Retirement Income
JOURNAL

A Chat with the President of Prudential Annuities

By Editor Test *Wed, Sep 19, 2012*

Bob O'Donnell talked to RIJ about sustaining VA guarantees in an uncertain rate environment, and about the public's ability to understand VA riders. MetLife, AXA Equitable, and Jackson National also comment here on limiting new contributions to older, richer contracts.

The president of Prudential Annuities spoke with *RIJ* on Tuesday, three days after a *New York Times* story put a decidedly negative spin on his firm's recent decision not to allow owners of its generous, but discontinued, variable annuity contracts with HD6 or HD7 lifetime income riders to make new contributions to their contracts.

Bob O'Donnell, who helped design and launch the HD or "Highest Daily" products five years ago, acknowledged that the *Times* apparently erred in saying that the products offer "guaranteed returns" (instead, they offer guaranteed increases in the "income base" on which annual payouts are calculated). But he disagreed with any assumption that that misconception was widespread.

"I have observed a big increase in the understanding of the variable annuity industry's value proposition over the past five or six years," O'Donnell said in a phone interview. "At one time the guarantees were perceived to be applied to the account balance, but I think that misunderstanding has been remedied."

O'Donnell added, "With $120 billion in assets and 70% percent of those assets in the living benefit riders, we have no complaints around people alleging that they assumed one thing and got another. We're not seeing that. If there was that misunderstanding, someone would have complained to us or the broker-dealer."

As for the decision not to accept new contributions from closed contracts, even from existing owners of those contracts, O'Donnell said that Prudential wasn't the first variable annuity issuer to take that step and said that it was motivated to protect Prudential shareholders, customers and intermediaries alike.

"It's only when you meet the needs of all three constituents, only when you have a value proposition that meets the needs of all of them, that you can have a sustainable business strategy. If we didn't consider the shareholder, then they shouldn't be investing in our business," he said.

O'Donnell was also asked to comment on Federal Reserve chairman Ben Bernanke's recent announcement that U.S. interest rates would be suppressed until 2015, and on the impact that such rate suppression might have on annuity issuers.

"I think that our industry can sustain low interest rates, period," he said. "The challenge comes in when rates are moving so much. If you price a product assuming a 3% environment—let's use 10-year Treasuries as a proxy—and rates drop to 2%, the cost of doing business is going to be higher at 2% than 3%. Your product is now selling in a 2% environment and putting pressure on the profits, relative to what you expected.

"But we can price a compelling value proposition at 2% or 1.5%. The industry can price a compelling longevity value proposition that generates an appropriate return for the shareholder. I'm less concerned about ratings staying at 1.75% than I am about rates going from 2% to 1%. It's the volatility that creates the strain.

"Yes, low interest rates do mean that we have to put more capital against the business. But as long as we have a pretty stable outlook we can respond with a sustainable value proposition. But at Prudential we spend less time trying to predict what will happen than trying to prepare for what might happen. That's what the regulators look at too."

Regarding the issue of not accepting new contributions to closed contracts from existing contract owners, a MetLife executive confirmed that it took that step over the summer.

"We have suspended purchase payments for many of our GMIB riders, and we did so effective August 20," said Bennett Kleinberg, a MetLife vice president and actuary. "There were some benefits that we restricted earlier in the year, but the great majority of the older products were accepting subsequent purchase payments. We are suspending them due to the challenging economic environment and particularly the lower interest rate environment."

MetLife began contacting contract owners in mid-July, he said, and the last date for contributions was August 20.

AXA Equitable, which sold large amounts of rich VA riders in 2007, made a similar move last winter. "Not all Accumulator contracts have been closed to new contributions, just the contracts prior to version 9.0, which launched in June 2009. We sent out letters to shareholders in February 2012," said Discretion Winter, an AXA Equitable spokesperson.

Jackson National is an exception to the trend. "Currently, Jackson does not restrict sub pays into existing contracts," said Melissa Hernandez of Jackson National's communications department.

Steve McDonnell of Soleares Research, told *RIJ* that Ameriprise had recently placed limits on contributions to certain versions of its SecureSource benefit series, and that John Hancock and Protective were limiting premium going into certain variable annuity contracts or riders.