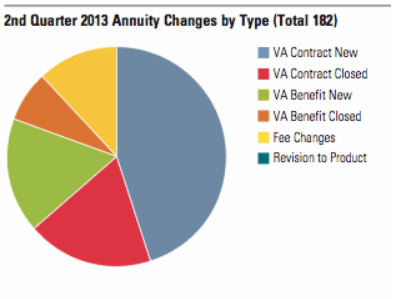
Lots of Little VA Changes in Q2

By John McCarthy *Sun, Sep 8, 2013*

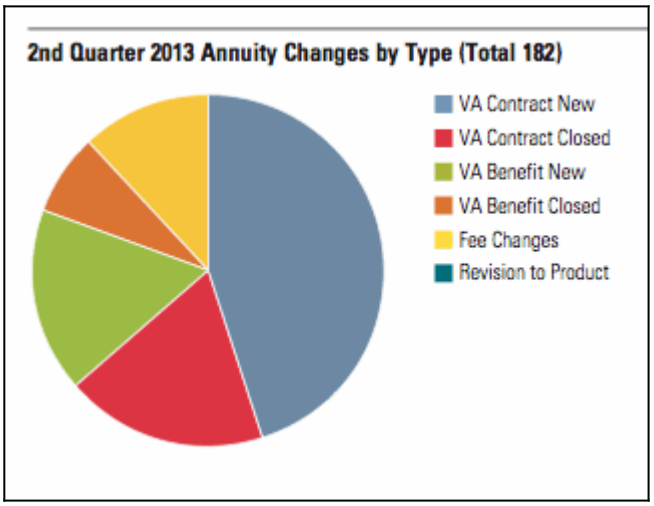
Morningstar's Annuity Solutions product manager provides a review of changes to variable annuity contracts in the second quarter of 2013. Transamerica issued 32 new contracts and The Hartford closed 22.



Annuity product developers accelerated their activity during the second quarter of 2013. Continued low interest rates kept pressure on carriers and hampered any ability to ratchet benefit levels back up. Most of the changes were "low impact," consisting of adjustments to fees, benefits, and lower volatility subaccount options.

During the second quarter carriers filed 182 changes, compared to 97 annuity product changes in the first quarter of 2013 and 168 in Q2 of last year.

The most common changes were consolidations of age bands on the lifetime withdrawal benefit. The most significant changes were those related to de-risking by carriers—namely the asset reallocation directed to clients by Hartford, and the announced living benefit buyback offer by AXA (quarter 3 impact). Hartford also closed a number of contracts, further solidifying their pullout of the VA market.



Q2 Product Changes

AXA closed the Retirement Cornerstone 12.0 series, leaving the 13.0 series as the latest Retirement Cornerstone line open.

Hartford closed a slew of contracts in the Personal Retirement Manager and Leaders IV series of products in May. The move finalized Hartford's pullback from the VA market, with no remaining Hartford contracts open.

Hartford continues to reduce its exposure to variable annuities, this time by re-allocating investment assets. In May the company filed a change requiring certain contract owners with the Lifetime Income Builder rider to reallocate their investments by October 4th, or face losing the living benefit. This requirement affects selected owners of the Director M lineup. Contract owners will be required to place a minimum 40% of assets in fixed income and a risk-based asset allocation model. This follows last quarter's

cash buyout offer covering the same contracts and benefits.

That offer went to owners of the Lifetime Income Builder II rider, who were offered the greater of the contract value on the surrender date, or, if the account is under- water, the contract value plus 20% of the benefit base (capped at 90% of the benefit base). Contracts affected include the Director M series and the Leaders series.

Jackson National Life updated the Lifeguard Freedom Flex lifetime withdrawal benefit. The Freedom Flex series mixes together a variety of withdrawal percentages, step-up and bonus features. These step up combinations were adjusted this quarter. The base bonus option offers a 5% annual bump, and the fee was increased by 0.10%. The fee went up by 0.15% for the Freedom Flex version with the optional death benefit. Jackson National also adjusted the Lifeguard Freedom 6 Net lifetime withdrawal benefit. The fee was raised by 0.15%.

