'The Future of Lifetime Income'

By Editor Test *Tue, Sep 18, 2012*

Symetra Life and Russell Investments have teamed up to build a low-cost variable annuity with a lifetime income feature that doesn't involve costly hedging, insurance charges or commissions.

A variable annuity introduced this summer by Symetra Life offers a combination of conventional fund options as well as a selection of "Pension Reserve" funds that allow contract owners to buy units of retirement income between four and 16 years ahead of their income commencement date.

The 14 Pension Reserve Funds in the Symetra True Variable Annuity were engineered for the Bellevue, Wash.-based life insurer by Seattle-based Russell Investments, according to Dan Guilbert, executive vice president of Symetra Life's Retirement Division.

The no-load product is aimed at registered investment advisors (RIAs), a segment of the advisor community that tends to have the wealthiest clients but historically has shown little interest in buying variable annuities. The mortality & expense fee is only 60 basis points a year and the expense ratio of each Pension Reserve fund is only 40 basis points.

For Symetra, a publicly traded company, the product poses little risk to the enterprise. Unlike a variable annuity with a guaranteed lifetime withdrawal benefit, this product relies on bonds held to maturity to fund an income floor rather than on a mix of fixed income and equity mutual funds. That means it needs no equity hedging, which becomes prohibitively expensive in a low interest rate environment. And because these are no-load contracts, Symetra doesn't face the potential risk of failing to recover commissions because of a market downturn.

"We're doing ALM—asset/liability matching," Guilbert told RIJ. "The underlying investments are long-dated Treasuries. We haven't seen this type of unbundling from anyone else. It's pretty transparent and straightforward. You can put money in the pension funds at the beginning. And you can change your mind and sell out of them a month later."

The product offers some of the peace of mind of a deferred income annuity, because it allows contract owners to lock in a future income stream that can increase but not decline. It also offers some of the flexibility of a variable annuity with a lifetime income benefit, because contract owners can access their account values at any time before income begins if they prefer.

"We also sell the Freedom Income Annuity, which is a typical deferred income annuity where you give $100,000 today and it will provide you with an income in five years. But between now and five years from now, you have no access to that money. With this product, you buy the True variable annuity, and allocate all or part of your money to one of the Pension Reserve Funds," Guilbert said.

Aspects of the product resemble elements of past or existing products, such as The Hartford's Personal Retirement Manager, AXA Equitable's Retirement Cornerstone, or the proposed BlackRock-MetLife

SponsorMatch product for 401(k) plan participants, in the sense that they all offer opportunities for upside potential and downside protection in separate investment sleeves while allowing opportunities for transfers between the two.

The Symetra True contract offers the owner considerable but not unlimited flexibility in choosing an income start date. There are 14 Pension Reserve Funds, corresponding to four different target retirement years (2016, 2020, 2024 and 2028; see chart) and four eligible age ranges based on birth year (1942-47, 1948-52, 1953-57, and 1958-62). Someone born in 1951, for instance, could start income in any of four different years, depending on whether they wanted income to begin at age 65, 69, 73 or 78.

The current unit price of each dollar of future income depends on the length of time between the purchase date and the income date, on the age of the person at the time income begins, and on the prevailing interest rate on the purchase date. As with any pension, future benefit units are cheaper when interest rates are higher, and vice-versa.

Current prices of units in Symetra's Pension Reserve Funds reflect today's low interest rates, so they're not dazzling. As the chart below shows, a 50-year-old who wants annual income starting in 2024 would pay almost $19 per dollar of it ($189,400 for $10,000 a year for life) today. A 65-year-old would pay only $115,300 today for the same income on the same date. For comparison, the purchase price of a hypothetical $10,000 annual income starting today would be about $150,000 for a 65-year-old man, according to immediateannuities.com.

Symetra Pension Reserve (Income year and birth-year range)	Price* per dollar of future annual income for life, as of Sept. 14, 2012
2016 b. 1942-1947	$17.64
2016 b. 1948-1952	20.20
2016 b. 1953-1957	22.83
2020 b. 1942-1947	14.32
2020 b. 1948-1952	16.91
2020 b. 1953-1957	19.49
2020 b. 1958-1962	22.00
2024 b. 1942-1947	11.53
2024 b. 1948-1952	13.97
2024 b. 1953-1957	16.47
2024 b. 1958-1962	18.94
2028 b. 1948-1952	11.39
2028 b. 1953-1957	13.78
2028 b. 1958-1962	16.16

Source: Symetra Financial. *Rounded to nearest penny.

> Symetra True contract owners have the option of investing in conventional fund options and then moving the money to the Pension Reserve funds. They can also invest in more than one Pension Resesrve fund, and thereby build a ladder of income annuities. There is no joint-and-survivor payout option in the income-producing funds, but owners of those funds can use the assets at retirement to buy a Symetra immediate income annuity. If the SPIA is paying a higher rate, they can get the higher rate.

What's the catch? Flexibility isn't free. With New York Life's deferred income annuity, for purposes of comparison, you can get a higher level of guaranteed future income because there's no liquidity during the waiting period, unless the annuitant dies and triggers the death benefit. At the same time, the Symetra True's Pension Reserve funds offer less potential upside than the latest version of New York Life's DIA, which offers equity exposure during the deferral period.

Instead, Symetra offers a bit more flexibility before the income start date. In terms of growth, it does allow the contract owner to benefit from rising interest rates, because the market price of income units will go down as rates rise. By the same token, if the owner decides to pull money out of the Pension Reserve funds after rates go up, he or she will take a haircut because the unit price of the Pension Reserve Fund will have moved in the opposite direction as rates.