The TAMRIS Consultancy

Variable Annuities + GMWBs
A Review of Sun Life Elite Plus Client Brochure, Sequence of Return and Risk Modelling

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Conclusion

The brochure made a number of claims: these were that during periods of significant market declines investors may well run out of capital well within their life expectancy. This is always a risk if portfolios are not properly structured, if costs are too high and if withdrawals from the portfolio are too high for the market and economic conditions of the time.

Just as longevity risks raise the chance of running out of money, the length of time that many will spend in retirement also provides opportunities for lower cost traditional portfolio options to manage the risk of running out of capital: there is the flexibility, the lower cost and the opportunity for sensible withdrawal management that can manage the risk of running out capital.

If we look at lower cost alternatives we can see that there are strong alternative arguments for not using VA+GMWB investments, and that advisors need to be cognizant of these arguments, and be able to communicate the realities of different investment options to clients. The brochure on its own is insufficient to satisfy advisor responsibility to communicate the information necessary for an advisory client to make an informed decision.

Recent market turmoil has pointed out the risks of stock market investment; however these risks have also hit the providers of guarantees for VA+GMWB products, most notably AIG which has since been taken over by the US government.

In short, as noted in the sequence of return document, transferring the risk of running out of capital to an insurance company with this product involves accepting other very important risks.

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