Retirement Income
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Always Protect Your Story

By Editor Test *Tue, May 24, 2011*

Two weeks ago, when Prudential plc's CEO told analysts that he envisioned unspecified risk reductions in Jackson National's VA by end of year, he clearly didn't realize that his statement could muddy Jackson's well-honed "story."

To sell a lot of variable annuities, an insurance company and its wholesalers need a compelling *story* that's grounded in product innovation and supported by consistent marketing and/or advertising.

Prudential Financial, for instance, has built a juggernaut of a story around its Highest Daily step-up feature. Jackson National Life's Perspective VA topped the VA charts by promising advisors *unrestricted investing with a guarantee*.

Jackson National Life's only blunder this month was that it didn't take better care of its story. Two weeks ago, when Tidjane Thiam, the CEO of JNL's UK-based parent Prudential plc (no relation to Prudential Financial) told analysts that he envisioned unspecified risk reductions in the VA by end of year, he probably didn't realize that his statement would cross into the broker-dealer media and create uncertainty. But it did. And it muddied the Jackson story.

Now the Jackson National wholesalers are scrambling to sooth their key distributors, as they should. And if they can reassure advisors that the "no investment restrictions" story remains intact, this month's communications malfunction shouldn't do much lasting harm.

Why not? Because many advisors thought the changes described by Thiam, the first African CEO of a FTSE 100 corporation, were already long overdue. "Jackson National was getting to the point where over 65% of its revenue was coming from variable annuity sales," said one advisor who has sold a lot of variable annuities over the years.

"That's too large a percentage of their overall book. Insurance companies make their money by taking lots of little risks, not a few big ones. What they're doing is very smart."

Jackson National's product, he added, also has plenty of leeway to become more conservative. That's because so few competitors—stocks, bonds, or other variable annuities—have a better story to tell.

"There used to be 100 girls at the dance," the advisor said (without pausing or bothering to beg pardon for employing such a sexist metaphor). He meant that prior to the financial crisis, during the VA arms race, an advisor could choose from a relative cornucopia of eligible and attractive variable annuity contracts. Then the financial crisis produced the Great Shakeout.

"Now that there are only three girls left at the dance,"—meaning Prudential, Jackson National and MetLife—"and everybody wants to dance with them, they don't have to be as pretty. They will be dialing back to something that's still competitive and still really good," he said.

“The word I got from Jackson National is that there won’t be any investment restriction-based changes. There may be changes to the richness of the minimum growth [the rollup options], and the withdrawal rates [the age-dependent payout percentages] might be modified. But they’ve been so far ahead of everybody else that they will still be very attractive even with the modifications. They’re too rich.”

“Right now they have a quarterly reset ratchet and seven percent accruals, at a time when others have a five percent accrual with annual resets. Even if they dial their offering down to a quarterly reset at five percent or an annual reset at six percent, they’ll still be very competitive. They should take advantage of their pricing power. When you’re an Apple iPod and everybody wants you, you can do that.

“In 2007, there were a lot of VA products that were ‘Swiss Army knives.’ They had few investment restrictions, lots of combinations of benefits that addressed multiple needs. Since then we’ve been seeing manufacturers try to find niches where they’re most comfortable. One will have the most competitive death benefit. Another will have the best deal for a joint and survivor. We’re seeing products that are more specific-use focused,” he said.

Jackson National had one of the last of the rich contracts. “They straddled the line really well. They had a great sport SUV, and now we’ll see whether they decide to be more sport or more SUV,” he noted. ” [The anticipated changes] will absolutely take away from their sales. But that’s a good thing. They don’t want the level of volume they’ve seen. If they continue to get strong demand, it will be a more profitable business, because their hedging costs will be lower. Or their flows will slow and it will be a safer business.

“But I don’t know how anyone could have been surprised at this. It’s making so much news now because the other companies gutted their products back in 2009. Now, even though Jackson is dialing back, it may still be the prettiest girl at the dance.”

Ultimately, he said, the choice of variable annuity depends on what the advisor and the client are trying to accomplish. For somebody who wants maximum equity exposure with a safety net, the Jackson National Perspective will still fill the bill. For somebody who’s looking more for guaranteed income than for performance, another product might be better. And that’s fine.

In variable annuity sales, as in any type of selling, the *story* is paramount. You can tinker with the numbers and survive. But you should never tamper with the story.