De-Risky Business

By Steven D. McDonnell *Mon, Jul 23, 2012*

Squeezed by low interest rates, variable annuity issuers have no choice but to keep trimming their benefits. In this review, a VA expert surveys the summertime activity of (and skuttlebutt related to) major manufacturers.

The summer of 2012 has been one of the busiest for the variable annuity business in recent memory, due to numerous de-risking moves being undertaken by insurers. In fact some companies have made multiple changes in fairly quick succession. It seems that every move made by a given player has led to some sort of response on the part of its key competitors.

In this environment, with the stock market still on somewhat shaky ground and interest rates at historic lows, insurers are figuring they should trim back on the richness of their guarantees. Thus they are making reductions of one form or another, whether by increasing fees, tightening sub-account restrictions, reducing commissions, cutting off additional premium into existing riders, and even eliminating certain VA share class options.

The de-risking trend – filtering down from the "Big Three"

For the most part, product adjustments have been starting from the top, from market leaders like Prudential, MetLife and Jackson National (the top three sellers of VAs, in order, for the first quarter of this year, according to Morningstar).

Of this trio, MetLife has been the most active, which is in keeping with its senior management's official stance (as communicated at a number of earnings calls and investor events) that it wants to reduce its VA sales.

Starting late last year, the company has made multiple de-risking tweaks to its income benefit series, GMIB Max, and, truthfully, it has not stopped yet. Last October, it came out with GMIB Max II, which lowered the annual base rollup rate from 6% to 5.5%. In January of this year Max III came out, with a rollup of 5%.

On June 1, MetLife filed GMIB Max IV with the SEC and the benefit included the following changes from version III:

- If the owner takes withdrawals in the first five years, the ability to do so on a dollar-for-dollar basis will reduce from the 5% rollup to a rate of 4.5%.
- If the client waits five years before taking income, the dollar-for-dollar rate will go back up to 5%.
- The annuity factors changed such that the interest rate applying to the benefit during annuitization will drop from 1.0% to 0.50%.

I have not seen a firm launch date for Max IV as of yet, but some contacts suggest that it might come out fairly soon.

Met has made other changes: it ceased sales of its L-share contracts on June 8, and, effective August 17, it will be closing earlier benefits off to new premium.

The most recent change from Prudential was that it stopped selling its bonus VA, Premier Retirement Variable Annuity X Series, on July 2, and we think that rival MetLife's reduction of its share class lineup (in addition to its ceasing the sale of L shares recently, it had already closed its C shares and bonus contracts in most systems) had something to do with it.

Prudential also has a new living benefit in the pipeline, Highest Daily Lifetime Income 2.0. It will differ from the currently sold version in that it will have reduced withdrawal rates; a higher fee; and different investment guidelines. The portion of contract value that must be allocated to fixed income will rise to 30% from 20%. I have not yet heard a launch date for this rider.

Jackson National: more opportunity than it wants

The case of Jackson National is an interesting one. The insurer has not made any significant product reduction moves over the recent past, but there is much speculation in the industry that the insurer will do something soon.

If Jackson stays put, it might attract more sales than it has an appetite for, due to the de-risking of other players. In the first quarter Jackson's VA deposits were up sharply, the opposite direction that its executive leadership wants. Last year Jackson's parent, Prudential plc of the U.K., announced plans to scale back its VA sales in the U.S.

I heard a rumor (from multiple sources) that Jackson was going to execute some sort of product change last Monday [July 16], but the week came and went without any SEC filing or broker-dealer announcement to confirm this.

Jackson's big move last year was the removal of the 8% base rollup option on its LifeGuard Freedom Flex lifetime withdrawal benefit. More recently, the company announced that the M&E charge on its Perspective II contracts will increase by 0.05% in September.

The company filed new withdrawal rate schemes for both Freedom Flex and another rider, LifeGuard Freedom 6 Net, back in January but they have yet to be used. The filing showed two tiers of lifetime withdrawals and it looked like that the higher income amounts would come at an increased rider charge. The catch was that the withdrawal rates were all in brackets and left blank, to be filled in later via amendment.

Further down in the VA sales rankings there has been an interesting mix of de-risking activity, and I'll hit on a few of the highlights in the following bullet points:

- Allianz amended its Vision and Connections contracts with changes to take effect on July 23: 1) the short-surrender charge (L-share) option will no longer be available; 2) the base rollup on the Income Protector GLWB will reduce to 5% from 7%; and 3) the withdrawal rates on Income Focus (another GLWB) will be reduced.
- SunAmerica lowered the base rollup on the version of the Income Builder GLWB on its O-share contract from 6% to 5.25% effective June 25.
- An affiliate of SunAmerica, VALIC, announced that effective July 2, its IncomeLOCK benefit was closed to new sales.
- Ameriprise will be launching a new version of its Accumulation Protector Benefit (a GMAB) effective July 30; in a risk mitigation move, it will allow the owner to invest in just one sub-account, the Columbia Variable Portfolio – Managed Volatility Fund, as is the case with the company's SecureSource 3 GLWB which debuted earlier this year.

Forethought – Moving in another direction

A company that is apparently moving against the de-risking tide is Houston-based Forethought, which purchased Hartford's annuity new business capacity earlier this year. I have heard that new contracts and benefits Hartford had in the pipeline will indeed be sold, and Forethought is the logical company to do that, as Hartford itself discontinued active sales of annuity and life products in April. The word is that this is a temporary arrangement, that eventually Forethought will start writing VA products on its own "paper" eventually.

In any event, pre-effective amendments came through for two Hartford contract registrations recently, Personal Retirement Manager Select IV and Personal Retirement Manager Solution. They contain the Daily Lock Income Benefit (a GLWB) and tandem death benefit that appeared in the initial registrations from January. As per their names, both have a component that will allow the owner to capture sub-account growth into the benefit base on a daily basis. Currently, the only company that has such a growth aspect is Prudential, through its suite of Highest Daily or "HD" benefits.

In closing

Thus it appears that Forethought may be looking to make an opportunistic move as most other companies are scaling back. That said, I get the feeling that yet more product changes will be coming as there remain plenty of smaller players who have not made any major moves over the recent past. Suffice it to say, it's turning out to be a very hot summer for the VA space.

Steven D. McDonnell has analyzed and written about the variable annuity marketplace for over 10 years, first as a reporter for Annuity Market News, then as the first editor of Annuity Insight.com*, a service of research firm* Strategic Insight, LLC. *In 2006 he founded* Soleares Research LLC, *which publishes a weekly report on VA product issues. His readership includes major insurance companies, asset managers, actuarial firms and analysts.*