The Bucket

By Editorial Staff *Thu, Nov 11, 2010*

Late-breaking items about Financial Engines, Jackson National Life, Nationwide Retirement Plans, Allianz Life of North America, Pershing, Penn Mutual Life, American Equity Investment Life, Genworth Financial, ING, Wolters Kluwer, New York Life, Fidelity and Securian . . .

Financial Engines Reports 3Q 2010 Results

Financial Engines, the provider of investment management and advice to employees in retirement plans, today reported financial results for its third quarter ended September 30, 2010.

"Financial Engines increased its assets under management by 45% and our revenue by 31% year over year," said Jeff Maggioncalda, president and CEO of the Palo Alto-based, NASDAQ-listed company. "When we started the business fourteen years ago, we bet on the long-term trends of demographics and the growing importance of the 401(k), and these trends continue to fuel our growth."

Financial results for the third quarter of 2010 compared to the third quarter of 2009:

- Revenue increased 31% to $28.8 million for the third quarter of 2010 from $22.0 million for the third quarter of 2009
- Professional Management revenue increased 46% to $19.9 million for the third quarter of 2010 from $13.6 million for the third quarter of 2009
- Net income was $53.4 million, or $1.15 per diluted share, for the third quarter of 2010, due in part to an income tax benefit of $49.9 million, compared to net income of $2.1 million, or $0.06 per diluted share, for the third quarter of 2009

- Non-GAAP Adjusted Net Income increased 57% to $4.7 million for the third quarter of 2010 from $3.0 million for the third quarter of 2009
- Non-GAAP Adjusted Earnings Per Share were $0.10 for the third quarter of 2010 compared to $0.07 for the third quarter of 2009
- Non-GAAP Adjusted EBITDA increased 27% to $7.1 million for the third quarter of 2010 from $5.6 million for the third quarter of 2009

Key operating metrics as of September 30, 2010:

- Assets under contract ("AUC") were $344 billion
- Assets under management ("AUM") were $34 billion
- Members in Professional Management were 463,000
- Asset enrollment rates for companies where services have been available for 26 months or more averaged 11.9%

Jackson National Sets VA Sales Record

Jackson National Life recorded more variable annuity sales during the first nine months of 2010 than during any previous full-year reporting period, generating $10.5 billion in premium or 57% more than in the same period in 2009. Total sales and deposits were $14.3 billion during the first nine months of 2010, up 37% over the same period last year.

Jackson, an indirect wholly owned subsidiary of Britain's Prudential plc, increased its share of the VA market to 10.5% during the first half of 2010 (according to the latest industry data available), up from 6.2% during the same period of the prior year.

In the second quarter of 2010, Jackson's Perspective II was the top-selling individual retail VA contract for the third consecutive quarter, with sales of $1.88 billion—the highest quarterly retail sales ever recorded for a single contract. Jackson's VA asset growth of 45.2% was the highest increase in the industry from June 30, 2009 to June 30, 2010.

To preserve capital, Jackson continues to manage fixed index and fixed annuities, although low interest rates have dampened demand for those products. Jackson sold $1.3 billion in fixed index annuities (FIAs) during the first nine months of 2010, compared to $1.6 billion during the same period in 2009. Sales of traditional deferred fixed annuities totaled $1.0 billion, versus $1.3 billion during the first nine months of 2009.

Despite these results, Jackson increased its FIA market share from 5.5% during the first half of 2009 to 6% during the first half of 2010, and its traditional deferred fixed annuity market share from 2.3% during the first half of 2009 to 3.1% during the first half of 2010.

Curian Capital, Jackson's separately managed accounts subsidiary, collected record deposits of nearly $1.5 billion during the first nine months of 2010, up 91% over the same period of the prior year. As of September 30, 2010, Curian's assets under management (AUM) were $4.8 billion, up from nearly $3.6 billion at the end of 2009.

