New VA Contracts from Smaller Issuers

By Editor Test *Wed, Jun 23, 2010*

After highlighting new VA contracts from big issuers last week, we now turn to four new products from second-tier or regional insurers, all of them with sturdy A-level strength ratings from Moody's, Fitch and Standard & Poor's.

Mary Beth Franklin, the well-known *Kiplinger's* retirement writer, mentioned to a group of journalists recently that she herself had bought a variable annuity with a living benefit recently. One of the reporters asked which company issued it. Ohio National, she said. It was just an honest answer, not necessarily an endorsement or recommendation.

This spring, Ohio National filed a prospectus for (and perhaps markets by now) one of the four relatively new contracts that RIJ highlights this week. Last week, during the first week of a two-week update on VAs and the VA market, we focused on new products from the biggest of the insurance companies. This week, we focus on four new products from second-tier or regional insurers, all of them with A-level strength ratings from Moody's, Fitch and Standard & Poor's.

CUNA Members VA III

This contract from CUNA Mutual (rate A, Excellent, by Best), which ranks 29th among the top-selling variable annuity issuers, offers two living benefits, a guaranteed minimum accumulation benefit (GMAB) and guaranteed lifetime withdrawal benefit (GLWB), along with a 3% annual deferral bonus.

Contract owners can choose to pay their annual rider fee as a percentage of their income base (currently 1.75%) or as a percentage of their account value (1.00%). Most living benefit fees are pegged to the income base, which is likely to become significantly higher than the account value, which withdrawals and fees substantially reduce over the life of the contract.

The GLWB rider allows a choice between an Income Now and an Income Later option. As the names imply, the Income Now option is intended for people who expect to take income soon, and the Income Later is for people who expect to wait several years. Both currently offer a deferral incentive of three percent (simple interest per year) for 10 years, but owners who elect Income Later can renew their incentive two years after a withdrawal. Those who elect Income Now cannot.

The age-related payout rates are more graduated than in most other income riders. Under the Income Now option, payouts start at 4.1% for the single coverage and 3.6% for joint coverage at age 55, and rise by one-tenth of a percentage point for up to 30 years.

Under the Income Later option, the age bands for single coverage are 3% for ages 50 to 54, 3.75% for ages 55 to 60, 4% for ages 61 to 64, 4.5% for ages 65 to 69, 55 for ages 70 to 74, 5.25% for ages 75 to 79, and 5.5% for ages 80+. The payouts are 50 basis points per year less for joint contracts.

The contract also offers an optional premium credit. A purchase payment credit of 4% is available for premiums under $250,000, 5% for up to $500,000, and 6% for $500,000 or more. The first-year surrender charge is 8%, for both the B and L. The M&E fee, plus the administration fee, is 1.30% for the B share, 1.75% for the B share with the premium credit, and 1.80% for the L share.

Fund operating fees range from 74 bps to 154 bps, and there are investment restrictions for contract owners who elect either a living benefit. For instance, GMAB clients must keep 50% of their assets in a bond account and GLWB clients must keep up to 40% in a bond fund, depending on how much freedom they want to invest the rest of the money as aggressively as they wish.

Guardian Investor Variable Annuity L Series

Like CUNA, Guardian (rate A++, Superior, by Best) is a mutual insurer. In the first quarter of 2010, it ranked 25th in variable annuity sales, with a modest $170.8 million in premiums. Its Investor L Series, however, has features as big and as eye-catching as the contracts offered by top-sellers like Prudential and Jackson National. The minimum initial premium is $10,000 for non-qualified money and $2,000 for qualified.

For instance, under the Target 200 and Target 300 GLWB options, there’s a 7% rollup that promises to double your income base after a 10-year wait and triple it after a 15-year wait. The Target 300 isn’t available in New York State. Alternately, there’s a Target Future (7% rollup, year by year) and a Target Now program that allows contract owners to step up the value of their income base to their account value, if higher, on each contract anniversary.

The payout rates are 3% a year for those age 59 and younger, 4% for those ages 60 to 64, 4.5% for those ages 65 to 69, 5% for those ages 70 to 79, and 6% for those age 80 or older.

The contract isn’t cheap. The M&E plus the administration fee is 1.65% a year, and the GLWB options currently costs 65 basis points (for Target Now), 75 basis points (for Target Future) 95 basis points (for Target 200) and 1.20% (for Target 300). The spousal options are 10 to 40 basis points higher.

The fund fees range from 36 to 168 basis points. Funds include offering by Alger Capital, BlackRock Global Investors, Columbia, Davis, Evergreen, Fidelity, Franklin, Invesco, Templeton, MFS, Oppenheimer, PIMCO, Pioneer, RiverSource, RS Investment, Van Kampen, and Value Line.

