A VA with a little bit of everything, from Principal

By Editorial Staff *Thu, Nov 27, 2014*

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The Principal Financial Group has introduced a series of Swiss Army-knife type of variable annuity that allows investors to accumulate through traditional and alternative investments and decumulate through a no-cost deferred income rider option.

The series is called Principal Pivot, and the name refers to ability of contract owners to “pivot” from accumulation to income. The contract owner can make periodic transfers from the mutual fund sleeve to an income sleeve ($5,000 minimum for first transfer, $1,000 each thereafter), and to set income to begin at a future date (by age 70½ for qualified contracts and age 95 for non-qualified).

The product has a current mortality and expense risk fee of 1%. Fund expense ratios range from a low of 0.65% to a high of 2.63%. There’s a return of premium death benefit rider available for an extra 20 basis points and an annual step-up death benefit rider for 35 basis points. A Liquidity Max rider exempts the contract owner from paying surrender fees. It currently costs 25 basis points. There’s also a 15-basis point administrative fee and a $30 annual fee.

Fund families offered under the contract include American Century, American, Calvert, Deutsche, Fidelity, Franklin Templeton, Goldman Sachs, Guggenheim Partners, Invesco, Janus, MFS, PIMCO, Principal, Rydex and Van Eck. Contract owners can get exposure to alternative assets like commodities and real estate, along with long/short strategies, hedge funds and managed volatility funds.

As an all-in-one package, the Pivot also includes built-in investment guidance systems. According to a press release, it offers clients “three investment approaches. There’s a personalized strategy for clients who prefer to create a fully-customizable investment portfolio based on their investment objectives; a guided strategy for those who want guidance on which investments to choose that meet their risk profile and investment objectives; and an asset allocation strategy for those who want a managed approach to investing and diversification that includes a mix of stocks, bonds and other investment options.”

The contract offers some flexibility around start dates and liquidity. Once contract owners moves money from the separate account to the deferred income account, they can't move it back or access it in any way other than the annuity payment method they've chosen. But they can move their income start date once, and they can get accelerated lump sum payments (up to six months' worth at a time) up to four times during the income period. If the start date is accelerated or delayed, the annuity payments decrease or increase accordingly.

Principal Pivot VA bears a resemblance to the two-sleeve VAs of the past, such as the Hartford Personal Retirement Manager. That product allowed contract owners to gradually move money from a separate account to a fixed-return account destined for income. The Pivot isn't as flexible; the Hartford product allowed contract owners to reverse their contributions to the fixed account, subject to a market value adjustment. With the Pivot, contributions to the income account are irrevocable after the 10-day free look period.