

## NY Life, Schwab Flex Their Annuity Muscles

By Kerry Pechter      Thu, Jan 21, 2021

*New York Life's new IndexFlex VA has a fixed indexed sleeve--the insurer's first index-linked offering. Charles Schwab's Genesis VA (issued by Protective Life) has lots of income optionality. The two contracts enter a struggling VA market.*



New York Life and Charles Schwab have little in common. Schwab is a publicly held direct-to-consumer all-purpose financial services platform. It doesn't own a life insurance company. New York Life is America's most venerable mutual life insurer, and the top seller of fixed-rate annuities in the US in 2020.

Both are welcoming in the new year with new variable annuity contracts. But they're approaching the product category from very different angles. Schwab's [Genesis VA](#) has an income benefit, for instance, and will be distributed by Schwab advisers and independent RIAs (registered investment advisors).

New York Life's [IndexFlex VA](#) includes the firm's first index-linked annuity. The hybrid product gives contract owners three risk/return possibilities: fund-like variable subaccounts, a fixed account, an index-linked account. It's a bit of a surprise that New York Life decided to dabble in index-linked products, but desperate (low interest) times evidently call for innovation.

"As soon as I read the filing for IndexFlex, my jaw dropped," said Sheryl Moore, CEO of Wink, the annuity marketing and data service. "With fixed interest rates as low as they are, and variable annuity sales waning, these companies don't have a choice but to develop an indexed offering."

These companies are bringing their very different VAs to market at a time when sales of the category, aside from registered index-linked VAs (RILAs) have trended downward for several years. But VAs are still the only vehicle where investors can put almost unlimited amounts of after-tax money for liquid, long-term tax-deferred growth. For retirees, the VA value proposition—guaranteed income for life without sacrificing liquidity—still makes a lot of sense.

**New York Life's IndexFlex**

New York Life executives have considered but, until now, always refrained from issuing an FIA. The product would fit its image and culture like a rodeo bronc at a riding academy. But the low-yield environment may be giving it no choice but to turn, like so many other life insurers, to options on equity indexes as a source of yield.

The product offer a limited form of one-stop shopping, “The policies are designed for individuals who want the ability to hold variable funds, index-linked investments and a traditional fixed account in the same contract,” the prospectus says. “The policies offer fewer variable investment options, and fewer optional riders and other features than certain of New York Life’s other variable annuities.”

Within the index-linked option, policyholders can choose a crediting method with either a “capped rate” or a “flat rate,” aka performance trigger. With the capped rate, investors earn the return of the index (the S&P 500 or Russell 1000) up to, for example, 3.5%. With the flat rate, investors earn exactly 3%, for example, whenever the index shows positive performance. Either way, they can’t lose money if they leave their money in the product for the length of the term.

The product has three surrender periods—a five-year, six-year, and seven-year term—with first-year surrender charges of 8%. The annual mortality and expense risk (M&E) charges (usually how an annuity issuer recovers the commission it paid the agent or adviser) are 1.30%, 1.25% and 1.20%, respectively. Annual expense ratios of the variable subaccounts range from 0.37% to 1.06%.

In an email to *RIJ*, New York Life described the logic behind IndexFlex. “In designing this product, we leaned into simplicity and transparency and what sets IndexFlex apart is the guaranteed nature of the cap rates within the index-linked account,” wrote Dylan Huang, SVP, Head of Retail Annuities, Investment Solutions and Wealth Planning, at the insurer.

As for why New York Life decided to bundle a variable and an indexed annuity in the same contract, he wrote, “We ultimately chose to proceed with a variable annuity design, sold by prospectus, because we were focused on ensuring certainty, transparency and a customer-first design and believe that IndexFlex is best offered by registered professionals who are trained to offer investment solutions. ”

#### **Schwab’s Genesis VA**

Schwab’s Genesis VA joins its shelf of immediate, deferred, fixed, variable and income annuities. Schwab used to distribute Great-West annuities, but Great-West sold almost all of

its individual life insurance and annuity business to Protective Life in mid-2020 through a reinsurance deal. Schwab advisers will distribute the product directly to Schwab clients. An advisory version will be available through independent RIAs who custody assets with Schwab Advisor Services.

Schwab is touting the low 45-basis-point annual contract fee. The contract offers an optional guaranteed lifetime withdrawal benefit (GLWB), called SecurePay, for an additional 1.15% per year (up to a maximum annual charge of 2%). Annual expense ratios of the 63 investment options range from 0.03% to 1.67%.

This product, like all VA/GLWB contracts, is intended for people who want retirement income that they can't outlive and that can't go down because of poor market performance, without ever depriving them of access to their money. Payout rates for single policyholders are 3.75% of the benefit base (never less than the initial account value, minus ad hoc withdrawals) from ages 60 to 64, 5% from ages 65 to 69, 5.25% from ages 70 to 70 and 5.75% from ages 80 onward. Joint contract payout rates are 50 basis points lower across the board.

Owners who wait at least 10 years from the purchase date and then irrevocably annuitize their contracts get a 2% bonus added to their account values. Those who annuitize can do so on a fixed or variable basis. For the variable annuity, the contract's assumed rate of return (used for calculating the first payment) is 5% per year, and the amount of subsequent monthly income fluctuates around that number.

For the (still small but) growing number of RIAs who recommend annuities to clients, there's an "advisory" version of Genesis. The base contract fee is only 25 basis points per year. RIAs can tack on their own fee of up to 1.5% per year (1% if they select the optional return-of-purchase-payments death benefit, which costs 20 basis points a year). RIAs can get their fees deducted directly from the contract as long as their clients don't choose the SecurePay living benefit option.

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