In 2010, Jackson added two new optional lifetime guaranteed minimum withdrawal benefits (GMWBs) to its VA products. LifeGuard Freedom 6 Net GMWB, introduced in May, allows investors to offset their tax liability by increasing their available withdrawal amounts. The LifeGuard Freedom Flex GMWB, introduced in October, allows investors to customize their benefit. Jackson added American Funds and BlackRock funds to its VA investment options in 2010.

As of September 30, Jackson National was rated A+ (superior) by A.M. Best, AA (very strong) by Standard & Poor's, AA (very strong) by Fitch and A1 (good) by Moody's.

Strong 3Q Annuity Sales at Allianz Life

Allianz Life Insurance Company of North America reported premium of $2.9 billion for the third quarter of 2010, a 63% year-over-year increase, and growth of 11% over last quarter’s strong sales.

For the quarter, fixed index annuity sales were $1.9 billion of premium, up 36% from the third quarter of last year. Variable annuity sales exceeded expectations, the company said, with premium of $800 million, up 275% above the third quarter of 2009.

The company posted operating profit of $57 million for its third quarter 2010, down from the second quarter due to the poor market environment and low interest rates. Total assets under management grew to $85 billion, up from $75 billion a year ago.

“Annuity sales are on the rise, and innovations such as inflation protection and increasing income options are making them extremely attractive, which, combined with a strong distribution network, is driving our top line results,” CEO Gary C. Bhojwani said.

Pershing Platform Adds Janus and PacLife Funds

Pershing LLC, a unit of BNY Mellon, has added Janus Funds and Pacific Life Funds to FundVest, its no-transaction-fee mutual fund platform. Those funds are now available to clients of Pershing’s introducing broker-dealer customers and to clients of independent registered investment advisors who use Pershing Advisor Solutions LLC. FundVest offers over 3,700 load and no-load mutual funds from more than 230 fund companies without regular transaction fees.

Penn Mutual Launches Inflation-Sensitive VA

Penn Mutual Life Insurance Company, based in Horsham, Pa., has launched the *Inflation Protector* variable annuity, whose living benefit rider provides contract owners with an income base that increases with the Consumer Price Index (CPI-U) or market performance (whichever is greater) annually in both the deferral and withdrawal phases.

The product features two withdrawal options, life or 20 years certain. Single and joint coverage is available. Withdrawal percentages can be as high as 6% depending on the age of the annuitant and how long the contract has been in force at the time of the first living benefit withdrawal.

Nationwide Enriches Online Participant Education

Nationwide Retirement Plans now offers an “On Your Side” Interactive Retirement Planner to help participants and plan advisors establish savings goals, track progress, and project “what if” scenarios.

The tool has ambitious goals. According to a release from Nationwide, it allows participants to take an “in-depth look at their retirement situation” and helps improve their “unique retirement outlook—all in about 10 minutes.”

In addition to the new retirement planner, Nationwide Retirement Plans has enhanced its home page, where participants can assess investment options, learn about investing and link to the new Interactive Retirement Planner. Nationwide also introduced a new Rollover Center, where participants can learn about IRAs and rollover options, compare traditional and Roth IRAs and talk with a financial professional.

American Equity Earns $27.6 Million in 3Q 2010

American Equity Investment Life Holding Company, a leading underwriter of index and fixed rate annuities, reported 2010 third quarter operating income of $27.6 million, or $0.45 per diluted common share, a 2% decrease compared to 2009 third quarter operating income of $28.2 million, or $0.47 per common diluted share.

Highlights for the third quarter of 2010 and the first nine months of 2010 include:

- “A-“ (Excellent) rating from A.M. Best
- Risked based capital ratio (RBC) of approximately 363%.
- Net income for the third quarter of 2010 was $20.5 million, compared to a net loss of $3.0 million for the same period in 2009.

