
Who Will Sell Transamerica's New No-Commission VA?

By Kerry Pechter *Fri, Jan 20, 2017*

"The [VA] sales outlook for 2017 is too soon to tell, given [the changes in government]. We are confident that there is a market need for this structure in planning for retirement income," Transamerica SVP Joe Boan told RIJ.

On January 17, Transamerica began distributing a new no-commission variable annuity contract designed for advisors who are expected to adapt to the Department of Labor's fiduciary rule, effective this April, by moving to an asset-under-management (AUM) compensation program and not selling commission products.

But details of the prospectus of the contract, called Transamerica Variable Annuity I-Share, suggest that it is as complex and expensive as older VAs with multiple income riders—perhaps more so than the DOL would consider fiduciary. It's hard to imagine exactly where, in the context of an ever-softer VA market, where generous commissions drove the bulk of sales, this product will find a home.

[A formal written response to that issue can be found in a statement from Transamerica senior vice president Joe Boan. You can find it [here](#) and on this week's homepage.]

For the record, Transamerica is a unit of Netherlands financial giant AEGON, whose shares trade in Amsterdam. Although AEGON still owns the 45-year-old, 48-floor "Pyramid" in San Francisco, Transamerica's official U.S. headquarters are in Baltimore and Cedar Rapids, Iowa.

Rapping about VAs

Many AUM-based advisors have faulted VAs for their high costs (both insurance and investment expenses), and this product is true to type. Its combined fees for mortality expense risk, administration, a living benefit and death benefit riders, along with the broker-dealer distribution charges and the expense ratios of the funds (or funds of funds), could easily 300 basis points per year, according to the [prospectus](#) and the product [spec sheet](#).

The other traditional rap on VAs is that they are complex. This product's prospectus is challenging to unpack. It has four living benefit riders, three death benefit riders, and a profusion of investment options and enhancements at different price points and/or risk levels. That's not necessarily bad—complexity often means flexibility, which advisors tend to like. But it's difficult for clients to understand complex products, and opacity could be

perceived by reasonable people as unfiduciary.

According to the prospectus, separate account expenses charged by the issuer run between 90 and 120 basis points, including a tiny five basis point mortality and expense risk fee; a 15 basis point administration fee, and death benefit fee (10 - 40 basis points). Enhancements to the death benefits are also available for a fee.

Living benefit fees, which cover the cost of guaranteeing income in retirement, range from 70 basis points to 145 basis points, depending on the riskiness of the underlying investments. The expense ratios of those investments range from 16 basis points to 286 basis points. There's currently a 5.5% compound annual deferral bonus for the first 10 years of the contract (with re-sets after step-ups in the benefit base, if any), payable in any year in which withdrawals aren't taken.

Flexibility—within constraints

Investors can choose any of the following four living benefit options, which offer single and joint contracts. One or more of them requires the use of funds that use volatility control mechanisms, or funds that are traditionally less volatile, and/or rebalancing strategies to reduce risks and protect the guarantees. Transamerica is also reserving the right to make changes to the payout rates and deferral bonuses of the riders for new purchasers. The riders are:

Transamerica Income Edge. Clients who choose this rider must agree to allocate a certain percentage of their premium to a stable value account and the rest to certain prescribed or optional investments. They can't move money into or out of the stable account after purchase. The key risk-mitigation factor for the issuer is that, if the risky assets go to zero while the client is living, the guarantee is subsequently met by withdrawals from the client's stable account—not from the insurer's general account. The annual expense ratio is 1.40%.

Retirement Income Choice 1.6. This income product is available at three different price points—1.45%, 1.10% and 0.70%, depending on which group of investment options is chosen. It offers the above-mentioned 5.5% roll-up, and there's a special income enhancement if the policyholder(s) go to a nursing home.

Retirement Income Max. As its name suggests, this rider, currently available for 1.25% per year, is for those who want the highest possible payouts and are willing to accept a narrower investment portfolio in exchange. It offers the 5.5% roll-up.

Guaranteed Principal Solution. This rider offers a guaranteed minimum accumulation benefit for those who hold the product for at least 10 years, and a guaranteed minimum withdrawal benefit that allows for distributions of either 7% per year (until the effective principal is used up) or 5% per year for life. It uses a risk control technique, the Portfolio Allocation Method, that allows Transamerica to move client money into safe assets when the account value drops or when volatility spikes.

With the exception perhaps of emergent leaders like Jackson National and AIG, variable annuity issuers have been in retreat for several years, and sales in 2017 is expected to be even softer, according to LIMRA. Traditionally, advisors have sold them because of the strong commissions they offer. Registered investment advisors (RIAs) and other fee-based have used VAs primarily for tax deferral, or for access to alternatives or for active trading, but less so for their insurance features.

In that context, the distribution strategy for this product is a bit of a mystery. It's not clear exactly who would want to sell it. Advisors who pride themselves on customized advice wouldn't be drawn to a packaged product. Fiduciary advisors (including RIAs and many independent advisors) wouldn't want a product that could cost investors so much and whose fees are likely to prevent income increases in retirement. The remaining commission-paid advisors have no obvious incentive to sell a no-commission product.

On the one hand, you could say that this product has something for every client—at a price. On the other hand, it's unclear if it will strongly appeal to any particular type of advisor. We're in limbo right now, on many levels. Preparation is always possible, prediction less so.

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