Prudential launches new version of Highest Daily GLWB

By Kerry Pechter *Wed, Feb 12, 2014*

In the latest iteration of Prudential's Highest Daily guaranteed lifetime withdrawal rider, contract owners must put 10% of premium into a fixed-rate fund. Like its predecessors, this version of the rider employs an automatic modified CPPI risk management system.

Prudential Annuities has launched a new version of its Highest Daily variable annuity optional living benefit. The new rider represents another de-risking move: the 5% roll-up will be subject to change for new business, 1o% of premium must go into a fixed return account and owners will have to wait until age 85 to get a 6% guaranteed withdrawal rate.

The new rider, HD v3.0, which is available on Prudential Premier Retirement Variable Annuities, replaces the previous v2.1 iteration of the Highest Daily rider. The differentiating feature of the HD rider is that it locks in a new guaranteed benefit base on any day when the account value exceeds the current benefit base and reaches a new high water mark.

Prudential's VA is also unusual in that it uses a modified version of a risk management strategy called "constant proportion portfolio insurance," or CPPI, which automatically shifts money to bonds from stocks when equity markets decline, and vice-versa.

The prospectus describes this as "a proprietary mathematical formula that monitors an investor's account daily and automatically transfers amounts between the chosen variable investment portfolios and the AST Investment Grade Bond Portfolio."

On this version of the rider, the current annual roll-up of the benefit base is 5% for the first 10 years or until the first withdrawal (whichever comes first). In a release Prudential said it will retain the flexibility to "change the roll-up rate and/or the withdrawal percentages for new contracts in response to market conditions."

The current withdrawal percentages for sole contract owners range from 3% (for contract owners aged 50 to 54) to 6% (for contract owners ages 85 and older). The withdrawal percentage for those ages 65 to 84 is 5%.

Regarding investment restrictions, contract owners must allocate 10% of each purchase premium to a fixed-rate "secure value" account. Prudential has also added two new asset allocation portfolio options: the AST T. Rowe Price Growth Opportunities Portfolio, an 85/15 (equity/bond) model, and the AST FI Pyramis Quantitative Portfolio, a 65/35 (equity/bond) model. There are now 22 asset allocation portfolios.

The B share of the contract has a seven-year surrender period with an initial surrender charge of 7%, a mortality and expense risk charge of 1.30% and an administrative charge of 0.15%. The minimum initial purchase premium for the B share is just $1,000.

The L share of the contract has a four-year surrender period with an initial surrender charge of 7%, a mortality and expense risk charge of 1.75% and an administrative charge of 0.15%. The minimum initial purchase premium for the L share is $10,000.

The HD v3.0 rider has a current charge of 1.00% a year (1.10% for joint contracts) without the HD death benefit. With the HD death benefit, the charges are 50 basis points greater. Portfolio expenses range from a low of 58 basis points to a high of 177 basis points.

According to the prospectus, the permitted subaccounts for those who choose the HD v3.0 rider include:

AST Academic Strategies Asset Allocation

AST Advanced Strategies

AST Balanced Asset Allocation

AST BlackRock Global Strategies

AST BlackRock iShares ETF

AST Capital Growth Asset Allocation

AST Defensive Asset Allocation

AST FI Pyramis Asset Allocation

AST FI Pyramis Quantitative

AST Franklin Templeton Founding Funds Plus

AST Goldman Sachs Multi-Asset

AST J.P. Morgan Global Thematic

AST J.P. Morgan Strategic Opportunities

AST New Discovery Asset Allocation

AST Preservation Asset Allocation

AST Prudential Growth Allocation

AST RCM World Trends

AST Schroders Global Tactical

AST Schroders Multi-Asset World Strategies

AST T. Rowe Price Asset Allocation

AST T. Rowe Price Growth Opportunities

AST Wellington Management Hedged Equity

In addition, the prospectus said, “There are two types of MVA Options available under each Annuity – the Long-Term MVA Options and the DCA MVA Options. If you elect an optional living benefit, only the DCA MVA Option will be available to you. In brief, under the Long-Term MVA Options, you earn interest over a multi-year time period that you have selected… Currently, the Guarantee Periods we offer are 3 years, 5 years, 7 years, and 10 years… Under the DCA MVA Options, you earn interest over a 6 month or 12 month period while your Account Value in that option is systematically transferred monthly to the Sub-accounts you have designated.”