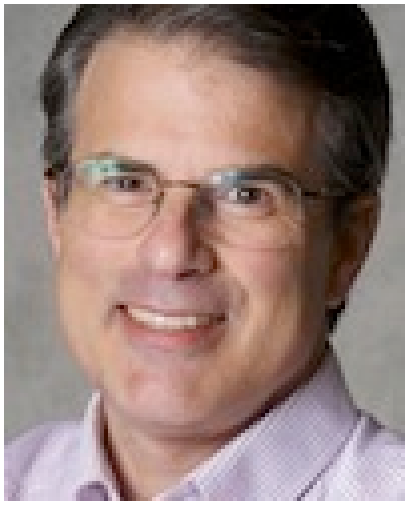
Jackson National VAs Offer Vanguard Funds

By Kerry Pechter *Thu, Oct 12, 2017*

Ten Vanguard funds (including seven actively managed funds) are now available as investment options in several Jackson National variable annuities, including the fee-based Perspective Advisory II, issued three weeks ago.



Funds from America's most popular mutual fund company are now available on America's most popular variable annuity contracts.

Jackson National has added ten Vanguard fund options to its new fee-based contract, Perspective Advisory II, as well as to other VAs, like the year-old fee-based Perspective Advisory, and to the latest iterations of its top-selling Perspective II and Elite Access contracts.

Perspective Advisory II, issued September 25, is the third Jackson National contract designed for advisors who earn a fee on VA assets under management rather than taking an up-front commission from the insurer. Jackson National introduced its first fee-based VA, Perspective Advisory, in September 2016 and offered a fee-based investment only VA (IOVA) without living benefits in January of this year.

Jackson was by far the top seller of individual variable annuities in the U.S. in the first half of 2017, with almost $9 billion in overall sales, according to Morningstar. Meanwhile, Vanguard is currently the leader in mutual fund flows—not just in passively managed index funds but also, by a small margin, in actively managed funds.

For the year ending August 2017, Vanguard index funds have net flows of $327.9 billion and its active funds have net flows of $5.53 billion. Vanguard as a fund family now manages $3.07 trillion. Since 1997, its assets under management have grown 12-fold. Jackson National's top-sellling commissioned VA, Perspective II (seven-year surrender period), had sales of $6.58 billion in the first half of 2017. The New York version of the contract added $533.5 million. The runner-up individual VA contract, AXA's Structured Capital Strategies, a variable index annuity for accumulation investors, sold $1.8 billion in the first half.

The new Jackson National product gives fee-based advisors—including those who recently switched revenue models in response to the DOL fiduciary rule and those who haven't sold VAs at all—a chance to offer their clients a contract that, in its commission-paying version, is the most popular VA contract in the U.S.

It remains to be seen whether RIAs (registered investment advisors) and other fee-based advisors will embrace and sell no-commission VAs with living benefits. Investment-only fee-based VAs are popular with RIAs mainly because of their unique tax benefit: tax-deferred growth on virtually any amount of after-tax

premium.

As retirement income-generation vehicles, VAs present a more complex value proposition. Compared with fixed income annuities, they provide less guaranteed income but more liquidity. But some advisors wonder—about VAs with living benefits in general, not Jackson National's in particular—if the effects of fee drag will prevent the separate account assets from growing fast enough to produce steadily rising income in retirement.

Aside from possible market value adjustments on fixed income investments, most fee-based VAs are fully liquid. Because there is no commission, investors aren't subject to the surrender charges that can discourage variable annuity contract owners from withdrawing more than 10% of their account balance per year for as long as seven years.

The Vanguard funds, which are among some 110 investment options from a wide range of fund companies, include three index funds (Global Bond Market, U.S. Stock Market, and International Stock Market) with current expense ratios of 29 to 39 basis points per year, and seven Vanguard actively managed funds with current expense ratios of 27 to 67 basis points per year. Other available funds carry expense ratios ranging from 26 to 205 basis points per year.

The contract, which has an annual fee of 45 basis points, features four living benefit options: Lifeguard Freedom Flex (max 150 basis points for single life, max 160 basis points for joint), Lifeguard Freedom Net, and LifeGuard Freedom Flex DB; which is designed for legacy planning.

All Lifeguard options include annual roll-ups under certain conditions and different payout percentages at different ages. Deferral bonuses of 5%, 6% and 7% are available for the first 10 years, if no withdrawals are taken. There are also four death benefit options with price points from 20 basis points to 125 basis points per year. LifeGuard Freedom Flex DB offers both a living benefit and death benefit component.

The Vanguard funds available in the Perspective Advisory contracts include:

- JNL/Vanguard Capital Growth Fund
- JNL/Vanguard Equity Income Fund
- JNL/Vanguard International Fund
- JNL/Vanguard Small Company Growth
- JNL/Vanguard Global Bond Market Index Fund
- JNL/Vanguard International Stock Market Index Fund
- JNL/Vanguard U.S. Stock Market Index Fund
- JNL/Vanguard Moderate Allocation Fund
- JNL/Vanguard Moderate Growth Allocation Fund
- JNL/Vanguard Growth Allocation Fund

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