Retirement Income
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# Loaded VAs Haven't Lost Their Lustre

By Editor Test *Wed, Jun 16, 2010*

*Prudential Financial and Jackson National Life rack up sales with variable annuity contracts that ignore the adage, 'Simplify, simplify, simplify.'*

The best-selling variable annuity contracts in the first quarter of 2010 were not the simple, inexpensive, low-in-saturated-fats products that some people thought would emerge victorious from the financial crisis, like tiny mammals succeeding the dinosaurs.

No, four of the most popular contracts (TIAA-CREF's giant group annuity doesn't really count) were robust, all-purpose retirement vehicles with lots of investment choices, payout options, premium bonuses and incentives for delaying withdrawals, i.e., roll-ups. They bore a close resemblance to their pre-crisis personas.

As for costs, well, when you buy an all-terrain SUV with a V-8 engine, fuel economy isn't your primary concern. These contracts are designed to get you where you want to go, wherever that may be. They are also designed to win the loyalty of independent advisors, the most fertile channel for VA issuers that market through third parties.

But enough with the mixed metaphors.

The top four individual VA contracts were Jackson National's Perspective II and Perspective L-share (in the #2 and #4 positions) and Prudential Financial's APEX II and XTra Credit Six (in the #3 and #5 spots). These four accounted for about $4.9 billion sales or over 15.5% of all sales for the quarter.

Two of the executives who are responsible for the success of these products—Bruce Ferris, senior vice president at Prudential Annuities, and Greg Cicotte, executive vice president and national sales manager at Jackson National—spoke with RIJ about their recent success.

**For Prudential, more producers**

Ferris attributed his sales numbers to the number of boots on the ground. "I don't think it's any particular product type that's driving our success in the market place," he said, attributing growth in part to the addition of 23,000 new producers. "That's the highest number we've had by more than double."

Producers have apparently never been so willing to sell Prudential annuities. "We asked people who sold our product if they were likely to sell our products in the future, and 85% said they were highly or very likely to do more business with Prudential. That's our highest number ever," he said.

But why do they like Prudential? In part, it has to be the appeal of the Highest Daily 6 roll-up, which ensures that benefit base is never lower than the account value, and goes up by at least six percent a year. (Pre-crisis and pre-derisking, Prudential's annual deferral bonus was seven percent.)

“The S&P 500 was down 7.99% in May, which is a testament to the volatility of the markets,” Ferris explained. “Anybody who bought our product on, say, April 23rd, can look at their account and see that the value has not only not gone down, it has gone up. That’s why we’re seeing continued interest. I’m not rooting for a down market. I’m saying that our product lets people set aside their fears and emotions. That’s our whole focus.”

Prudential’s big VA differentiator is the automatic asset transfer device that protects the guarantee by moving money into bonds when equity prices fall, and vice-versa. This technique, which reverses what advisors prefer to do, successfully limited Prudential VA owners’ losses in 2008-2009 to an average of 18%, or about half the typical losses.

“Before the market went down 40%, we heard from a lot of advisors that they didn’t like the automatic rebalancing or asset transfer because you buy high and sell low,” Ferris said.

“But once they were dealing with the aftermath of the crisis, they said, I don’t want to lose anymore. They said, How do I grow it back, and then go beyond that? We don’t have a magic solution, but our method protects people in a down market. You want to end up with the biggest pile of assets to draw income off of, and that’s what we help people do.”

“We’re fortunate to be in a leadership position right now,” he said. “Our value proposition, which maximizes retirement income, is resonating with more and more people. But I’m not declaring any victories. This is a marathon, not a sprint. We need our competitors to be successful, and this industry isn’t growing. So I’m rooting for my competitors.”

**Jackson touts laissez-faire**

The approach to variable annuities is very different at Jackson National, which is owned by Britain’s Prudential plc (no relation to Prudential Financial) and based in East Lansing, Michigan and Denver. Jackson National folks like to emphasis that they’ve maintained a quiet consistency with regard to product and price for some time.

“We’ve had the number one product in the independent channel for seven years in a row. This hasn’t just happened in the past year,” said Greg Cicotte, executive vice president and national sales manager at Jackson National. “Perspective II had been number one in the bank channel, and now it’s being embraced in other channels.”

Jackson National and Prudential compete for the attention of the same advisors, but Jackson puts a bigger emphasis on freedom, eschewing Prudential’s asset transfer method, Cicotte told *RIJ*. The addition of American Funds to Perspective’s lineup has also helped sales. The company expects a new feature, LifeGuard Freedom 6 Net, which raises payouts to stabilize monthly income in the face of higher income taxes, to catch on with high net worth clients.

“We’re out there in the same channels [as Prudential], but from a product standpoint our philosophies are very different,” he said. “There are two distinct choices for an advisor. Prudential has the [asset transfer] algorithm and we sell complete investment freedom. We don’t get in between the advisor and the investments. We allow them to customize. This approach appeals to advisors who pride themselves on doing business with high-end, sophisticated advisors, and they appreciate it.

“We believe that the VA with a GLWB is a wonderful place for an individual to reenter the market and grow back their money. The investment freedom we offer allows people to be in the market and to take on more risk, it lets them go heavier in equities.

“You’re not going to see us compete on price,” Cicotte said. “The product provides the choices, but it is also priced appropriately for the shareholders. One reason we’re enjoying the success we have is that the financial crisis put advisors in a position to seek out the stronger providers. So we’ve benefited from a flight to quality. We always priced appropriately and hedged appropriately. We were charging a higher rate than other companies for the living benefit before the crisis and the prices we’re charging today are not different. And we haven’t had to lay off wholesalers.”

Jackson National also has a diverse product spectrum that provides a natural buffer against risk, which makes financial strength one of its wholesalers key talking-points. “Two and a half years ago, when there were so many living benefits, the tendency of wholesalers was just to talk living benefits,” Cicotte said. “Post-crisis, the conversation has changed. Now advisors want to hear about the stability of the company, about our hedging capabilities. That’s a conversation that the wholesalers have to be able to have today.”