
Now We Are 6: Prudential's HD7 VA is Now HD6

By Editor Test Tue, Aug 25, 2009

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The insurer's action corresponds to the "de-risking" measures that other issuers of variable annuity guaranteed lifetime income riders have taken since the financial crisis last year to make their living benefits less rich and easier to hedge.

Prudential's Highest Daily Lifetime 6 Plus variable annuity—like the HD5 and HD7 versions that preceded it—is unusual. Every day during the accumulation period the contract's Protected Withdrawal Value (PWV) increases at an annualized rate of six percent or by the amount the account value has increased, whichever is larger.

As a result, the guaranteed amount is never lower than the account value, as it can be in VA contracts where the guaranteed amount "steps up" to the account value only on specific dates, such as contract anniversaries.

The PWV is the notional amount on which the contract owner's annual payouts (at a rate of 4% to 6% per year, depending on the owner's age when income starts) are based during the annuity's income phase. Unless the owner takes withdrawals from the contract, the PWV can never be lower than the purchase premium, even if poor market performance drives down the account value.

The HD6 guarantee doesn't necessarily mean that the PWV will always equal the high water mark of the S&P 500 Index; it will simply never be less than the highest account value. If the equity market goes down sharply, Prudential automatically moves account assets to an investment grade bond account, so that the allocation becomes more conservative.

That process, called dynamic rebalancing, dampens returns on the upside but buffers losses on the downside. According to Prudential, dynamic rebalancing reduced the Highest Daily Lifetime Plus contract owners' average paper losses during the crisis to less than 20%, compared to the losses of 30% or more suffered by many VA portfolios.

Of those who bought Prudential variable annuities in the second quarter of 2009, 90% elected a living benefit rider with either single or joint coverage, the company said. Total account values of Prudential VA

contracts with guaranteed withdrawal benefits at mid-year 2009 for life were \$23.2 billion.

To help investors learn more about its products, Prudential Annuities also announced a new website, www.retirementredzone.com/protect, which features a seven-minute educational video, simple navigation, and consumer-friendly language about HD Lifetime 6 Plus.

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