Retirement Income
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Prudential plays the ‘index card’

By Editorial Staff *Thu, Feb 1, 2018*

The PruSecure fixed indexed annuity offers one-, three-, and five-year index term options. Initial cap rates provide “up to a 32% return” based on the chosen index, credit term, and surrender period.

Prudential Annuities, best known for its huge $161 billion book of variable annuity business, became an issuer of fixed indexed annuities for the first time this week with the announcement of **PruSecure** single-premium fixed indexed annuity (FIA) for accumulation, not retirement income, purposes.

Prudential is going after money on the sidelines, as FIA issuers characteristically do. The announcement noted that “investors fearful of down-market loss now hold $12 trillion in cash, CD and money market positions that offer little growth opportunity.” FIAs are also inexpensive for carriers to issue, since they present less risk and require less reserve capital than variable annuities.

In PruSecure FIA, earned interest can be linked to the performance of the S&P 500, MSCI EAFE, Dow Jones U.S. Real Estate Index or Bloomberg Commodity Index. PruSecure offers one-, three-, and five-year index term options. Initial cap rates provide “up to a 32% return” based on the chosen index, credit term, and surrender period.

The 32% figure refers to the cap on the interest that can be earned on a five-year term contract linked to the MSCI EAFE Index with a purchase premium of $100,000 or more, according to the latest rate **chart**.

7-Year Surrender Charge Period

Investment Amount – $25,000 to $99,999

Index-Based Strategies	I-Year Term Caps	3-Year Term Caps	5-Year Term Caps	Fixed Rate Strategy	Interest Rate
S&P 500® Index	4.80%	14.50%	24.50%	One-Year Fixed Rate Account	1.45%
MSCI EAFE Index	4.40%	14.75%	25.50%		
Dow Jones® U.S. Real Estate Index	4.85%	18.00%	N/A		
Bloomberg Commodity℠ Index	3.50%	11.50%	N/A		

Investment Amount – $100,000 or more

Index-Based Strategies	I-Year Term Caps	3-Year Term Caps	5-Year Term Caps	Fixed Rate Strategy	Interest Rate
S&P 500® Index	5.50%	17.00%	30.00%	One-Year Fixed Rate Account	1.75%
MSCI EAFE Index	5.00%	17.50%	32.00%		
Dow Jones® U.S. Real Estate Index	5.55%	25.00%	N/A		
Bloomberg Commodity℠ Index	4.25%	14.00%	N/A		

5-Year Surrender Charge Period

Investment Amount – $25,000 to $99,999

Index-Based Strategies	I-Year Term Caps	3-Year Term Caps	5-Year Term Caps	Fixed Rate Strategy	Interest Rate
S&P 500® Index	4.55%	13.75%	23.50%	One-Year Fixed Rate Account	1.45%
MSCI EAFE Index	4.25%	14.25%	25.00%		
Dow Jones® U.S. Real Estate Index	4.75%	17.50%	N/A		
Bloomberg Commodity℠ Index	3.45%	11.25%	N/A		

Investment Amount – $100,000 or more

Index-Based Strategies	I-Year Term Caps	3-Year Term Caps	5-Year Term Caps	Fixed Rate Strategy	Interest Rate
S&P 500® Index	5.15%	16.50%	29.00%	One-Year Fixed Rate Account	1.75%
MSCI EAFE Index	4.90%	17.00%	31.50%		
Dow Jones® U.S. Real Estate Index	5.40%	24.25%	N/A		
Bloomberg Commodity℠ Index	4.20%	13.75%	N/A		

Clients can mix and match indexes and crediting terms. Surviving beneficiaries will receive the current account value plus a portion of any growth earned before the end of the crediting term. There’s a single crediting strategy—point to point—for simplicity of understanding. There’s a choice of either a five-year or seven-year surrender period.

The fixed indexed annuity market has been dominated by Allianz Life, which currently accounts for about 15% of the market. Nationwide, Athene USA, American Equity Companies, and Great American Insurance

Group are the closest followers, in that order, according to Wink.

In the past, the big publicly-held domestic life insurance companies, such as Prudential, MetLife and Lincoln Financial, have focused on the variable annuity market, which traditionally involved the broker-dealer distribution channel, rather than the FIA market, which for a long time involved primarily the independent agent channel.

But as FIAs have become more mainstream, both for manufacturers and distributors, they have attracted a wider range of issuers and distributors. Although the DOL fiduciary rule, in its original Obama administration form, could make it more complicated for fiduciary intermediaries to sell FIAs, that aspect of the rule is currently under review by the Trump administration.

FIA tend to sell well in low interest rate environments because their indirect exposure to the equity markets, through investments in equity index options, gives them more potential return than certificates of deposit. They also appeal to investors who want to reduce but not entirely eliminate their equity exposure. In short, they appeal to people who might otherwise just hold cash.

“Many investors remember the 2008 financial crisis and continue to be concerned about market risk,” said Dianne Bogoian, head of product for Prudential Annuities. “Fixed-indexed annuities like PruSecure offer downside protection plus upside opportunity—you don’t have to choose one or the other.”