
Prudential Enters DIA Space with All-Bond VA

By Editor Test Thu, Feb 28, 2013

"The annuity space is book-ended at one end by the SPIA, and at the other end by the VA with a guaranteed lifetime income benefit. Our new product resides somewhere in the middle," says Bruce Ferris (left) of Prudential Annuities.

Having noticed the success that other life insurers have had in selling deferred income annuities (DIAs), Prudential Annuities has rolled out a new offering designed to compete in that product category.

The new product is a variable annuity with a living benefit called [Prudential Defined Income](#). It invests all client assets in a long-duration bond fund, held in a separate account, and offers an annual compound 5.5% roll-up in the benefit base for every year the client delays taking an income stream.

For instance, a 65-year-old man could invest \$100,000 and begin taking an annual lifetime income of \$8,540 ten years later. That amount is based on a 5% payout rate for a 65-year-old and an income base of \$170,814 (\$100,000 compounded at 5.5% for 10 years.)

That payout rate is much less than the payout rate from the leading deferred income annuity, New York Life's Guaranteed Future Income product. According to New York Life, it would allow a single man who invested \$100,000 at age 65 to take an income of more than \$12,000 at age 75.

The Prudential product offers more liquidity, however. Subject to a surrender fee (for seven years, starting at 7%), the Prudential investor could access the money in his account. The New York Life investor could not access his money during the deferral period. His beneficiaries would receive a cash refund, however, if he died during the deferral period. A refund of unpaid principal is also paid at death.

The Prudential product offers a return of premium death benefit (net of withdrawals and fees) during the deferral period and a return of the remaining account value, if any, if death occurs after income payments begin.

Prudential's deferred income offering is available to policyowners ages 45 to 85, and requires at least a \$25,000 premium. All assets are invested in the AST Long Duration Bond Portfolio. The income benefit and the roll-up are not optional; they are part of the contract. The policyholder cannot drop the benefit.

The all-in annual costs are 2.74%, including a mortality and expense risk fee of 95 basis points, investment fees of 84 basis points, a Defined Income benefit charge of 80 basis points and an administrative fee of 15 basis points.

Advisors and potential investors should take note that the payout rate from the Prudential Defined Income annuity is based on the client's age when he or she purchases the contract, not when he or she begins taking income. The payout rates of most variable annuities with living benefits are typically based on the age at which income is first taken.

Bruce Ferris, senior vice president of sales and distribution for Prudential Annuities, said this practice gives the company a better idea of what its future liability will be—even though it cannot know exactly when each client will begin taking income.

“One of the difficulties in designing variable annuities is that we’re still in the early stages of understanding client behavior or behavioral finance, regarding when they will take income or restart income. This helps us significantly in pricing a product that allows for a higher level of initial income than our Highest Daily Lifetime Income rider, but without the opportunity of the Highest Daily feature,” Ferris told RIJ.

“The annuity space is book-ended at one end by the single premium immediate annuity, which offers the highest level of initial income, and at the other end by the variable annuity with a guaranteed lifetime income benefit, which offers upside opportunity. Our new product resides somewhere in the middle. We wanted to combine the features and benefits of both,” he added.

“[New York Life, Guardian Life] have become leaders in the deferred income annuity space, which was once called ‘longevity insurance,’ and they’ve brought out products with terrific market appeal. [With Prudential Defined Income] we’re bringing another version of that.”

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