Retirement Income
JOURNAL

Prudential, Edward Jones in VA distribution deal

By Editor Test *Wed, May 4, 2011*

Prudential has created a cost structure for its top-selling VA that satisfies the broker's client-focus. At left, Merry Mosbacher of Edward Jones.

Starting this week, the 12,000 fee-based advisors at Edward Jones can begin selling a low-cost version—the broker/dealer calls it an “O” share—of Prudential’s popular Premier variable annuity with the Highest Daily lifetime income option.

The agreement greatly expands the distribution reach of Prudential’s VA and gives Edward Jones’ independent advisors the option of offering their clients the nation’s top-selling VA product on a fee-based, rather than a commissioned basis.

In that respect, the agreement represents the ongoing adaptation of variable annuities to the independent advisory world and toward a lower, more client-friendly, cost structure. The product has a seven-year surrender period, and a separate fee, based on the size of the premium, may be assessed for seven years, according to Prudential.

The Prudential Highest Daily GLWB option, with an annual fee of 95 basis points, offers a 5% annual roll-up in the benefit base, a minimum 200%-of-premium benefit base for those who defer income for 12 years, and a 5% annual payout for individuals starting at age 59½.

The HD option manages Prudential’s risk exposure in part by an automatic mechanism that moves client assets out of equities and into bonds when equity values fall. For more information see RIJ’s December 22, 2010 story, “Why Prudential Sells the Most VAs.”

The new version of the Prudential product, called Prudential Premier Retirement, has only 13 asset allocation models as investment options instead of the 16 available on the B share, said Bruce Ferris, senior vice president, Prudential Annuities.

“There were certain models that Edward Jones did not feel were complementary to their buy-and-hold philosophy. They weren’t necessarily the riskiest ones,” he said, adding that the product won’t be sold exclusively by Edward Jones. “That’s to be determined,” Ferris said. “There are a number of other broker-dealers who are hoping to see how it works out at Edward Jones.”

Merry Mosbacher, principal, Insurance Marketing, at Edward Jones, said that Prudential’s VA now joins those of Hartford, John Hancock, Lincoln Financial, Pacific Life, Protective and SunAmerica on Edward Jones’ platform.

“Kudos to Prudential’s actuaries for helping develop this price structure,” she said. “This structure enables the advisors to optimize how the Highest Daily mechanism works.”

In the past, Edward Jones had sold primarily A share VAs, which have front-end loads and low ongoing insurance charges. But Prudential has never manufactured an A share product, in part because under that structure a clients' account value would start out below the HD benefit base.

The account would therefore be less likely, at least at first, to post new high-water marks and capture the value of market growth. The new Prudential product has the low ongoing charges of an A share—the mortality and expense risk ratio starts at 85 basis points a year. But, as in a B share VA, no sales charge is deducted from the purchase premium.

As Edward Jones' Tim Burke, vice president, Insurance Solutions, explained at the IRI Marketing conference in February, the independent broker-dealer wanted a low-cost VA that would suit its advisors' fee-based compensation structure.

In 2010, Prudential sold $21.7 billion worth of variable annuities, according to LIMRA, or a market share of about 15%. MetLife sold $18.3 billion, Jackson National Life sold $14.7 billion, TIAA-CREF sold $13.9 billion (group variable annuities) and Lincoln Financial sold $9.0 billion.