

# Guaranteed Retirement Income Beyond Annuities

*Standalone Living Benefit: A Novel Product Solution for Mutual Fund  
and Managed Account Investors*

March 2009



## Strategic Insight

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# **Guaranteed Retirement Income Beyond Annuities**

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The standalone living benefit (SALB) is a novel product that expands the reach of living benefits beyond variable annuities (VAs) to other assets. Currently, SALBs are available on individual mutual funds or managed portfolios of ETFs or mutual funds; additionally, one product has been filed for use with unified managed accounts (UMAs). This report provides valuable information for any company interested in exploring or understanding SALBs, including:

- Insurance companies
- Asset management firms, including mutual fund and institutional managers
- Separate account service providers, including turnkey asset management programs and overlay managers
- Broker/dealers

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# 1 | Executive Summary

By 2040, the population of those over 65 years old in the United States is projected to more than double to 81 million.

With the ever-growing pool of retirees, the need for retirement income solutions has inspired a new wave of product innovation. Recently, the standalone living benefit (SALB) has emerged as the newest in a growing family of retirement income solutions, ranging from mutual funds to insurance and everything between. **What sets the SALB apart from other existing products is its novel approach in providing guaranteed retirement income on investment assets outside of annuities.** While similar guarantees have been successful for insurers as a variable annuity (VA) option, the SALB expands the availability of the living benefit guarantee, which has proven popularity and market draw. **The SALB provides new product development and distribution opportunities for insurers, mutual fund companies, mutual fund supermarkets, broker/dealers, managed account providers, overlay managers, and others.**

Today, SALBs are available on managed portfolios (managed accounts that invest in underlying ETFs or mutual funds) through Genworth's *LifeHarbor*, Nationwide's *Portfolio Innovator*, and Phoenix's *Guaranteed Income Edge*. Allstate also offers an SALB on several of its *ClearTarget* mutual funds, though it plans on discontinuing the funds. This report contains important information not found anywhere else and is relevant for any firm that is interested in gaining a better understanding of where the SALB stands today.

- ◆ Retirement income needs are arriving at a critical juncture: **the impending retirement of millions of Baby Boomers is spurring new product development and creating**

**a greater demand for retirement planning.** There will be 40 million Americans aged 65 and over by the end of 2010; that number will double to 81 million by 2040 (U.S. Census Bureau). The SALB and like products have bona fide market potential because of these powerful retirement demographics and trends.

- ◆ Today's market uncertainty has both short- and long-term effects on the entire retirement income segment. In the short term, the market uncertainty may be slowing the introduction of SALBs right now; taking the long view, it **underscores the value of income guarantees and is likely to drive even greater interest** in the coming years.
- ◆ Although the SALB is still early in the product cycle, it quickly became clear in early 2008 that this new product was more than an adventurous experiment embarked upon by a lone carrier. **Six insurers had products in the registration queue before the SEC approved the first**, an unusual move for the generally slow moving and cautious insurance industry.
- ◆ Since the bulk of early marketing attention and awareness have focused on the managed money business, much of our investigation has done the same. **With high account balances and the concentration of wealth that managed money entails, carriers see this market as potentially appealing. However, there is also a significant opportunity for these guarantees associated with mutual funds. Between the two, we estimate there are around \$700 billion of assets already in place that could have the guarantee added with no change in assets.** Each area presents its own opportunities and challenges, which we elaborate on in this report.
- ◆ **The SALB itself reaches a broad swath of target markets, ranging from the middle market with low investable assets to the high net worth.** Today, products are available with a minimum investment as low as \$2,500 and as high as \$250,000. As

we have noted in informal discussions with clients, this dramatically wide range demonstrates that **many insurers do not envision SALBs as a niche product but rather as a solution that could integrate into retirement income planning for a significant chunk of the investing public.**

- ◆ As insurers look for ways to attract new customers to VAs, they are also exploring new ways to leverage the appeal of VAs. Offering an SALB is one way to garner greater participation in the retirement income market and attract fresh assets. Although the market will eventually involve carriers of all sizes, in its early stages, it represents an **opportunity particularly for mid-level VA players that already have the capacity in place to manufacture living benefits.**
- ◆ For firms in the managed account industry, the SALB opens the door to guarantees formerly unavailable on those products. Guarantees are a critical component to retirement income planning, and advisors that operate in the managed account space need to delve into insurance to offer clients the full breadth of product solutions. Already, the SALBs that are available on managed accounts today are reaching registered investment advisors (RIAs) through the **Pershing/Lockwood** platform and independent broker/dealers through the **Envestnet and Genworth Financial Wealth Management** platforms. Moreover, to remain competitive with retirement income solutions, wirehouses are also in the midst of exploring and developing SALBs.
- ◆ The mutual fund industry, which has begun offering income-oriented products, similarly needs insurance in order to fully close the gap to true guarantees. Most payout mutual funds are not insured or do not offer a lifetime guarantee, but the arrival of the **“G-share” (a share class with the guarantee attached) adds a new dimension to mutual funds.** The SALB offers true longevity protection and can even be applied to

existing assets in established funds. While VAs are often described as “mutual funds in an insurance wrapper,” the SALB is much closer to that and is more palatable to certain investors.

- ◆ Some broker/dealers **view a commitment to retirement income as a key part of a strategy** to provide innovative, desirable products and to attract and keep quality financial advisors. Thus, there is active interest in making SALBs available or, potentially, even acting as a product partner to offer a proprietary guarantee.
- ◆ Like guaranteed lifetime withdrawal benefits (GLWBs) on VAs, **SALBs are especially well suited to help pre-retirees and those in early retirement insure against the distressing effects of a severe market downturn**; the risk of running out of assets is most acute during the vulnerable years immediately before and after retirement.
- ◆ A View to the Future: SALBs have the potential to emerge in a similar category as VAs as an important retirement income vehicle. **The next five years will be important in terms of expanding the number of manufacturers, growing product distribution, and increasing advisor awareness.** However, the relative speed of this process is not critical, especially in light of current market uncertainty. In many cases, the SALB is likely to attract buyers who would otherwise not have considered a VA..
- ◆ Executive Interviews: **interviews with representatives along the entire chain of production constitute the foundation of market research on the topic.** We focused particularly on perceptions and plans at broker/dealers that sell managed money products and offer some details of these responses in Executive Interview Excerpts, page 152. The **interview focus was on depth rather than breadth.** Overall, these interviews inform our understanding of the state of the industry and color every page of this report.

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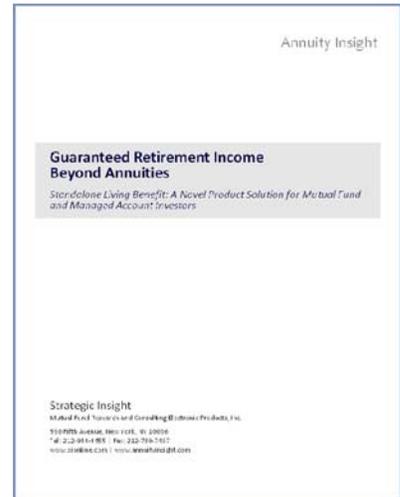
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