For all Freedom Benefits, the withdrawal percentages for older ages (age bands starting at 75 and 81) were reduced by 0.50% and 1.00%, respectively. These benefits offer a 4.75% lifetime withdrawal at age 65 with the three types of steps ups: HAV; a 5%, 6% or 7% simple fixed bonus; and a doubling of the benefit base after 12 years of no withdrawals (up from 10 years). These and other JNL changes affected the single life benefits, as joint life versions were dropped last quarter.

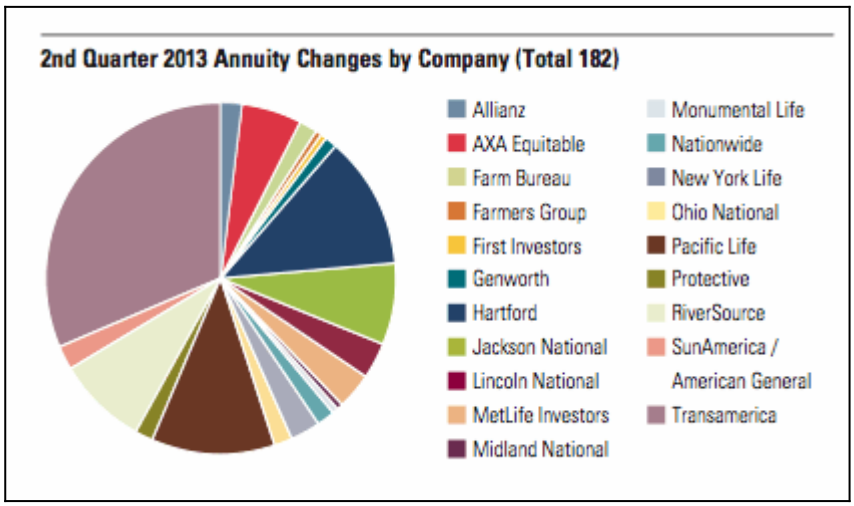
Lincoln reduced the withdrawal rate on the joint version of its i4LIFE Advantage w/GIB. The lifetime withdrawal rate for a 65-year-old is now 3.5% (joint), down from 4.0%. The carrier also consolidated the number of age bands from seven to six. Lincoln also limited additional payments to its joint life riders after the first anniversary of rider issue. Additional payments are limited to $50,000 per benefit year if cumulative purchase payments exceed $100,000.

Lincoln also reduced the withdrawal on its Lifetime Income Advantage 2.0 Protected Funds. The single version had an age band added and dropped the withdrawal for 55-year-olds to 3.5% from 4.0%. The payout for a 60-year-old remains at 4% and a 65-year-old still gets 5%. The joint life version dropped the withdrawal from 5.0% to 4.5% for a 65 year old and added an age band at 75+.

For the entire Lincoln Lifetime Income Advantage 2.0 series, the carrier pushed up the eligibility age to 70 from 65 for the feature that doubles the withdrawal percentage in the case of a contract owner requiring nursing home admittance.

Monumental Life consolidated age bands on their guaranteed lifetime withdrawal benefit. A 65-year-old received 5% for life (4.5% for the joint life version). Those contract owners age 70+ now receive 0.50% less. The fee was raised 0.25%.

Nationwide issued the Destination Architect 2.0, and I-share costing 0.40%. There are 110 subaccount options including a number of alternative asset classes. The contract carries a lifetime GMWB costing 0.80% that offers a 4.5% lifetime withdrawal guarantee (which moves to 5.0% after the 5th anniversary). The joint version offers 4.25% lifetime at age 65 for a 0.95% fee. It has a highest anniversary value step up.



