Prudential (finally) joins structured variable annuity race

By Editorial Staff *Thu, May 21, 2020*

Prudential offers FlexGuard, its first entry into the 10-year-old indexed VA market. The contract offers a new twist on the 'step rate' crediting strategy. Also this week, AIG added a new index to its Power Series of fixed indexed annuities.

Prudential Financial has jumped into the fastest-growing segment of the beleaguered annuity market—the $17.4 billion market for structured variable annuities–by issuing its first registered index-lined annuity contract, called **FlexGuard**.

The contract, announced this week, has been issued as a B-share variable annuity (with a six-year surrender period with a 7% withdrawal penalty in the first year) and will be marketed through broker-dealers. A no-commission (I-share) version for fee-based advisers will be issued later this year, Prudential said. The product is registered with the SEC, so a prospectus is available. For a current rate sheet, click **here**.

In January 2018, Prudential issued its first fixed index annuity (FIA), called **PruSecure**. But the Federal Reserve’s easing policy, which started last August and accelerated with the COVID-19 crisis, brought lower interests and lower bond yields. That hurts the ability of life insurers to offer attractive potential crediting rates on FIAs.

“We accelerated our product launch [of FlexGuard] because of the interest rate environment,” Dianne Bogoian, vice president of product development at Prudential Annuities, told *RIJ* this week. “We have a number of brokerage firms approved to sell FlexGuard, and we’re rapidly expanding that list.”

The indexed/structured variable annuity product has generally found a Goldilocks spot in the market for accumulation-stage, risk-managed investment products. It offers more downside protection than a typical variable annuity and more upside potential than a typical FIA or other fixed income investment. As an insurance product, it also offers tax-deferred growth. While this product type is not designed to produce income, a contract owner can convert the assets to a retirement income stream.

With structured variable annuities, as with fixed indexed annuities (FIAs), the life insurance company typically invests the client’s premium in its general account and uses part of the income to buy options or other derivatives on the movement of an equity index such as the S&P 500 Index, an exchange-traded fund (ETF), or a customized benchmark.

Structured variable annuities have steadily grown in popularity over the past decade, since AXA (now Equitable) introduced the first one in 2010. They are not as sensitive to interest rate movements as FIAs; the recent drop in rates has reduced their potential yields. Issuers can also offer higher potential yields on structured variable annuities because the contract owners bear a limited risk of loss–either up to a "floor" or beyond a "buffer."

Sales of structured variable annuities (also called Registered Index-Linked Annuities or RILAs) jumped 55% in 2019 over 2018, to $17.4 billion, according to the **LIMRA Secure Retirement Institute**. That's far below 2019 sales of FIAs ($73.5 billion). But in the fourth quarter of 2019, FIA sales were down 13% from the fourth quarter of 2018 while RILA sales were up 39% over that span of time.

FlexGuard offers three crediting strategies: A point-to-point cap rate strategy that can work like a typical FIA; a "Tiered" Participation Rate strategy, and a Step Rate Plus strategy. Returns can be linked either to the S&P 500 Index or the MSCI-EAFE, which holds shares in companies in 21 developed countries outside the U.S. and Canada.

Point to point with a cap strategy. The investor can get the index return up to a cap over a crediting period of either one year, three years or six years. As for downside protection, the investor can choose to accept all loss beyond 10% over a one-year or three-year term, or zero loss over one year (with the S&P 500 Index only). Those who choose a three-year term can elect a buffer of 10% or 20%. Those who choose a six-year term 20% buffer, which means they accept net losses beyond the first 20%.

Tiered Participation Rate strategy. This strategy is for people willing to commit their money for the maximum six-year term. The investor earns 100% of the index return up to a cap (20%, for example) and 130% of any gain above the cap. If the index rose 80% in six years, the investor would get 20% plus 78% (1.3 x 60%) for a total of 98% over six years. The product has a 10% buffer.

Step Rate Plus strategy. In this strategy, available only with a one-year term, the investor earns a "step" rate (6%, for instance) if the index gain is positive but equal to or less than the step rate. If the gain exceeds the step rate, the investor earns ("participates in") 90% of the total gain.

Unlike smaller annuity issuers, which buy the options for their FIAs and structured variable annuities from investment banks, Prudential creates its hedging strategies in-house, with help from financial engineers at Prudential Global Investment Management (PGIM).

Prudential's fee-based **MyRock** variable annuity added a new "Dynamic Income Benefit" in April 2020 and an expanded fund lineup earlier in the year. "It provides greater market upside income potential, investment control and flexibility, lower cost compared to most other variable annuity income benefits, and the ability to carry over unused income from one year to the next," a Prudential release said.

AIG adds new index to its Power Series FIAs

AIG Life & Retirement, a division of American International Group, Inc., has added the new Legg Mason Quality Dividend Index, which was developed exclusively for The Power Series of index annuities, from AIG member company American General Life Insurance Company. It will be distributed primarily through independent broker-dealers, banks and other financial institutions.

The Legg Mason Quality Dividend Index holds mainly high-quality dividend-paying stocks. It uses a "rules-based process to dynamically allocate between high dividend-paying stocks, stocks with high levels of price stability, and cash," according to an AIG release. The allocation among stocks is adjusted monthly. Cash positions are managed daily.

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