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## Morningstar issues quarterly VA survey

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By John McCarthy    Thu, Jun 26, 2014

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*Trends appearing in a slow quarter: A focus on 'investment-only' contracts, buybacks to reduce liabilities, and new living benefit structures that shift risk to the contract owner.*

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Product development activity was very slow during the first quarter of 2014. Carriers filed 33 annuity product changes compared to 61 product changes in the fourth quarter of 2013 and 97 in the first quarter last year. Despite the lower level of activity, we did see a wide variety of activity that continued the three main trends:

- A focus on “investment only” VA offerings
- Buybacks to restrict liability on the part of carriers
- New living benefit structures with fluctuating features tied to a market factor that shifts risk to the contract owner

Annuity product development continues to push toward features that are not solely focused on standard-issue living benefits. The “hybrid” annuity territory was further explored this quarter with the release of a deferring income annuity rider. In addition, a withdrawal benefit with baked-in exclusion ratio was presented to further enhance the tax-preferential treatment inside a VA.

The trend toward offloading risk from carriers to contract owners took the form of additional “floating” benefit features tied to interest rates, versus set rate that does not change.

Carriers continued to slowly enhance benefit levels for new business, with some carriers offer withdrawals for a 65 year old that reached 6%, a rate we have not seen for some time.

### **Q1 Product Changes**

In March 2014 AXA released an I-share version of the Investment Edge. The fee is 0.30%, and the contract offers 124 subaccounts in a variety of styles, including aggressive allocations. The contract carries an annuitization option (Income Edge) available on non-qualified contracts with a withdrawal percentage determined by the number of years remaining in the withdrawal period. The exclusion ratio is set at the time of the first withdrawal. There are no step ups.

Guardian released the Investor ProFreedom VA (B-share). The contract carries a unique income benefit at no charge that acts as a deferred income annuity, where the owner transfers funds into a payout option and receives a commitment for a deferred income intended to be turned on later. The contract offers 30 subaccounts, including some in alternative asset categories. Fee for the contract is 1.00% (B-share).

The Nationwide Lifetime Income Capture is a new lifetime withdrawal benefit costing 1.20% and offering a 5% withdrawal rate for a 65 year old (4.75% joint). Step ups include an HAV and an annual bump up based on the 10-year treasury rate, adjusted by the company for current conditions. This step up will always fall

between 4% and 10%.

Principal made a voluntary exchange offer as of 1/20/2014. For owners of the Investment Plus contract, those who hold the Investor Protector Plus benefit (or no GMWB at all) may terminate the old contract, and a new contract is issued with either the Principal Income Builder 3 or Principal Income Builder 10 (further restrictions apply).

Prudential released a new version of the Premier Retirement VA B-share, carrying the new HD Lifetime 3.0 guaranteed lifetime withdrawal benefit. The firm increased the withdrawal for the 65-69 age band from 4.5% to 5.0%. The spousal version also increased the withdrawal percent by 0.50% for the same age band. The spousal version offers a withdrawal percentage that is 0.50% lower for all age bands, with a 4.5% payout for a 65 year old. The surrender schedule was tweaked slightly, and fees and other main provisions stayed the same. The company files monthly rate sheets with current withdrawal percentages and step ups for newly issues benefits.

Prudential also updated its Defined Income Benefit rates. The Lifetime GMWB benefit guarantees lifetime withdrawals of the benefit base for the life of the owner with the withdrawal percentage determined by the owner's age at contract issue. At the start of Q1 the withdrawal percentages ranged from 3.50% for age 45 to 7.50% for ages 85+. On February 15, 2014, the withdrawal percentages moved to 3.40% for age 45 ranging up to 7.40% for ages 85+.

In March 2014, SunAmerica raised the withdrawal percentage for the 65+ age band from 5.0% to 5.2% (single) and from 4.5% to 4.7% (joint) on the Polaris Income Builder. (Note the name also changed from SunAmerica Income Builder to Polaris Income Builder).

Thrivent changed the fee options for their guaranteed lifetime withdrawal benefit. The number of fee structures went from three to two. In addition, the fees increased: the benefit fee when using a conservative allocation increased from 0.50% to 0.75%; the benefit fee when using a moderate allocation increased from 0.80% to 1.00%. The moderately aggressive option was dropped.

Transamerica raised the withdrawal percentage by 0.50% for its Living Benefit (a Lifetime GMWB) attached to the Retirement Income Plus contract. Current lifetime withdrawal rate for a 65 year old is 6.0% (single life) or 5.50% (joint life). The New York versions are 5.8% (single life) or 5.30% (joint life), and the company added an age band to the New York version to make it comparable to the national version.

## **Pipeline**

Forethought released the ForeRetirement II VA (B-, C-, and L-) shares. The contract offers two versions of a highest daily step up lifetime withdrawal benefit: one with a 6% step up and another with a 4% step up. Contract fees are 1.15% (B-share); 1.65% (C-share); and 1.60% (L-share). Forethought also released the ForeRetirement Foundation, which also offers two versions of a highest daily step up lifetime withdrawal benefit. Fees are 1.00% (B-share); 1.65% (C-share); and 1.60% (L-share) (which includes a 0.50% premium based sales charge).

Guardian released the Investor ProStrategies (I-share) and Investor ProFreedom (C-share). The contracts carry a unique income benefit at no charge that acts as a deferred income annuity, where the owner transfers funds into the payout option and receives a deferred income

amount intended to be turned on later. The contracts offers 30 subaccounts, including some in alternative asset categories. Fee for the contracts is 0.60% (I-share) and 1.70% (C-share).

In May, ING offered a special buy out for holders of their GMIB rider (called "MGIB Rider"). The offer automatically waives the 10-year waiting period on the benefit. In addition, for a sixty-day period starting in July, the company offers a one-time bump up to the benefit base (percentage to be determined) in exchange for surrendering the benefit and initiating annuitization payments based on the bumped up benefit base. The advantage to the contract holder is that benefits payments can start earlier. The down side is that the owner gives up potentially higher income later should the account value increase above the bumped up benefit base.

Nationwide released an L-share version of their Destination All American called the Gold 2.0 (Liquidity). The fee is 1.45% and the contract carries the existing suite of Nationwide living benefits. The contract offers 108 subaccounts, including alternatives.

Ohio National released the Oncore Lite III. The fee is 0.20% higher than the Lite II version and the surrender schedule was extended. Benefits and investment options remained the same.

Prudential released the Premier Investment VA (B- and C-shares). The contract carries an M&E fee (0.55% for B-share; 0.68% for C-share) as well as a premium-based sales fee of 0.55% charged quarterly against purchase payments. There are no living benefits, and the contract carries 50 subaccounts, including a host of alternative categories.

Prudential also updated its Defined Income Benefit withdrawal and step up rates. After May 15, 2014, the withdrawal percentages range from 3.25% for age 45 to 7.25% for ages 85+. The step up was also changed. On each day prior to beginning lifetime withdrawals, the benefit base is appreciated at a daily equivalent of 5.5% annually (down from 6%).