Ohio National raised the fee of its single-life GLWB by 0.10% and tweaked one age band (70-74) by increasing it 0.50% from 4.5% to 5.0%. Ohio National also issued a new lifetime withdrawal benefit, GLWB Preferred IS, that offers a generous 5.5% lifetime guarantee (5.0% joint life version), which, if the account balance drops to zero, could switch to 3% – 9% based on the U.S. Treasury rate. The benefit carries two step ups; a HAV and a 7% fixed bump up for 15 years. The fee is 0.95% (1.25% joint).

Pacific Life released the Pacific Choice (B-, C-, L-shares). The fee is 1.20% (B-share) and includes two types of lifetime withdrawal benefits and an accumulation benefit. The CoreIncome Advantage 4 Select offers a 4% lifetime withdrawal for a 0.35% fee. Every three months the fee is re-evaluated and could increase up to 0.50% based on the company's discretion. There is a highest anniversary value step up. The CoreIncome Advantage Select offers a 5% guaranteed withdrawal with a highest-anniversary step up for a 0.70% fee. (Benefit attached to the Pacific Destinations contract offers a 4.5% lifetime withdrawal for a 0.55% fee.)

Protective filed notice in that it will limit 1035 exchanges and rollovers from qualified accounts. The limitation went into effect May 20th. This will limit further exposure for the carrier into its Protective VA B, C and L Series contracts.
RiverSource re-issued the RAVA5 series (Access, Select, Advantage), raising the fees 0.05%. The Advantage B-share costs 1.10% (L-share 1,35% and C-share 1.50%). The contracts carry the existing lifetime withdrawal benefit and accumulation benefits, and include a variety of alternative asset class subaccounts.

SunAmerica bumped up the withdrawal percentage by 0.25% on the SA Income Builder-Dynamic Option. The single life version of this lifetime withdrawal benefit now offers 5.25% and the joint version is at 5.0%. SunAmerica released the SunAmerica Income Builder, a new lifetime withdrawal benefit. For a fee of 1.10%, the benefit features a 5% lifetime withdrawal for a 65-year-old and two step ups: HAV and a 6% fixed annual step up.

Transamerica broke the bank with a massive update/re-issue of 39 new contracts (including New York versions). The VA lineups for Axiom, Members, Advisors Access, Income Access, Partners, Principium, Retirement Income Plus, TA Variable Annuity all received revisions. The main changes were a new series of

death benefits, updated investment options, and elimination of the initial payment guarantee and the fixed life annuitization option. The living benefits remain the same.

Transamerica issued a new contract, the Retirement Income Plus, with a new living benefit that offers a 5.5% lifetime withdrawal for a 65 year old (single; 5.0% joint); a HAV step up as well as a 5% fixed step up. There are six investment options that fall on the con- servative side. The contract fee is 1.30% and the single life version of the GLWB is 1.25%.

Pipeline

Allianz released a new GMAB in July called Investment Protector. For 1.30% the benefit guarantees principal after a 10-year period. The benefit has a step up that is the greater of the account value or 80% of the HAV.

Allianz also plans to increase the fee on its Income Protector series of lifetime GMWBs, a 0.35% bump.

AXA filed a buyback offer in July for owners of certain living benefits on their Accumulator series of contracts issued from 2004 and 2009. The buyback will be executed in September. The offer seeks to have the client terminate either their lifetime GMWB rider, enhanced earnings rider, or other death benefit in exchange for a credit
to their account value. The calculation will factor in multiple values and credit an amount to the contract owner’s account.

Principal plans to roll out a variable annuity called Principal Lifetime Income Solutions on Aug. 1. The fee is 1.40% and the contract carries an existing lifetime GMWB with a 5% withdrawal rate for a 65-year-old (4.5% joint life). There is an HAV step up and a 5% fixed annual step up. The rider fee is 0.95% and the contract offers four low-cost, diversified subaccounts.

Security Benefit is updating its Elite Designs. The new C-share contract will have 280 subaccounts including alternative asset classes and a return of premium death benefit. The cost is 1.45%.

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