "Insta40 is an excellent tool for planning one's withdrawals and spending because you can enter rough estimates at any time of the year and know your potential tax liability well before the end of the current year. Armed with the advance knowledge, you can now plan finance decisions to possibly pay no taxes at all to the IRS, or pay the least possible tax."

USAA launches six target-risk funds

USAA Investments is launching six diversified target-risk mutual funds that offer a broad range of risk exposure. The series consists of four new funds and two existing funds called USAA Cornerstone Funds.

The funds were designed "to make it easier for investors to help build a balanced portfolio," USAA said in a release. "These funds will utilize asset allocation, portfolio construction and risk reduction."

Unlike target-date funds, which automatically evolve toward a more conservative asset allocation, investors who want to change their risk exposure as they age must actively move assets from one target-risk fund to another. The funds require a minimum investment of only $500, with an automatic investment of $50 a month.

The funds include:

- USAA Cornerstone Conservative Fund (USCCX)
- USAA Cornerstone Moderately Conservative Fund (USMCX)
- USAA Cornerstone Moderate Fund (USBSX); formerly the USAA Balanced Strategy Fund
- USAA Cornerstone Moderately Aggressive Fund (USCRX); formerly the USAA Cornerstone Strategy Fund
- USAA Cornerstone Aggressive Fund (UCAGX

Patrick Alfano joins MassMutual Retirement Services

in Rocky Mtns

Patrick Alfano joined Mass Mutual Retirement Services Division as sales director in the Rocky Mountain region on June 4. Alfano, who had been sales director at Victory Funds, reports to Shefali Desai, the insurer's emerging market sales manager.

Alfano will be responsible for business development and sales support of MassMutual's third-party and dedicated distribution channels focusing on retirement plans with assets under $10 million. Based in Denver, he is partnering with MassMutual's managing director, Andy Ambrose, in covering Arizona, Colorado, New Mexico and Utah.

The Phoenix Companies releases updated annuities

The Phoenix Companies has today announced a series of enhancements to its Premier LifeStyle Annuity and Secure LifeStyle Bonus Annuity. These latest product innovations, issued by PHL Variable Insurance Company, a Phoenix subsidiary, are available exclusively through the company's partnership with The AltiSure Group.

The Premier LifeStyle Annuity is a single premium indexed annuity with three indexed accounts, a fixed account, principal protection from investment loss and a guaranteed lifetime withdrawal benefit.

Designed for individuals planning for retirement, the offering now provides, for an additional fee, an optional Income Enhancer Plus Benefit that allows for increased income growth based on the performance of the indexed and fixed accounts.

Alternatively, the Secure LifeStyle Bonus Annuity is a single premium fixed indexed annuity featuring an optional G.I.F.T. Benefit Plus (Guaranteed Income and Family Wealth Transfer) that provides, for an additional fee, guaranteed lifetime income withdrawals as well as an enhanced death benefit until guaranteed withdrawals begin. The offering is designed for individuals in or close to retirement who are looking for a guaranteed increase to the income base.

The Premier LifeStyle Annuity differs from its predecessor with the introduction of the Income Enhancer Plus benefit, which immediately enhances the value of the income benefit base by 20% and can continue to grow by 7% compounded each year thereafter for the first 10 contract years. The Income Enhancer Plus benefit also offers an additional potential increase to the income benefit base equal to 125% of the annuity's interest earnings until lifetime income payments begin.

The Secure LifeStyle Bonus Annuity provides an immediate premium bonus of up to 8%, an income benefit base bonus of 20%, and potential increases of 7% simple interest each year thereafter as well as an enhanced death benefit. Secure LifeStyle Bonus Annuity provides immediate access to a consistent and reliable source of income, and there is an enhanced death benefit in excess of the initial premium until guaranteed income begins.