
More Generous VA Benefits On the Way: Morningstar

By Editor Test *Tue, Jul 26, 2011*

In his regular quarterly update, the product manager of Morningstar's Annuity Solutions reviews second-quarter VA manufacturer activity and looks ahead.

Carriers significantly bumped up their product development activity in Q2 2011. There were 162 product changes filed during the quarter, up 226% from the first quarter of 2011 (49 changes) and 110% (77 changes) year over year.

We don't expect product development to remain at the same brisk levels for the rest of 2011, though we continue to expect the pendulum to swing back toward more generous benefits going forward. Innovation appears to be strong, which also increases complexity for those trying to keep track.

Many carriers got into the act. Product filings were spread among 24 carriers, with 16 choosing to issue new contracts or benefits. Product innovation picked up:

- SunLife came out with an innovative step-up method.
- Protective created a different withdrawal guarantee structure than is typical.
- MetLife added an RMD-ratio to its step up calculation.
- Lincoln released its innovative long-term care rider.
- Several firms released new O-share contracts that modified the VA fee structure to accommodate a large broker dealer.

Living benefit activity was vigorous. The Lifetime GMWB still dominates, but a few GMABs made a return, as well as enhancements to the GMIB by the major player, MetLife (AXA remained quiet this quarter, having made numerous filings last quarter). Step-ups crept upward this quarter, with many carriers offering 8% fixed, simple step-ups to compete with the 5% compounded products. Lifetime withdrawals are mostly age-banded, with levels for a 65-year-old typically coming in at 5%. Overall, about 80% of all Lifetime GMWB benefits currently available offer an age-banded withdrawal structure.

Sales flows for the first quarter of 2011 (most current data available) continued to show strength, with new sales of \$38.7 billion, a 23.2% increase over first quarter 2010 sales of \$31.4 billion. First quarter sales were also 4.3% higher than fourth quarter 2010 sales of \$37.1 billion. Assets under management posted another all time high of \$1.56 trillion, a 3.6% increase over year-end assets of \$1.50 trillion.

The top-selling companies did not change their rank, and market share continued to concentrate in the top companies. The number one and number two spots were Prudential and MetLife with market shares of 17.6% and 14.7%, respectively, versus 16.4% and 13.8% in the fourth quarter of 2010.

Just under one-third of variable annuity sales were sold by these two companies. Jackson National, the third-ranked VA issuer, grew its share of the market to 11.8% from 11.2%. New sales for the top 5 companies accounted for 58.9% of reported sales, up from 57.4% for the top 5 in the fourth quarter of

2010.

Second quarter 2011 contract updates

Hartford is back in the game with the Personal Retirement Manager II (A,B,C,I,L shares) and two new Lifetime GMWBs. The riders come in single-life and joint-life versions. The first offers a 6% step up and a 5% withdrawal for a 65-year-old and carries an 85 bps charge (Future6). The second offers a 5% step up and a 5% withdrawal for a 65-year-old and charges 125 bps (Future5). Hartford also added a GMAB with the standard 10-year waiting period for 110 bps.

Jackson National released a variety of living benefits and a credit enhancement. Two RMD-friendly GMWBs are available: a 5% withdrawal with a highest account value step up each quarter before withdrawals are taken (annual step up thereafter), and an identical 6% withdrawal benefit. Costs are 85 bps and 100 bps, respectively, charged against the benefit base. Jackson closed six old benefits to make room for the new ones. (AutoGuard5 and AutoGuard6).

Jackson released a Lifetime GMWB for its L-share contract that offers a 5% withdrawal for a 65-year-old with a highest anniversary value step up that includes bonus credits. There is also a death benefit component, and the contract has limited release. The fee is 115 bps. (Jackson Select Protector for Perspective II L-share).

John Hancock rolled out a new B-share VA contract with a 115 bps fee and a Lifetime GMWB rider. The living benefit has a 5% withdrawal percentage. Two types of step ups are applied if no withdrawal is taken: a highest anniversary value step up; or a 5% simple interest increase for 10 years (6% if 65-years or older). The 10-year step up period restarts and rolls forward until age 95 if a highest anniversary step-up occurs. The fee is 1% charged against the benefit base. (John Hancock Venture; Income Plus for Life 6.11)

Lincoln National activated a much-anticipated new long-term care benefit that pays a monthly amount for long-term care expenses and costs 0.87% to 1.71%, depending on options chosen (fee calculation is complicated). This benefit pays for long-term care expenses up to three-times the initial purchase amount (which must range from \$50,000 to \$400,000). Payments are offered monthly beginning after the first anniversary and are not taxable. The optional Growth feature (50 bps) gives the ability to increase the annual payment amount by capturing the investment gains (highest anniversary value) through age 76. The benefit is capped at \$1.6 million, covers a single life, and applies only to non-qualified assets. (Lincoln Long-Term Care Advantage)

Lincoln National also released a B-share contract that is 100% liquid and applies to rollover amounts transferred in from other Lincoln products. The contract carries a Lifetime GMWB, the i4Life hybrid income benefit, an annuitization option with minimum annuitization payments that change with inflation, and an enhanced death benefit. The contract fee is 105 bps. (ChoicePlus Rollover)

MetLife released a GMIB with a benefit base that can be annuitized on or after the 10th anniversary. Step ups continue up to age 91 and consist of a highest anniversary value step up; a fixed 6% step up; or alternatively, if the ratio of the RMD amount divided by the benefit base offers a greater percentage, then

that becomes the step up percentage. A unique “no lapse” feature offers a 5% annuitization payment rate, or 6% after age 70, if no withdrawals are made. A GMAB feature allows the owner to restore initial purchase payments, in which case the GMIB portion terminates (GMIB Max). MetLife also bumped up the step up amount on their GMIB Max benefit to 6% for the Series Xtra 6 contract.