Ohio National Life OnCore Series

Annuityfyi.com, a website that markets annuities direct to consumers, currently rates the Ohio National GLWB as its “top pick.” The reason: Ohio National (rated A+, Superior, from Best) increases the minimum income base by 8% (simple interest) for every year in which no withdrawal is taken, and promises that the income base will be at least double the initial investment after 10 years.

The contract, not surprisingly, is low on liquidity, with a nine-year surrender period starting at 9% for the B share. The minimum initial investment is $5,000. During the accumulation phase, a step-up to the account value on a contract anniversary automatically restarts the waiting period for a fresh 10 years.

The payout rates are 4% from age 59½ to 64, 5% from 65 to 79, and 6% for those 80 and over. During the income phase, if the account steps up in value after the client enters a new age bracket, he or she can graduate to the next higher payout rate.

Fund fees range from 36 basis points to a maximum of 6.87%. According to the prospectus, the highest fund fees occur only if the fund companies rescind fee waivers currently in effect. Fund companies include Ohio National, AIM, ALPS, Dow Target, Dreyfus, Federated Insurance, Fidelity Franklin Templeton, Ivy Funds, Janus Aspen, Legg Mason, Dreyfus, Lazard, Morgan Stanley, Neuberger Berman, PIMCO, Prudential, and Royce.

The M&E charge and account expense charge together are 1.40% for the B-share product, and 1.70% for the bonus product. The current GLWB fee is 95 basis points (105 joint). The fee for the annual step-up benefit alone is 25 basis points. As an alternative to a GLWB, for 55 basis points a year, Ohio National will guarantee the principal value for 10 years.

For GLWB, the contract owner must invest in the middle three of five allocation models—Moderately Conservative, Balanced, and Moderate Growth, which all have pre-set allocations. There’s a 4% credit on the first $250,000 in premium, and a 5% credit for any amount of premium above $250,000. If more than $250,000 in premium is paid in the first year, the entire premium receives a 5% credit.

Integrity Life (Western & Southern) VAROOM

If you’re looking for a variable annuity that offers all exchange-traded funds as its investment subaccounts, this yet-to-be-approved $25,000-minimum contract from Integrity Life, a unit of Western & Southern Financial Group (rated A+, Superior, by Best), may be the ticket. Here’s the list of ETF options, by category:

Equity Subaccounts

iShares® S&P 500 Index Fund

iShares® S&P 500 Growth Index Fund

iShares® S&P 500 Value Index Fund

iShares® S&P MidCap 400 Index Fund

iShares® S&P SmallCap 600 Index Fund

Vanguard® Dividend Appreciation Index Fund, ETF Shares

Vanguard® Large-Cap Index Fund, ETF Shares

Vanguard® Mega Cap 300 Index Fund, ETF Shares

Fixed Income Subaccounts

iShares® Barclays Aggregate Bond Fund

iShares® Barclays Intermediate Credit Bond Fund

iShares® Barclays TIPS Bond Fund

iShares® iBoxx $ High Yield Corporate Bond Fund

Vanguard® Intermediate-Term Corporate Bond Index Fund, ETF Shares

Vanguard® Total Bond Market Index Fund, ETF Shares

Vanguard® Variable Insurance Fund Money Market Portfolio

International and Alternative Subaccounts

iShares® S&P/Citigroup International Treasury Bond Fund

Vanguard® Emerging Markets Stock Index Fund, ETF Shares

Vanguard® Tax-Managed International Fund, Europe Pacific ETF Shares

Vanguard® REIT Index Fund, ETF Shares

ETF fees range from only 9 basis points for the S&P 500 Index to 50 basis points for a high yield bond fund. The contract, which has a five-year surrender period with a 7% maximum charge, has a combined M&E and administration charge of 1.75%, two GLWB options, and payout age-bands of 4% for those ages 60 to 64, 4.5% for ages 65 to 69, 5% for ages 70 to 74, and 5.5% for ages 75 and older. The payouts in a joint contract are based on the age of the younger spouse.

There are two GLWB options, one for 60 basis points and one for 80 basis points, depending on how much investment freedom the contract owner or the advisor wants. The extra 20 basis points apparently gets you access to a REIT ETF and an emerging markets equity ETF. The charge is the same for single and joint contracts, but the payout in a joint contract is only 90% of the payout of a single.

Here’s something a bit unusual. Rather than a roll-up, Integrity Life offers to increase the payout rate by 10 basis points for each full calendar year that the contract owner doesn’t take a withdrawal during the accumulation stage. During the first year, there’s a 75 basis point addition to the payout rate if the contract is purchased in the first quarter of the calendar year.