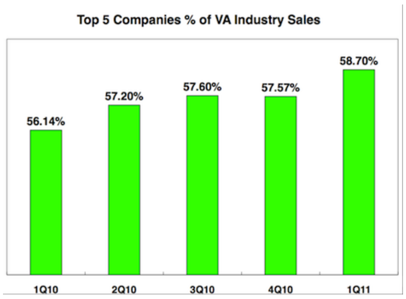
Summer Cliffhangers in the VA Soap Opera

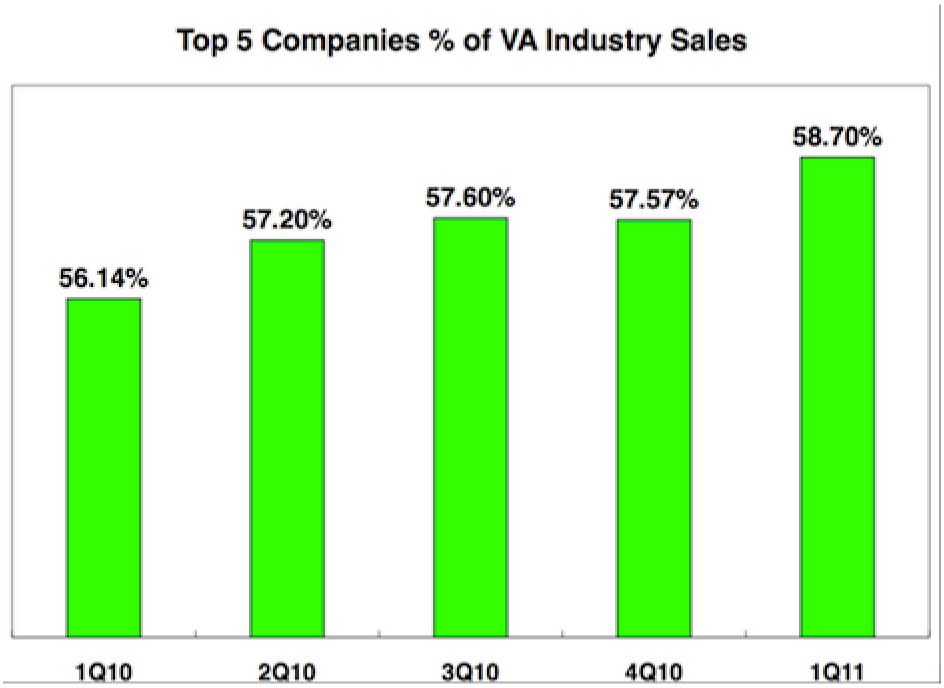
By Editor Test *Tue, Jul 12, 2011*

Mr. McDonnell publishes Soleares Research, a website devoted to variable annuity industry news. Here's his take on the latest trends in VA contracts.



Once second-quarter variable annuity sales data are released some weeks from now, I think the numbers will reveal some movement in the industry rankings, caused by product moves among leading insurers. Moreover, other initiatives, still in the pipeline, will influence how the leader board looks over the remainder of the year.

VA deposits are already concentrated among the top players and I expect that phenomenon to continue. The chart below shows the growing market share that the "big five"—**Prudential Financial**, **MetLife**, **Jackson National**, **TIAA-CREF**, and **Lincoln Financial**—amassed over the past five quarters.



Guaranteed living benefits are acknowledged as the main drivers of industry sales. A recent survey by actuarial firm **Milliman Inc.** revealed that, of 18 sampled companies, on average, 95% of VA purchasers elected a living benefit if one was available with their contracts. Many companies are likely experiencing this kind of high "take rate."

Starting last year (and well into 2011), a number of insurers also began to engage in “selective re-risking” to help spur their sales. This involved increasing the generosity of their benefits while adding elements to hedge certain risks, whether related to the equity markets, interest rates, or volatility.

This May, **MetLife** introduced **GMIB Max**, which sports a 6% annual rollup to its benefit base but requires the owner to invest in an abbreviated lineup of sub-accounts (all of which have a risk-management hook, particularly related to volatility). The company’s **GMIB Plus III**, on the other hand, has a rollup of only 5% but allows more investment options. The two GMIBs share an attractive feature: they allow the owner to withdraw the greater of the applicable base rollup or any Required Minimum Distribution (RMD) on a dollar-for-dollar basis. In addition, if the RMD is taken from another tax-deferred source, its value (if greater than the rollup) will be added to the GMIB base.

Other insurers have been building living benefits with similar trade-offs. **Hartford**, on June 13, rolled out two new lifetime withdrawal benefits that will be sold side by side: **Future5** has a 5% base rollup and a relatively broad set of fund options, while **Future6** has a 6% rollup but more sub-account restrictions, including monthly re-balancing of client assets. (See today’s cover story.)

Anecdotally, MetLife’s latest riders have sold exceptionally well, as the release of its Q2 sales results may show. The fact that **Prudential** and **Jackson National** have been taking de-risking measures could have given MetLife and others a competitive advantage.

Prudential re-worked its flagship living benefit in January, issuing a version called **Highest Daily Lifetime Income**, whose annual base rollup is 5%, a reduction from the 6% on the prior version. Prudential garnered “fire sales” into the **HD Lifetime Six** rider before it went off the market; in fact, the company drew in deposits of over $6.1 billion in 4Q10 and a bit more than $6.8 billion in 1Q11. We believe the latter figure to be an historical industry record for VA sales by a company in a single quarter.

For its part, Jackson National’s parent, British-based **Prudential Plc**, announced in May that it intends to purposely slow its VA sales in the U.S. through a combination of product modifications and pricing increases. We have already seen a few such changes. Even so, the insurer has only just started to de-risk; some of its changes are not scheduled to go into effect until August.

Just a few weeks ago, MetLife filed new income benefits with the SEC: **GMIB Plus IV** and **GMIB Max II**, with accompanying enhanced death benefits. Notably, many important elements of the contracts were missing in the SEC filings, their places held by the bracketed words: “to be filed by amendment.”

Among the items bracketed were the base rollup rates, dollar-for-dollar withdrawal amounts, details on ratchets of benefit bases to account value, enhanced annuity payout rates, launch dates, and pricing. The new optional death benefits, **Enhanced Death Benefit III** and **Enhanced Death Benefit Max II,** will no longer be available on a stand-alone basis. They must be teamed with their complementary GMIBs.

So, like a soap opera, the story of the VA space includes quite a few concurrent plot lines, and plenty of outstanding questions remain. Which way will MetLife go with its new benefits? Did Prudential’s sales fade in Q2, or will it retain the No. 1 spot in the standings? How will Jackson National’s cool-down plans be received? Can The Hartford spark a rebound with its new features? It will be interesting to see how these stories play out.

Steven D. McDonnell has analyzed and written about the variable annuity marketplace for over 10 years, first as a reporter for Annuity Market News*, then as the first editor of* **Annuity Insight.com***, a service of research firm* ***Strategic Insight, LLC****. In 2006 he founded* ***Soleares Research LLC****, which publishes a weekly report on VA product issues. His readership includes major insurance companies, asset managers, actuarial firms and analysts.*