Prudential adds an accumulation VA

By Editorial Staff *Wed, Apr 30, 2014*

The new Premier Investment VA contract will be offered in B-shares and no-surrender-period C shares, with insurance charges of 110 and 135 basis points, respectively. Contract owners can choose among three levels of guidance, from prepared portfolios to pure self-management.

Prudential Annuities, a unit of Prudential Financial, is the latest variable annuity issuer—Jackson National and Jefferson National paved the way—to introduce an accumulation-stage variable annuity that has no living benefit.

The product, called Prudential Premier Investment VA, is designed for tax-deferred growth rather than retirement income. This is how most VAs were designed and marketed before the advent of living benefits in the late 1990s and early 2000s.

Prudential has curtailed sales of its contracts with the Highest Daily living benefit. After selling almost $20 billion worth of that product in 2012, Prudential sold $11.4 billion in 2013, and fell from second place to sixth place in the VA sales rankings, according to Morningstar.

The new product is positioned as a hedge against potentially rising taxes. "An estimated 77% of Americans will have paid more taxes in 2013 than they did in the previous tax year," said Bruce Ferris, president of Prudential Annuities Distributors, in a statement. "Prudential Premier Investment fills a market need by helping investors more efficiently manage their taxes and grow their wealth."

The new VA contract will be offered in B-shares and no-surrender-period C shares. The insurance charge for the B series contract, which has a seven-year, 7% maximum surrender period, is 110 basis points per year (55 basis points for a premium-based insurance charge and 55 basis for an account value-based insurance charge). For the C series, the insurance cost is 135 basis points (67 basis points for the premium-based insurance charge and 68 basis points for the account value-based insurance charge). The contract has an optional return of purchase payments death benefit.

Contract owners can use either a "managed," "guided," or "customized" investment approach. The managed approach allows the investor to choose from among eight pre-built portfolios. In the guided approach, Prudential provides the asset allocations for five portfolios, ranging from conservative to aggressive, but the investor picks the specific portfolios. The customized option gives the investor free rein in choosing investment options.

The investment options include portfolios advised or sub-advised by: AQR, BlackRock, ClearBridge, Cohen & Steers, Franklin Templeton, Goldman Sachs, Herndon, Jennison, Loomis-Sayles, Lord Abbett, MFS, Neuberger Berman, PIMCO, QMA, T. Rowe Price, Western Asset Management and others. Portfolio operating expense ratios range from 59 basis points a year for the money market portfolio to 148 basis points a year for one of the asset allocation portfolios.

In one of the collateral documents on the new contract, a disclosure warns prospective policyholders about the potential consequences of investing in portfolios that owners of Prudential's Highest Daily variable annuities with lifetime income riders might also be investing in. Some of the same portfolios are offered to purchasers of both types of contracts.

The disclosure said that because of the dynamic asset allocation formula that Prudential uses to manage risks in its contracts with lifetime income riders:

> "the operation of the formula… may result in large-scale asset flows into and out of the underlying Portfolios through a series of transfers. In addition to increasing the Portfolios' expenses, the asset flows may adversely affect performance by (i) requiring the Portfolios to purchase or sell securities at inopportune times; (ii) otherwise limiting the sub-adviser's ability to fully implement the Portfolios' investment strategies; or (iii) requiring the Portfolios to hold a larger portion of their assets in highly liquid securities that they otherwise would hold."

Prudential advised owners of the new Premier Investment variable annuities to "consider the impact the formula will have on each Portfolio's risk profile, expenses and performance" and to "work with your financial professional to determine which Portfolios are appropriate for you."