

INSURANCE

Secure for Life

Manulife extends guarantee

BY MARK NOBLE

Manulife has upped the ante on its competitors in the guaranteed minimum withdrawal benefit market. The insurer has added a lifetime guarantee on the withdrawals of its IncomePlus product line.

In October 2006, Manulife launched IncomePlus, the country's first GMWB product, which is an add-on feature that can be purchased with a segregated fund contract. IncomePlus guaranteed a monthly retirement income from the fund for a period of 20 years, regardless of how the underlying investment performed.

The company is now extending that guarantee to the lifetime of the investor, starting after December 31 in the year the investor turns 65. There will be no increase

to any IncomePlus fees or fund management expense ratios for the lifetime extension.

In the GMWB's first 10 months, Manulife was able to sell more than \$2 billion in IncomePlus products. This success highlighted the growing demand for investment products designed for investors entering their last decade before retirement, according to Moshe Milevsky, associate professor of finance at York University's Schulich School of Business.

Milevsky calls this stage of investing the "retirement risk zone" because sustaining losses to accumulated wealth can significantly reduce a retirement nest egg, since there is a relatively short time-frame to recoup losses.

By removing the 20-year cap on IncomePlus, Manulife has responded to one of the major criticisms of GMWBs: that the product does protect an investor's nest egg but does not address the fact that many retirees will be retired for a lot longer than two decades.

"Life expectancy in retirement actually increases as people age," says Milevsky. "In other words, retirees are chasing their ever-increasing life expectancy. It's therefore important for people to recognize the longevity risk they face and create a financial management strategy that hedges or insures against the possibility of 30 or more years of retirement."

J. Roy Firth, executive vice-president of Manulife Investments, says Manulife was confident a 20-year guarantee was enough to last most lifetimes, but advisors have been asking for an explicit lifetime guarantee.

"The life-time guarantees are present in the U.S. market, so it

something that we were looking at very closely," Firth says. "Research shows that adding a lifetime guarantee will make IncomePlus more marketable and will create even further demand," he says.

The product tweak may also be a way for Manulife to re-distinguish itself in the GMWB market. Sun Life Financial co-launched a similar product in April with CI Financial, called SunWise Elite Plus, which marketed itself on its flexibility and availability on a larger selection of Sun Life/CI mutual funds.

Manulife has expanded the number of seg funds which will be available with the IncomePlus option to 25. The company is also extending the maximum length of its yearly 5% bonus to investors who defer their withdrawals from 10 years to 15 years. This extension allows Manulife to more effectively market IncomePlus to younger investors.

While this was not the target demographic for IncomePlus, but Firth says financial advisors have

been asking Manulife to tailor the product to meet the needs of their younger clientele.

"A younger 45- or 50-year-old investor, who is maybe 15 years away from retirement, can realize a minimum 75% increase in their investment guarantee if they don't touch the money for that period of time," Firth says. "They may have slightly different investment profiles than older IncomePlus investors, so they may want to add it to more aggressive funds. They may want to use leverage, because a lot of investors in that age category do."

An Investor Economics study estimates that the Canadian market demand for GMWB products could be as high as \$40 billion within the next five years.

As of right now, Sun Life says it does not have any plans to offer similar changes to SunWise Elite Plus. The lifetime extension will automatically be made available to current IncomePlus investors on December 31, 2007. **AE**