- 12% annuity sales increase, to $3.1 billion, for the first nine months of 2010 compared to $2.8 billion for the same period in 2009.
- 15% increase in invested assets at September 30, 2010, to $18.5 billion, compared to $16.1 billion a year earlier.
- Investment spread on annuity liabilities was 3.09% for the third quarter of 2010 compared to 3.13% for the same period in 2009.
- Book value per share including accumulated other comprehensive income of increased to $18.03 compared to $13.08 at December 31, 2009.

“Sales of new annuities reached record levels during the third quarter of 2010 with average monthly sales volumes exceeding $400 million per month. The increase in the pace of sales reflects continued high demand for safe money products as a result of market volatility as well as the relatively lower rates available on competing products such as bank certificates of deposit. In addition, rate reductions by competitors helped drive a higher volume of sales to American Equity,” the company said in a release.

“Finally, the demise of Securities and Exchange Commission Rule 151A has lifted an impediment to sales caused by the uncertainty surrounding the impact of that Rule on the index annuity market.”

Genworth Announces $250 Million Repayment

Genworth Financial, Inc., announced that it has repaid $250 million of outstanding borrowings under its five-year revolving credit facilities, paying $125 million of outstanding borrowings under each of the two facilities. Following such repayments, the company has approximately $240 million of borrowings outstanding under each of these facilities, totaling $480 million. These facilities expire in May and August of 2012.

ING Plans IPOs to Pay Back Dutch Bailout

ING, the Dutch financial services company, is planning separate initial public offerings of its U.S. and European insurance businesses to satisfy regulators' demands for divestitures, Ifa.com reported. The IPOs are "most likely" in 2012, said ING CEO Jan H.M. Hommen, but could happen late next year.

Hommen said the company was making "good progress" toward creating stand-alone insurance and banking companies, and that while a single IPO remained a possibility, the company was preparing for a "base case" of two for the insurance units.

One would be a "Europe-led I.P.O. with solid cash flow combined with strong growth positions in developing markets." The other would be a "separate U.S.-focused I.P.O. with a leading franchise in retirement services."

Under pressure from the European competition authorities, ING agreed last October to separate its insurance and banking businesses in exchange for its 2008 bailout by the Dutch government, which gave ING €10 billion, or $14 billion, and took on most of the risk on its U.S. real estate portfolio. The regulators had worried that the government aid gave ING an unfair advantage over rivals.

A banking analyst at SNS Securities in Amsterdam estimated the book value of ING's insurance portfolio at about €21 billion. The proceeds of the sale of the insurance business would help pay the company's remaining €7.5 billion debt to the Dutch government. Shares of ING rose 2.9 percent in Amsterdam afternoon trading.

ING, based in Amsterdam, reported that third-quarter profit declined 26% percent from a year earlier, to €371 million, or $511 million, as it wrote down the goodwill on the U.S. insurance business by €513 million. Without the writedown, it said, underlying profit rose 43% to €1 billion. Goodwill represents the excess of an asset's purchase price over its fair market value.

Financial Reform Not Dead in 112th Congress: Wolters Kluwer

The Republican triumphs in the mid-term elections will shift the agenda for financial regulation in the

112th Congress, but reform isn't dead-on-arrival, according to Wolters Kluwer, a provider of CCH and Aspen information and software solutions.

""Financial reform will most certainly shift priorities in the 112th Congress, but it will continue. "There is a growing bipartisan consensus for certain areas of reform, including issues related to reform of government-sponsored enterprises such as Fannie Mae and Freddie Mac… and reform of the Public Company Accounting Oversight Board," said Wolters Kluwer Law & Business Principal Securities Law Analyst James Hamilton, a lead analyst for Wolters Kluwer Law & Business' Dodd-Frank Wall Street Reform and Consumer Protection Act: Law, Explanation and Analysis.

In late July, the House Financial Services Committee reported out the U.S. Covered Bond Act, HR 5823. It has bipartisan support, having been cosponsored by Rep. Spencer Bachus (R-AL) and Rep. Paul Kanjorski (D-PA).