Pacific Life released a new contract with a full suite of living and death benefits (GMIB, GMAB, GMWB, Lifetime GMWB and three death benefits). The fee is 110 bps fee (B-share) or 145 bps fee (L-share). (Pacific Journey Select).

Principal introduced a new B-share contract with a 125 bps charge, a Lifetime GMWB benefit and two types of death benefits (return of premium and highest anniversary value). The new Lifetime GMWB offers a 5% step up on the first two anniversaries and a 5.25% withdrawal rate for a 65-year-old (4.75% for joint life version). The rider fee is 73 bps. (Principal Lifetime Income Solutions) (Guaranteed Minimum Withdrawal Benefit)

Protective released a Lifetime GMWB with a different guarantee structure than usual. The guaranteed withdrawal amount is based on the account value. The withdrawal percentage is set at the time of election and increases each year. The withdrawal percentage ranges from 5.152% for a 60-year-old to 8.133% at age 80 based on the age of the older owner. (Joint-life version offers withdrawals ranging from 4.83% (age 60) to 7.88% (age 80) based on the younger joint owner.) For a 65-year old, the withdrawal is 5.406% (5.102% for joint life version). At the time of re-calculation each year, the withdrawal amount will not go down and will not go up more than 10%. It equals the greater of a) the withdrawal percentage applied to the current anniversary account value, or b) 90% of last year’s value, or c) the initial withdrawal amount. The fee is 100 bps or 110 bps if elected later. (Protective Income Manager)

Prudential released a new share class contract (O-share) specifically designed for Edward Jones. The fee structure pulls elements from both the A-share and B-share structure. The base contract fee is 85 bps. A sales charge is spread over 7 years, ranging from 15 bps to 70 bps based on breakpoints from \$50,000 to \$1 million. The contract offers a Lifetime GMWB and a Return of Premium death benefit. (Premier Retirement)

SunAmerica also created a new O-share for Edward Jones. The fee structure pulls elements from both the A-share and B-share structure. The base contract fee is 95 bps. A sales charge is spread over 7 years and assessed quarterly, ranging from 18 bps to 71 bps based on breakpoints from \$50,000 to \$1 million. The contract offers a Lifetime GMWB and Return of Premium and HAV death benefits. (Polaris Platinum O-Series)

Sun Life activated two new Lifetime GMWBs. The first offers a 5% withdrawal for a 65-year-old and the three standard step ups: highest anniversary value, a fixed 8% (simple) bump up annually for 10 (withdrawal free) years, or a 200% of purchase payments reset after the later of 10 years or age 70. The fee is 110 bps. (Sun Income Maximizer)

Sun Life’s second Lifetime GMWB released adds an innovative step up feature. The withdrawal for a 65-year-old starts lower at 4%, but an additional 2.5% is added to the benefit base each year during the

withdrawal period. The fee is 125 bps. (Sun Income Maximizer Plus)

Transamerica released a Lifetime GMWB benefit with a 5% withdrawal for a 65-year old. The rider offers a 5% simple step up or highest anniversary value. Fee percentage is based on the weighted average account value in each of three allocation models ranging in cost from 45% to 1.40%. (Retirement Income Choice 1.5)

The new **VALIC** Lifetime GMWB has an interesting two-tiered guaranteed withdrawal percent. For the IncomeLOCK Plus 6, a 65-year-old investor can take a first withdrawal of 6% (single life) that lasts until the account value reaches zero. Then the withdrawal percent drops to 4% for life. Over the first twelve years, the benefit offers the three standard step-up options in the usual “greatest of” structure: fixed percentage increase of 6%, highest anniversary value, or a deferred step up to 200% of purchase payments if the account is withdrawal-free after twelve years. A second version of the benefit offers a higher step up at 8%, with a lower withdrawal of 5.5% (single life), moving to 4% when the account value hits zero. (IncomeLOCK Plus 6; IncomeLOCK Plus 8)

Several firms closed contracts:

- John Hancock discontinued sales of three share classes of the AnnuityNote: A-, C-, and I-share. Integrity discontinued sales of the PinnaclePlus.
- Riversource discontinued sales of both the Innovations Select and the FlexChoice Select.
- Allstate closed the Retirement Access contract.
- MetLife closed the Series XC and XTRA Bonus shares and Class B.
- Minnesota Life closed an L-share and Protective closed a C-share.
- Security Benefit closed B-share and C-share contracts.