
Jackson National Tailors GMWB for the Tax-Conscious

By Editor Test *Wed, May 12, 2010*

The new living benefit allows contract owners to withdraw enough to offset all or part of the income tax on their distributions.

Jackson National Life's latest variable annuity living benefit rider is intended for advisors and clients who expect tax rates and equity markets to rise, and whose financial appetites won't be satisfied by one of those "lite" variable annuities with low fees and meager benefits.

It's also for advisors and clients who aren't afraid to digest new acronyms, like GAWA and MEWAR, and intricate new ways to calculate benefits.

Called LifeGuard Freedom 6 Net, the rider is a guaranteed lifetime income benefit that allows owners of a Jackson National Perspective II variable annuity to potentially take a two-tiered withdrawal from their contract each year during the product's income phase.

The first tier of the withdrawal is the one usually associated with GMWB—a percentage of the guaranteed income base that Jackson National calls the GAWA or guaranteed annual withdrawal amount. Depending on the client's age when income begins, that would mean a withdrawal of 4% to 7% of the premium, adjusted up (for to lock in market gains) or down (for excess withdrawals).

The second tier of the withdrawal is called the Earnings-Sensitive Adjustment. It equals 40% of the net gains in the account each year, if any, but not more than two-thirds of something called the Maximum Eligible Withdrawal Amount Remaining (MEWAR), which starts out as the same as the GAWA but may change over time.

For example, a person might purchase a contract with \$100,000 at age 65. If a year passed and her account value had risen to \$108,000, she could withdraw \$5,000 (5% of the income base) plus \$3,200 (40% of the \$8,000 gain), for a total withdrawal of \$8,200. In this case the MEWAR was two-thirds of \$5,000 or \$3,333.

After the \$8,200 distribution, the account value would drop to \$99,800 from \$108,000. In the following year, the client would be eligible for another \$5,000 GAWA, plus 40% of any growth of the \$99,800 principal, up to the limit of two-thirds of the MEWAR.

The added withdrawals are meant to offset taxes due on the distribution, so that the contract owner's net income is more or less consistent from year to year, said Alison Reed, Jackson National's vice president, product management, variable annuities. The rider is available on qualified and non-qualified contracts.

"Let's say that your contract value increases to \$120,000 in the first year," she explained. "With most available withdrawal benefits a person in the highest income tax bracket would take out five percent, or \$6,000, and net about \$3,600 after taxes. With Freedom Net 6, you take out \$10,000—\$6,000 plus the MEWAR of two-thirds of \$6,000—and net \$6,000 after taxes."

Under the same contract, the owner can receive a 6% roll-up in the income base for each year he delays withdrawals. If he delays 10 years, the income base is automatically at least double the original premium.

There is no free lunch here. As with all variable annuity GMWBs, the payments come out of the owner's own account. The product is not actually in the money until and unless the account value reaches zero while the owner (or the surviving spouse, in a joint account) is still living and is still eligible to receive a percentage of the income base plus the Earning-Sensitive Adjustment.

The current annual charge for the rider is 1.05% and the maximum is 2.10% (3.0% for joint contracts). The mortality and expense ratio is 1.25%. The expense ratios of the many investment options range from 0.57% to 2.41%, with a weighted average of 0.89%, Reed said.

The withdrawal percentage age-bands are 4% for those ages 45 to 64, 5% for those ages 65 to 74, 6% for those ages 75 to 80 and 7% for those age 81 or older. If other options, such as an enhanced death benefit or premium credit, were added, the all-in cost of the contract could exceed 4% per year.

"Today's investing landscape is marked by uncertainty and complexity, which creates a need for innovative solutions that can address the challenges facing retirees," said Clifford Jack, executive vice president and chief distribution officer for Jackson.

"At a time when many providers are focused on simplification, Jackson is committed to giving advisers the choice and flexibility to tailor products according to the individual client's unique needs and objectives. Our products are designed for advisers who embrace customization and view financial planning as a process, rather than a transaction."

In a release, the company said, "Jackson offers LifeGuard Freedom 6 Net with a Joint Option to provide guaranteed lifetime income for customers and their spouses. As with many of the optional benefits available within Jackson's variable annuities, LifeGuard Freedom 6 Net does not force asset allocation. Contract holders can also start and stop withdrawals as desired, giving them the flexibility to decide when to take income."

"Potential tax increases are a significant concern for investors, particularly those who are on the verge of retirement," said Steve Kluever, senior vice president of product and investment management for Jackson National Life Distributors LLC.

"Retirement products that can address these concerns and help clients streamline income planning answer an important need in the marketplace. Furthermore, by allowing clients to select and pay for only those features and benefits that they truly need, Jackson is delivering a solution that can meet a broad range of investor objectives," he added.