Three New Annuities to Ring in 2013

By Kerry Pechter *Thu, Jan 10, 2013*

Rates may still be low, but annuity products keep coming off the assembly line. American General has a new deferred income annuity, Security Benefit a new fixed indexed annuity and Securian a new variable annuity contract.

Every day, it is said, 10,000 Baby Boomers reach retirement age. Many are looking at their mutual fund balances and wondering, What will happen to me and my wife [or husband] if our investments tank? And what will happen if one of us lives to 100?

Of course, these are the questions that product developers in the annuity divisions of life insurance companies spend a lot of their time preparing creative answers for. And they continue to do so despite the Federal Reserve chairman's dogged interest rate suppression campaign.

Since the start of 2013, three different life insurers have introduced three new contracts aimed at addressing those same two problems, but by different routes and probably via different distribution channels:

- American General, an AIG affiliate, has launched a deferred income annuity (DIA), Future Income Achiever, into a promising market whose ice was broken by New York Life's successful exploitation of that niche.
- Security Benefit, a Guggenheim Partners company, has issued a fixed indexed annuity contract, Foundations Annuity, whose optional guaranteed lifetime withdrawal benefit offers a 15-year, 8.5% simple withdrawal base roll-up.
- Securian, a unit of Minnesota Life, has issued its first new base variable annuity contract in several years, the MultiOption Guide Series, with a variety of living and death benefits, including a 6% roll-up with a potential 200%-of-premium deferral bonus.

All three contracts represent more or less all-in-one solutions that anticipate and address several of the financial risks that most Boomers will face before or during retirement—sequence of returns risk, market risk, inflation risk, health care risk and longevity risk—but which few of them fully understand or know how to protect themselves against.

Future Income Achiever

American General's longevity insurance product allows people 90 and younger (under age 70 for IRA money) to pay a lump sum today (minimum of $20,000) for an income that starts as soon as one year or as late as 40 years after the purchase date.

By deferring income, the contract owner can lock in a higher future payout—thanks to interest accrual and so-called mortality credits—than if he or she purchased an immediate annuity. It's a conservative way to eliminate the intervening market risk.

Three death benefit options are available for the period before payments begin—no benefit, return of premium, or return of premium with 3% growth. For people with impaired health, there's a "medical underwriting" option for those with impaired health, resulting in a lower premium or higher payout. (People with heart disease or diabetes, for instance, can be assigned an "age" that is older than their chronological age.)

Owners who are receiving monthly payments can request a lump-sum payment equal to the next six months' worth of payments. Regular payments resume six months later. Owners older than age 59½ can exercise this option twice during the life of any non-qualified contract. The contract has no cash surrender value.

Contract owners interested in inflation protection can opt for an uncapped annual income increase that's tied to the Consumer Price Index-Urban, or for an annual increase of between 1% and 5% (simple or compound) or a flat-dollar increase. All the usual income annuity payout options are available: single and joint, life only, life with period certain, life with cash refund or installment refund, and period certain.

New York Life, the dominant seller of income annuities, introduced a DIA in July 2011. It was a bigger success than anticipated, attracting about $100 million a month in premia. Since then, other insurers with high credit ratings—the long-dated nature of the liabilities demands it—have joined in. MetLife and Symetra offer DIAs.

Integrity Life currently has a DIA in limited distribution. Forethought, purchaser of The Hartford's annuity business, may or may not market The Hartford's DIA. American General is rated A+ (strong) by S&P, A2 (good) by Moody's, A (strong) by Fitch, and A (excellent) by A.M. Best.

Foundations Annuity

Since Guggenheim Partners bought Security Benefit two years ago, the insurer has leaped into the top five in fixed annuity sales, largely on the strength of its accumulation-oriented TVA fixed indexed annuity contract, featuring the annuity linked TVI. With its latest contract, Foundations Annuity, the company offers an unusually rich-looking deferral bonus.

Doug Wolff, president of Security Benefit Life, told *RIJ* that this product, unlike the company's Secure Income and Total Value fixed indexed annuities, is designed for the independent broker/dealer and bank channels. He declined to say what commissions would be offered, but said the five-year version would pay a commission commensurate with a multi-year guaranteed rate fixed annuity and the seven-year version would pay a commission similar to that of a B-share variable annuity.

