Prudential launches new SPIA

By Editorial Staff *Fri, May 16, 2014*

'This launch is reflective of a broader strategy of growth through diversification. We want a broader, complementary solution-set that fits the company's capital deployment strategy,' said Bruce Ferris, president of Prudential Annuity Distributors.

As part of a broad effort to diversify its risk exposure away from the equity markets and issue products that tie up less capital, Prudential Annuities has introduced a single-premium immediate annuity (SPIA) with an optional cash refund feature and a one-time option to access future payments in a lump sum (under the life with period certain income option).

"We've had SPIA products for many years, but this is an updated version," said Bruce Ferris, president, Prudential Annuity Distributors, in an interview with *RIJ* this week. "We had a SPIA that hadn't been refreshed in terms of administration or marketing for many years, and it wasn't available on Cannex, where most SPIAs are illustrated and quoted. [Getting the product on Cannex] was part of our motivation for reissuing the product."

From an enterprise risk perspective, SPIA sales also have the potential to help balance Prudential's heavy weighting toward equity-linked products. "This launch is reflective of a broader strategy of growth through diversification. We want a broader, complementary solution-set that fits the company's capital deployment strategy," Ferris said.

"A SPIA is an asset-liability matching product. The behavioral risks associated with it are much lower than with the variable annuity, for several reasons. The contract owner is giving up access to the money, and the company doesn't need to try to predict when the contract owner might draw income."

Prudential managers have said in the past that as a stock company Prudential Financial has to deliver profits that excite shareholders—the types of profits that are more likely to come from selling equity-linked products. SPIA and the relatively new Prudential bond-based deferred income product don't deliver those types of returns, but they do help diversify risk. Although new sales of Prudential variable annuities with living benefits have declined steeply from their peak, the VA book of business still delivers huge revenues, thanks to fees that are linked to the booming equity values of the subaccounts in its existing contracts.

Whether Prudential is now selling bond-linked products *instead of*, as opposed to *alongside*, equity-linked products, Ferris could not say. But he noted, "We're taking a different approach from competitors. Some of our competitors seek success by controlling supply. We seek success by managing risk. That's why you see diversified products from us—the SPIA, the Prudential Defined Income product, our traditional variable annuity with a living benefit, and our investment-only variable annuity, which is intended to be a tax-deferred accumulation vehicle."