Voya Launches Quest Indexed Annuities

By Kerry Pechter *Thu, Jun 16, 2016*

The new contracts are aimed primarily at the independent broker-dealer channel and offer a lifetime income option, said Chad Tope, Voya Financial's president of Annuity and Asset Sales.

In a sign that major insurers don't intend to let the DOL fiduciary rule scare them out of the fixed indexed annuity (FIA) business, Voya Financial, Inc. has introduced a new Quest series of FIAs: Voya Quest 5, Quest 7 and Quest Plus.

The new Voya FIAs are aimed at the independent broker-dealer channel, an increasingly fertile space for FIAs. The Quest series also features capped as well as uncapped "spread" crediting methods. It offers a guaranteed lifetime withdrawal benefit option, which is popular among advisors in that channel.

In the bank channel, FIAs are mainly seen as a higher-yielding alternative to certificates of deposit, for safe accumulation purposes. In the independent broker-dealer channel, FIAs are seen rather as a safe way to gain limited exposure to the equity markets, and as the basis for a guaranteed lifetime income stream.

"We're positioning the Quest series as an upgrade of our Secure Index Opportunities Plus product," Chad Tope (below), Voya Financial's president of Annuity and Asset Sales, told *RIJ* this week. "We've always been in the broker-dealer and bank channels. But we saw limits on surrender charges dropping to 9% in the broker-dealer channel, so we took this opportunity to enhance that product. [The drop in surrender charges] was one of the reasons, but not the only reason. The big reason was the opportunity to do a refresh on our Secure series."

The Secure FIA, which will gradually transition to Quest, had a 10-year surrender period and a five-percent premium bonus option. The Quest series offers contracts with five-year and seven-year options. Only the Quest Plus, which offers a 6% premium bonus, has a 10-year surrender period. Longer surrender periods are typical of bonus products.

The Quest series also has a new lifetime income rider, with annual instead of five-year “age bands” for determining payout rates.

“Instead of the typical age bands, each age has its own maximum annual withdrawal (MAW) percentage,” Tope said in an interview. “Our Wealth Builder series of FIAs was an accumulation vehicle with higher caps, targeted at banks. The Quest series, which offers spread-based crediting methods, including a monthly-average spread, and a volatility-controlled index, is targeted at the independent broker-dealers. In our experience, the banks tend to sell more of the cap and trigger products. In the independent broker-dealer channel, though caps are still widely sold, they’re more apt to use the spread design.” Voya products are also available in the independent agent channel.

[**Note**: In a trigger product, any positive index performance will trigger a certain minimum payout. As 3.5% trigger will produce a flat 3.5% payout any time the index rises.]

“In broker-dealers, the advisors aren’t in favor of capping out an opportunity. When we went into the field and gathered the voice of the customer, that’s consistently what we heard. They were more inclined to look for something that doesn’t limit upside,” he added.

At the close of 2015, Voya was ranked twelfth in indexed annuity sales, with 2015 sales of $1.67 billion, Tope said. At the end of the first quarter of 2016, year-to-date sales were $534 million, and the company was ranked ninth. Sales in 2015 were 8.7% higher than in 2014, as the whole indexed annuity category improved—benefiting from investor caution in an environment of low interest rates and uncertain equity markets. “We started this year much stronger than we started 2015,” Tope told RIJ.

Like other index annuity manufacturers, the Voya Quest series allocates the bulk of the FIA premium to the insurer’s general account and divides the remaining five to 10 percent of premium between the purchase of options on an equity index (the S&P500 or, in the case of Voya’s optional volatility-managed index, Deutsche Bank’s CROCI (Cash Return on Capital Invested) US 5% Volatility Control Index, and costs (home office and distribution).

Contract owners can realize gains through either a capped or spread crediting strategy. That is, the owner might receive all gains above a certain hurdle rate or “spread”—for example, above the first two percent of index gains—or all of the gains up to a specific cap, with any gains beyond the cap accruing to the issuer. Negative index performance doesn't affect the value of the contract.

The Quest series offers three surrender-period lengths: five, seven, or 10-year contracts. Indexed annuities typically guarantee that if the contract owners keep their contracts through the end of the surrender schedule, they will get back no less than their original premiums, less the value of any withdrawals.

The DOL fiduciary rule, issued in early April, would require sellers of FIAs or their sponsoring institutions to agree to work solely in their clients "best interest." This switch from a buyer-beware to a trusted-advisor standard of conduct is expected to reduce the number of commission-earning insurance agents who sell FIAs and to encourage the creation of FIAs for advisors who charge clients an asset-based fee rather than take commissions from manufacturers. But that's not necessarily an easy transition.

"We've had conversations about a product for the fee-only advisor, and as more advisors switch to the fee-based model, we're trying to figure out a way to make that work. We have products on our shelf today that have a zero percent commission. But the low interest rate environment isn't favorable for a short duration product. It's too tough to price that type of product right now."

To be able to promise attractive returns, FIA issuers need to extend the durations of their investments, which requires products with longer surrender periods. Longer surrender periods also allow the insurer to pay large commissions by giving them more time to earn back the value of the commission from the growth of the assets. FIAs traditionally offer higher commissions than other types of annuities.

The Voya Quest Plus is a bonus contract. People who buy the Voya Quest Plus contract will have an additional 6% of the premium added to their contract value at purchase. Like many bonus annuities, it has a long surrender period—10 years in this case—along with a $15,000 minimum. Age of issue is capped at 80.

The advantage of the bonus is offset by relatively lower crediting rates, in the form of higher spreads and lower caps. The spread (index gains above which go to the contract owner) for the Quest Plus monthly average index strategy is 8.5% for Quest Plus but only 5% for the Quest 7 (seven-year surrender period). Similarly, the point-to-point cap for Quest Plus is 1.25% but 2.75% for the Quest 7.

For an added annual fee equal to one percent (1.0%) of the benefit base, contract owners can buy a lifetime income rider, which Voya calls the myIncome Withdrawal Benefit. This rider comes with a 6.5% compound annual "rollup" for up to 10 years before the income benefit is switched on.

For every one of the first 10 years in which the contract owner withdraws no more than 10% of the account value, the income benefit isn't activated and the benefit base goes up 6.5%. After income starts, clients can turn their income streams off and then back on as needed.

The maximum annual withdrawal rate at age 65 is 4.75%. Instead of traditional age-bands that go up every five years, Voya's payout rate goes up 10 basis points every year, starting at age 61. (Payouts can start as early as age 50.) If interest rates rise, Tope said, Voya expects to be able to pass along higher payout rates to new purchasers more easily than in the past.

A 55-year-old person investing $100,000 in a Voya Quest 7 would have a minimum benefit base of about $187,700 at age 65. If he begins taking income at that age, the first-year income will be at least 0.0475 times $187,000, or about $8,916.

For comparison sake, a $100,000 premium would provide the same 55-year-old male a deferred income annuity that would pay almost the same income ($8,880 per year, according to **immediateannuities.com**) after 10 years, with a refund of the premium upon death during the deferral period and a refund of unpaid premium, if any, upon death after income period begins.

The obvious advantages of the GLWB, on an indexed or a variable annuity, are the liquidity throughout the life of the contract (though withdrawals reduce the guaranteed annual income amount) and the chance at growing the account value and adding to the benefit base.