The QWeMA Group inks deal with The Principal, launches annuity benchmark

By Kerry Pechter *Wed, Feb 5, 2014*

Principal Financial has licensed the same RIS tool that ManuLife, John Hancock and Pacific Life have also licensed from Moshe Milevsky's QWeMA Group, which he sold to CANNEX last year. The CANNEX PAY Index is QWeMA's latest project.

A version of the retirement product allocation tool created by The QWeMA Group—the company that Canadian finance professor Moshe Milevsky (left) sold to CANNEX Financial in 2013—has been adopted by The Principal Financial Group for use by its career advisers and its licensed phone counselors, according to a release by The Principal this week.

Principal's service-marked version of the tool is called the Principal Income Protector. In the past, ManuLife and its subsidiary, John Hancock Financial, as well as Pacific Life have used the software, which shows the retirement income sustainability (RIS) percentage—the likelihood that income will last for life—of various allocations to mutual funds, variable annuities with income benefits, and life-contingent annuities.

The new tool was revealed to financial professionals who attended a Retirement Income Boot Camp sponsored by The Principal, the release said. Milevsky, Ed Slott of Ed Slott and Company; and Laurie Santos, director of Yale University's Comparative Cognition Laboratory, spoke at the event.

"The tool gives people a retirement income sustainability number. In the process, it shows them that the more sustainability they want, the more they might have to give up in terms of legacies or bequests," Milevsky told *RIJ*.

As the percentage of assets that are allocated to mutual funds or deferred variable annuities or income annuities gets dialed up or down, the RIS goes up or down. "Advisers seem to be using it to determine retirement readiness more than to sell certain types of products. It can serve as the back end to whatever front-end the company wants to build," he added.

Milevsky said he presumed that the companies licensing the QWeMA algorithm had collected data on the cost-effectiveness of using it as an advice or selling tool, but he hasn't seen any data of that sort.

CANNEX PAY Index

Separately, the CANNEX PAY Index was introduced this week. Milvesky, who retains a financial interest in QWeMA and is research director at CANNEX, said in a release that QWeMA and CANNEX had introduced an unprecedented single-premium immediate annuity payout index.

The benchmark will provide average payouts for single male, single female and joint life annuities against which advisers and investors can compare the payouts of particular products. Along with publicizing future average annuity payouts, Cannex will use some three million separate historical annuity quotes that it has warehoused over the years to show what the index would have been in years past.

In a release, Milevsky said:

> "The index is calculated using an extensive dataset of annuity payouts, tracking rates for life annuities at various ages and over time," the release said. "Note that this isn't another index based on periodic surveys, historical Monte Carlos or hypothetical affordability numbers. It represents live prices and I am convinced it will become the Dow Jones Industrial Average (DJIA) of life annuities.
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> "As you can see from the attached, the CANNEX Pay Index yield for a 70 year-old male on Wednesday January 29, 2014 , is 7.73% per year. This means that the typical payout annuity from the top ten insurance companies would provide an income of $7,730 per year for life, on a premium of $100,000. For reference, compare this against the (infamous) 4% sustainable spending rule."

The CANNEX PAY Index fluctuates (daily) based on market and demographic conditions. CANNEX will be monitor this number and report it each month. In the near future, CANNEX will also make available to all researchers the dataset of historical annuity quotes that went into the creation of the new index.

"We wanted to create a transparent index that the major newspapers could start printing along with the Dow and the S&P 500. It's a number that will change from week to week and month to month. It's much more than the annuity quotes that you can get online. We took a lot of care in averaging the prices of the major insurance companies. We weighted them by market penetration. We created filters and threw out outliers. We back-created the index based on past data," Milevsky said in an interview.

The data that's used to create the index may also have other uses. "Cannex has a treasure trove of annuity price data that nobody had been leveraging," he added. "We can invert annuity prices and see how long the market believe that people will live. We can compare the prices to Treasury yields to see whether insurance companies are being more or less generous. It can start a conversation. If prices go up or down, people will have an opportunity to talk about why."