Prices Rise, Benefits Shrink for America's Most Popular VA

By Editor Test *Wed, Dec 8, 2010*

For the second time since the financial crisis, Prudential has reduced the richness of the living benefit riders on its popular Highest Daily series of variable annuities.

Prudential Annuities will scale back the benefits of three of the guaranteed lifetime withdrawal benefits on its industry-leading variable annuity contracts, according to SEC filings yesterday by its insurance units, PRUCO Life and PRUCO Life of New Jersey. The change is effective January 24, 2011.

Insurers are not permitted to comment on new filings prior to SEC approval.

Prudential is the top seller of variable annuities in the U.S., with $15.55 billion in sales through the first three quarters of 2010. It is the only VA issuer that uses the CPPI method of risk management, which automatically reallocates account assets to a safe investment when equities markets fall. (See this week's cover story.)

The riders in question are the Highest Daily Lifetime Income Benefit (formerly the Highest Daily Lifetime 6), its joint-and-survivor version, the Spousal Highest Daily Lifetime Income Benefit, and the version called Highest Daily Lifetime Income Benefit with Lifetime Income Accelerator, which doubles the lifetime withdrawal payout if the owner requires certain types of long-term care (not available in New York).

The new filing put the cost of the Lifetime Income riders, single and joint, at 95 basis points, up from 85 bps, with an allowed maximum of 1.50%, to be levied on the greater of the account value or the benefit base. On the Advisor version of the contract, which has a combined mortality and expense risk and administrative fee of only 55 bps (leaving room for an advisors 1% or 1.5% fee), the current cost of the contract and rider would rise to 1.50% from 1.40%. The expense ratios of the investment options under the existing contract ranged from 0.62% to 2.59%. The cost of the accelerated version will rise to 1.30% from 1.20%.

Assuming an average investment charge of 1.50%, the sum of all the charges, including a 1% advisor's fee, could easily reach 4% a year or more on a product that yields a guaranteed annual income of, in most cases, 5% of the benefit base.

After January 24, 2011, the payout rates at various age bands will be 3% (for those ages 45 to 54), 4% (for those 55 to 59½), 5% (for those 59½ to 84), and 6% (for those over 84). In each band, the spousal version of the product pays out a half-percent less per year. For most people who choose to begin taking guaranteed payments in their 60s and 70s, the payout rate was and will remain 5%.

Prudential will also stop discontinue new sales of two Guaranteed Minimum Accumulation Benefit (GMAB) riders, GRO Plus II and Highest Daily GRO, on January 24.

The annual compounding rollup on all versions of the GLWB rider will be just 5%–down from the previous

6%, which was reduced after the financial crisis. The product’s original pre-crisis, “arm’s race” era rollup was 7%. The rider promises that the benefit base of the contract will rise every business day at an annual rate of 5%, or to the daily account value, if higher.

The contract promises that the benefit base will at least double in 12 years, as long as no non-permitted withdrawals are taken. In the past, the benefit base could double in 10 years and quadruple in 20 years. The 20-year quadrupling guarantee has been eliminated.

As an example, an investor who put $100,000 into the Prudential HD Lifetime Income VA at age 55 and didn’t touch the money until he or she reached age 67, could then draw $10,000 a year for life (5% of two times $100,000).

Under the previous iteration of the contract, he or she could have taken out at least $10,000 a year starting at age 65 and at least $20,000 a year starting at age 75, provided he or she hadn’t taken any unapproved withdrawals before then.