Owners of the seven-year Foundations contract (though not the five-year) who opt for the guaranteed lifetime withdrawal benefit can get, in addition to a 1% premium bonus, an 8.5% simple-interest annual rollup of their benefit base for the first 15 years of the contract. The GLWB option costs 90 basis points per year.

During the income stage, the payout bands are more in line with industry standards than the roll-up. The guaranteed annual income stream starts at 4% of the benefit base (3.5% for joint annuitants) at age 50 and increases by 10 basis points per year, with a maximum of 7% a year (6.5% for joint annuitants) at age 80 and older.

For example, someone who invested $100,000 at age 55 and waited 15 years to take income could expect a minimum income base of $229,775 at age 70. He would get a minimum income of 6% a year, or $13,726.50.

During the accumulation period, the owner can choose between a guaranteed fixed rate of 1% to 3%, or three index crediting methods. The current rate is 1.40%. There's a market value adjustment for withdrawals over 10% of premium during the accumulation period.

The index crediting methods are all tied to the S&P500 (without dividends) and include an annual point-to-point with a cap, annual average (if positive) with a cap, and an annual sum of the monthly changes (with a monthly cap on the upside but not the downside) in the S&P500.

As of January 7, 2013, the annual caps on the index crediting methods for the annual point-to-point crediting method were 2.50% for the 5-year product and 2.75% for the 7-year product; for the monthly sum method the monthly cap was 1.40% for the 5-year product and 1.50% for the 7-year product; for the annual average method the annual cap was 2.75% for the 5-year product and 3.00% for the 7-year product.

"Although the theoretical limit [on the monthly sum method] is 18%, the largest practical limit one might see would be a 10%-11% annual return. But, more realistically, somewhere between 0%-3% would be earned," Jack Marrion, the well-known indexed annuity analyst at Advantage Compendium, told *RIJ*.

Fixed indexed annuities can generally offer more generous living benefit options than variable annuities because they don't require as much hedging against downside risk as VAs. It's widely anticipated that Guggenheim Partners is bringing its investment expertise to Security Benefit's assets, and that will translate into either higher benefits for the consumer, higher profits for Guggenheim, or some of each.

MultiOption Guide Series

Securian's new variable annuity is its first new base contract since 2003, according to Dan Kruse, second vice president, Individual Annuity Products, for the unit of Minnesota Life.

"There's nothing shocking in it relative to the current marketplace standards," Kruse told *RIJ* this week. "This new contract is a way of setting ourselves up for what we're planning for later this year, which is to in introduce our next GLWB suite. We launched our latest GLWB in May 2012. Rates have dropped since then and put me a little edgier than Id like to be. We'll continue to adjust to the market, and move more in the direction of volatility-managed funds."

Among the many investment options from mutual fund companies, the latest Securian VA contract includes three Northern Lights TOPS Protected funds, which use a short-futures strategy engineered by Milliman to smooth out returns. "We have already gotten the TOPS volatility-managed funds into the product but we have not forced money into them. We intend to require clients to put a chunk of the premium into managed volatility funds in order to get the best living benefit rider," Kruse said.

Securian's VA offers three living benefit riders. There's a GMIB (guaranteed minimum income benefit) for 90 basis points a year and both a single and joint GLWB for 120 basis points a year. The GLWB offers a 6% deferral bonus for contract years when no withdrawal is taken, and contract owners who go the first 10 years without a withdrawal are eligible for a minimum benefit base equal to 200% of the initial premium.

The mortality and expense risk fee is 120 basis points for the B share and 155 basis points for the L share, plus an administration charge of 15 basis points in each case. Several death benefits are available.

"We combined our B and L shares to give them the same starting point for surrender charges [at 8%]. That made the liquidity/fee tradeoff simpler for the customer to see and understand," Kruse said.

During the income stage, the payout rates are 4.5% (4% for joint contracts) through age 64, 5% (4.5%) for ages 65 through 74, 5.5% (5%) for ages 75 to 79, and 6.5% (6%) for ages 80 and over. The annual expense ratios of the investment options range from 48 to 195 basis points.