
Details of Hartford's VA benefit rollback

By Editor Test Thu, Jun 20, 2013

Once a leader in VA sales, Hartford is now a receder. In a May 1 SEC filing, it gave existing contract owners an October 4 deadline to choose between reducing their risk profiles and losing their living benefit. Having left the annuity business, Hartford may have much to gain by the move and little to lose--except perhaps more of its reputation.

The Hartford filed a new variable annuity [prospectus](#) last May 1 with the Securities Exchange Commission, asking the SEC to approve some changes that it wants to make to in-force variable annuity contracts that would curtail some contract owner privileges but would also reduce the risk that the Hartford could end up losing money on the lifetime income riders in the contracts.

The new restrictions would be effective on October 4. According to the new prospectus, "These restrictions are intended to reduce the risk of investment losses that could require the Company to use its General Account assets to pay amounts due under the rider."

As of the end of the first quarter of 2013, the Hartford still had about \$65.5 billion in VA assets, which generate fees. But it wants to reduce the size of the shortfall that might occur if those contract assets won't be large enough to meet the contract obligations.

To prevent or minimize those losses, it is not only no longer selling new contracts, but also taking advantage of whatever escape clauses it wrote into the original contracts—which may shock some contract owners and advisors.

"It is a surprise to many and I'm sure some never imagined that it could happen," said Tamiko Toland, an annuity expert at Strategic Insight, who has reviewed the new Hartford filing. But she said that Hartford is only doing things that the contract's fine print allowed them to do all along.

Clients still have options, she added. They can accept the changes in the contract (which mainly require more conservative investments) and preserve the rider, they can reject the changes and let the income rider expire, or they can surrender the contract and take their money somewhere else.

"[Hartford is] giving people a few months to make the adjustment. Then there is a 15-day [grace] period," she added. Of course, Hartford will be just as happy to see go away—but they don't necessarily want them to go away mad. Yet that seems to be the risk the company is willing to take to avoid or reduce potential billion-dollar losses down the road on guarantees that are under water.

"I'm not saying that it wouldn't be beneficial, actuarially, to the Hartford to have people default on their benefits. [But] as much as they are happy to let VA clients fade away, I doubt that they want to get a reputation for conniving with their other clients. Though they don't have a VA reputation to protect [since the divestiture], they do have a reputation to protect."

Here are the new VA contract restrictions for which the Hartford has requested SEC approval:

Fixed accumulation feature. Effective October 4, 2013, we will no longer accept new allocations or Premium Payments to the Fixed Accumulation Feature. The following information applies only for Contract Value allocated to or in the Fixed Accumulation Feature prior to October 4, 2013.

We guarantee that we will credit interest to amounts you allocate to the Fixed Accumulation Feature at a minimum rate that meets your State's minimum non-forfeiture requirements. Non-forfeiture rates vary from state-to-state. We reserve the right to prospectively declare different rates of excess interest depending on when amounts are allocated or transferred to the Fixed Accumulation Feature. We will account for any deductions, Surrenders or transfers from the Fixed Accumulation Feature on a "first-in, first-out" basis. The Fixed Accumulation Feature interest rates may vary by State.

Dollar cost averaging. Effective October 4, 2013, the DCA Plus program will no longer be available and we will no longer accept initial or subsequent Premium Payments into the program. Contract Owners who have commenced either a 12-month or 6-month Transfer Program prior to October 4, 2013 will be allowed to complete their current program, but will not be allowed to elect a new program. These programs allow you to earn a fixed rate of interest on investments. These programs are different from the Fixed Accumulation Feature. We determine, in our sole discretion, the interest rates to be credited. These interest rates may vary depending on the Contract you purchased and the date the request for the program is received. Please consult your Registered Representative to determine the interest rate for your Program.

Reinstatement. Effective October 4, 2013, we will no longer allow Contract Owners to reinstate their Contracts (or riders) when a Contract Owner requests a Surrender (either full or Partial).

Commencement date extension. Effective October 4, 2013 we will no longer allow Contract Owners to extend their Annuity Commencement Date even though we may have granted extensions in the past to you or other similarly situated investors.

Investment restrictions. Effective October 4, 2013, we are exercising this contractual right for the products described in Appendix D to require that you allocate your Contract Value and future Premium Payments in accordance with the investment restrictions described in Appendix D. Your selected allocations will be automatically re-balanced quarterly. If your allocations do not currently comply with the investment restrictions described in Appendix D, we must receive allocation instructions from you prior to October 4, 2013 that comply with the investment restrictions described in Appendix D. These restrictions are intended to reduce the risk of investment losses that could require the Company to use its General Account assets to pay amounts due under the rider.

If your allocations do not currently comply with the investment restrictions described in Appendix D, we must receive allocation instructions from you prior to Oct. 4, 2013 that comply with the investment restrictions described in Appendix D.

These restrictions are intended to reduce the risk of investment losses that could require the Company to use its General Account assets to pay amounts due under the rider. We may modify, add, delete, or substitute (to the extent permitted by applicable law), the asset allocation models, investment pro-grams, Funds, portfolio rebalancing requirements, and other investment requirements and restrictions that apply

while the rider is in effect.

For instance, we might amend these asset allocation models if a Fund (i) merges into another fund, (ii) changes investment objectives, (iii) closes to further investments and/or (iv) fails to meet acceptable risk parameters. These changes will not be applied with respect to then existing investments. We will give you advance notice of these changes. Please refer to "Other Program considerations" under the section entitled "What other ways can you invest?" in Section 4.a for more information regarding the potential impact of Fund mergers and liquidations with respect to then existing investments within an asset allocation model.

15-day reinstatement window. If the rider is terminated by us due to a failure to comply with these investment restrictions, you will have one opportunity to rein-state the rider by reallocating your Contract Value in accordance with then prevailing investment restrictions.

You will have a 15-business day reinstatement period to do this. The reinstatement period will begin upon termination of the rider. Your right to reinstate the rider will be terminated if during the reinstatement period you make a subsequent Premium Payment, take a partial Surrender or make a Covered Life change. Upon reinstatement, your Payment Base will be reset at the lower of the Payment Base prior to the termination or Contract Value as of the date of reinstatement. Your Withdrawal Percentage will be reset to equal the Withdrawal Percentage prior to termination unless during the reinstatement period the relevant Covered Life qualifies for a new age band.

Investment in any asset allocation model could mitigate losses but also hamper potential gains. The asset allocation models that you must invest in under the rider provide very different potential risk/reward characteristics. We are not responsible for lost investment opportunities associated with the implementation and enforcement of these investment requirements and restrictions. If the restrictions are violated, the Withdrawal Benefit will be revoked but the Guaranteed Minimum Death Benefit will continue to apply.

Investment restrictions. You must allocate your Account Value in accordance with the following investment restrictions prior to October 4, 2013:

- CATEGORY 1: FIXED INCOME RULE: MINIMUM 40% OF ALLOCATION
- CATEGORY 2: ACCEPTABLE INVESTMENT OPTIONS (EQUITY OR MULTI-ASSET RULE: MAXIMUM 60% OF ALLOCATION, MAXIMUM 20% IN ANY ONE FUND
- CATEGORY 3: LIMITED INVESTMENT OPTIONS (EQUITY, MULTI-ASSET, OR BOND) RULE: MAXIMUM 20% OF ALLOCATION, MAXIMUM OF 10% IN ANY ONE FUND.