
Prudential updates 'Highest Daily' living benefit

By Editor Test *Wed, Jan 26, 2011*

Prudential is reducing the size of the roll-up guaranteed by its top-selling Highest Daily Lifetime variable annuity rider to 5% per year until the first withdrawal from 6% per year.

In a risk-reduction move that was first announced early last December, Prudential is reducing the size of the roll-up guaranteed by its top-selling Highest Daily Lifetime variable annuity rider to 5% per year until the first withdrawal from 6% per year.

Prudential was the largest seller of variable annuities through the first three quarters of 2010, with \$15.55 billion in total sales.

On future sales, a new Highest Daily Lifetime and a Spousal Highest Daily Lifetime rider will replace the existing Highest Daily Lifetime 6. Under the rider, the benefit base—the notional amount on which the future annual payouts will be calculated—ratchets up at an annualized compounded rate of 5% every business day or grows with the account value, whichever is greater.

The benefit base grows as long as withdrawals are deferred, and the benefit base is guaranteed to double after 12 years if withdrawals are deferred for that time. After income payments begin, at the rate of 2.6% to 6% per year depending on the age of first withdrawal.

The mortality and expense risk fee for Prudential variable annuities ranges from 55 to 185 basis points, depending on the share class. The HD lifetime income rider is available for an additional 95 basis points. Investment management fees are extra.

Prudential controls the downside risk of the product by automatically re-allocating assets out of equities and into an investment grade bond portfolio when equity prices fall. This method, a form of Constant Proportion Portfolio Insurance, tends to limit losses during bear markets but may also prevent the account value from reaching new high-water marks during a recovery.

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