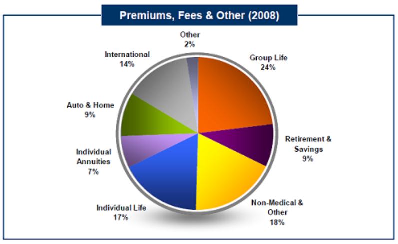
Retirement Income
JOURNAL

Rollups are Back in Style

By Kerry Pechter *Mon, Apr 9, 2012*

Guardian Life and Protective Life have both filed prospectuses for variable annuities with 10-year/100% deferral bonuses.



MetLife's Diverse & Complementary Businesses

It's a simple, direct value proposition that can make it easier for advisors to sell an admittedly complex product: Put $100,000 into a variable annuity today and take out at least $10,000 a year for life after 10 years. At least two forthcoming VA contracts offer this feature, which seems to be making a post-Crisis comeback.

Guardian Life, a mutual insurer, and Protective Life, a publicly held company, are both seeking approval from the Securities & Exchange Commission for variable annuity contracts with living benefit riders that apply annual rollups or deferral bonuses to the benefit base.

Guardian Investor II

The Guardian Investor II VA offers four riders in its Target series:

- Target 200, which provides a 7% minimum annual increase in the value of the benefit base for years when no withdrawal is taken, to 200% after 10 years.
- Target 250, which promises a 250% benefit base after 15 years.
- Target Future, which offers a 7% simple increase in the benefit base.
- Target Now, which offers no rollup.

The annual fees for the riders are 130 basis points (155 bps for joint) for Target 250; 115 bps (140) for Target 200; 105 bps (130 bps) for Target Future; and 95 bps (105 bps) for Target Now.

All of the Target riders offer optional quarterly step-ups in the benefit base if the account value reaches a new high water mark. Exercise of a quarterly step-up option increases the annual rider fee by 50 bps. The mortality & expense risk fee is 115 bps annually, but it can go as high as 250 bps a year for a single policy and 350 bps for a joint contract.

Guaranteed withdrawals for a single life contract range are 3% of the benefit base at age 59 or earlier, 4% at ages 60 through 64, 5% for ages 65 through 79, and 6% for withdrawals that begin at age 80 or later.

Investment restrictions do apply. Contract owners who select a guaranteed lifetime withdrawal benefit rider (GLWB) must invest their money in one of four asset allocation models of varying risk levels, ranging from 80% equities to 40% equities.

Guardian Investor II Variable Annuity is available in B or L share, with an 8% surrendering charge declining to zero after six years (B share) or after three years (L share).

Guardian sold $1.127 billion worth of variable annuities in 2011, up from $767.3 million in 2010. The company moved from 25th to 20th on the VA sales chart, according to Morningstar.

Protective Life Variable Annuity

A prospectus filed by Birmingham, Alabama-based Protective Life in February also offers a double-your-money-in-10-years rollup, called SecurePay R72. It raises the benefit base by 7.2% a year during the first 10 years of the contract. If the contract owner takes a withdrawal during those years, the roll-up is calculated based on a proportionately smaller benefit base.

There's also a SecurePay option that has annual step-ups but no roll-up, and an Income Manager payout option that distributes a certain percentage of the account value every year, with the goal of distributing the assets by age 95. If there's no money left at age 95, the contract owner, if still living, gets a life annuity with a 10-year period certain. The contract also offers a RightTime option that allows contract owners to opt into the SecurePay rider after the issuance of the contract. For certain medical conditions or for nursing home care, the payout rate—5% for a single contract and 4.5% for a joint contract—can accelerate.

The contract comes in a B share, L share, and C share (no surrender period), whose mortality & expense risk and administrative fees are 130 bps, 165 bps, and 175 bps, respectively. The SecurePay rider costs 60 bps, the SecurePay R72 rider costs 100 bps. The insurer reserves the right to double those fees if a series of step-ups are exercised. The RightTime option costs an extra 10 bps per year, but its cost can rise to 20 bps.

To manage its equity market exposure, Protective adds three risk-mitigation wrinkles to the product. The investment restrictions call for a bond fund allocation of 35% to 100% of premium, a large-cap stock fund allocation of 0% to 65%, and a maximum allocation of 30% to small-cap stocks, mid-cap stocks, international equities and real estate investment trusts.

If a severe bear market comes along and reduces the account value to less than 50% of the benefit base, Protective retains the right to suspend the SecurePay R72 roll-up. There's also an "Allocation Adjustment Program" that allows the insurer to move money from stocks to bonds or cash if the value of the stock funds drops sufficiently.

Protective sold $2.385 billion worth of variable annuities in 2011. The company's stock price (NYSE: PL) has almost doubled since bottoming out at less than $15 last fall.