No surrender penalty on Jackson National’s new advisory FIA

By Kerry Pechter *Thu, Mar 29, 2018*

The MarketProtector's IncomeAccelerator living benefit ratchets up the client's annual withdrawal rate for each year when no withdrawals are taken.

Jackson National Life, the 2017 leader in overall annuity sales ($18.39 billion) and variable annuity sales ($17.46 billion), has launched a new fixed indexed annuity (FIA) with an income benefit in both commission-based versions.

The two versions of the product are MarketProtector, for use by commissioned agents and brokers, and MarketProtector Advisory, for investment advisor representatives at Registered Investment Advisors (RIAs). The no-commission version of the contract has no surrender charge period, which should appeal to RIAs.

There are two all-equity index options: the S&P500, which contains domestic large-cap stocks, and the MSCI-EAFE, which includes European and Asian stocks. The crediting options are annual reset point-to-point and annual reset point-to-point performance trigger (which performs best in flat, but not negative, one-year periods).

The product’s lifetime income rider, IncomeAccelerator, might be its most interesting feature. Most living benefit riders incentivize contract owners to delay withdrawals by raising the value of the notional “benefit base.” IncomeAccelerator ratchets up the client’s annual withdrawal percentage each year until the client turns on the guaranteed income stream (for up to 15 years or to the client’s 85th birthday, whichever comes first).

Historically, owners of living benefit riders have struggled to understand how they work. They often confuse their account values and their notional benefit bases. Many mistakenly believe—and are sometimes encouraged to believe—that an annual increase (“roll-up”) in their benefit base means an increase in their available balance.

Income Accelerator can be added after purchase or dropped after purchase, allowing clients to change their minds about how they’ll use the product. If they bought the benefit and don’t plan to use it, they can stop paying for it.

“The way we’ve designed it, a client and advisor can add or subtract the living benefit rider at any time,” said Marilynn Scherer, vice president, fixed product management, at Jackson. Clients also have the flexibility to take withdrawals during the deferral period and not lose their deferral bonus. The income rider, which currently costs 1.05% a year for the single life version and 1.20% for the joint life version, is available only on the seven-year and 10-year versions of the product.

"In other products, or in earlier versions of other products, withdrawing even an incidental amount would lock you into a payout rate," Scherer said. "But with this product, you can take an incidental withdrawal, and in future years your payout percentage could go up again."

In 2009, Jackson was among the top five sellers of FIAs according to Sheryl Moore, publisher of Wink's Sales & Markets Report, which includes FIA sales. Between 1998 and the end of 2016, it was the eighth largest seller of FIAs, with cumulative sales during that period of $18.9 billion. In 2017, it ranked 20th, with FIA sales of $584.7 million.

"Unlike some of our competitors, we haven't jumped onto certain product features—like the hybrid indices," Scherer told *RIJ*. "We've stayed with conventional FIA products. That's why we dropped in the rankings in the last few years.

"Early on, we decided to file our FIA materials with FINRA, and we abide by FINRA rules," she added. "So we couldn't illustrate any product that didn't have a sufficient number of years of performance. We also heard from some of our broker-dealers that they wanted to use indices that people could look up in their newspapers."

Moore believes that eliminating the surrender charge from the advisor version of the product could spark demand for FIAs in the RIA channel. "The first fee-based indexed annuity launched less than 25 months ago and already there are 20 different products available from 10 different companies. I consistently receive feedback [from RIAs] that they are disappointed in the offerings because of the surrender charges on the annuities," she told *RIJ*. All of the commission-based versions (5, 7 and 10-year terms) have a first-year surrender charge of 9%.

"If that is [the RIAs'] only hangup [about FIAs], MarketProtector Advisory may be a game changer," she said. "Fee-based indexed annuity sales accounted for just 0.42% of 4Q2017 sales, but this could open that up in a big way."

Getting rid of the surrender charge was part of Jackson's strategy. "The first few carriers who offered advisory FIAs had traditional descending surrender periods. It look like they had been built on a commissioned product chassis. The more recent ones have a flat 2% surrender fee. We wondered if we should follow suit," Scherer said.

"But our actuarial team said we might not need a withdrawal charge at all. They were comfortable that the market value adjustment would cover [the risk of disintermediation]. Also, since this is advisory money, it's likely to be sticky anyway. Nobody would jump from advisor to advisor to chase performance.

"I could imagine a number of way to use the product. Sheryl Moore's data shows that the average FIA purchase age is 63. Some people might buy the product at that age and turn on income immediately. It would be easy for them to calculate what their income stream is going to be.

"But if you use the deferral credits and get maximum value out of the product, I could see people deferring for five or seven years. They might buy it at age 60 and defer until age 65. Or buy it at 65 and defer until it's time to take required minimum distributions. That's when most people start thinking about taking income."