Bachus, who is slated to become the chairman of the House Financial Services Committee, recently outlined the principles for draft legislation to reform the secondary mortgage market, with a covered bond market as an integral part of the effort. Among the provisions included in this legislation are:

- Sunset over a four-year period the current government-sponsored enterprises (GSE) conservatorship and wind down the federal subsidies granted through their charters;
- Introduce full transparency and accountability to the secondary market;
- Reduce leverage by phasing in, over four years, capital requirements that are consistent with global standards for large, complex financial institutions; and
- Create a regulatory safe-harbor for mortgages that meet underwriting standards consistent with the Federal Reserve Board's final Home Owner's Equity Protection Act (HOEPA) rule.

"The safe-harbor provision is designed to encourage the return of private capital to the mortgage finance market by giving investors transparency and confidence that the loans they purchase meet appropriate underwriting standards, including the ability to repay and the integrity of the documentation," said Hamilton. The Dodd-Frank Wall Street Reform and Consumer Protection Act, which establishes only a limited safe harbor from legal liability.

A centerpiece of the Bachus reform legislation is the establishment of a regulatory framework for a U.S. covered bond market, Hamilton said. A covered bond is a form of debt issued by a financial institution where a specific set of high quality assets, typically loans, are set aside into a pool for the benefit of the bondholders. The issuers of covered bonds are responsible to their bondholders for the risk posed by the underlying loan pool.

"Covered bonds are a source of private mortgage market financing which have worked well in many European countries, and they are used as a private market solution to the need for market participants to have skin in the game," said Hamilton.

Another piece of legislation that appears to be bipartisan involves the reform of Public Company Accounting Oversight Board (PCAOB) procedures. PCAOB Acting Chair Dan Goelzer has asked for legislation amending Sarbanes-Oxley so that Board disciplinary hearings against individual auditors and accounting firms will be public.

No ‘Lost Decade’ for Diligent Savers: Fidelity

Pre-retiree participants who steadily contributed to a 401(k) plan with Fidelity for the past 10 years more than doubled their account balances in that time, Fidelity Investments reported.

The average account balance for these pre-retirees, aged 55 years or older, rose to $211,300 by the end of the third quarter of this year from $96,000 ten years ago. Pre-retirees with a contribution rate at or above 8% this year showed average balances increasing more than 130 percent over the past 10 years to $291,700, from $125,600.

“The past decade was certainly not a lost decade for participants who remained committed to saving even through all of the market’s ups and downs,” said James M. MacDonald, president, Workplace Investing, Fidelity Investments.

The same group of pre-retirees had a 10-year, average cumulative time-weighted personal rate of return (PRR) of 18.3%, while the S&P 500 returned a negative 4.2%.

Chapman Named Chief Risk Officer at Securian

Leslie Chapman, vice president and chief actuary, Securian Financial Group, was appointed chief risk officer by the board of directors in October.

Chapman oversaw the five-year, multifaceted development of Securian’s enterprise risk management (ERM) program, which all Securian business units and financial management departments use.

A graduate of Moorhead State University, Moorhead, Minn., Chapman joined Securian in 1976 as an actuarial trainee. She has held increasingly responsible positions in several areas of the company, including taxation, rating agency relations, and risk management.

New York Life Reports Strong Third Quarter

New York Life Insurance Company, the largest mutual life insurer in the U.S., today announced strong gains in sales of life insurance, income annuities, long-term care insurance and mutual funds through the first nine months of 2010.

The market share leader in fixed immediate annuities, New York Life reported record sales of $1.3 billion in the first nine months of 2010. This represents an increase of 4% over the same period last year led by strong sales through New York Life agents and third party distribution channels.

“We’re on pace to achieve a seventh consecutive year of record sales of lifetime income annuities,” said Chris Blunt, executive vice president in charge of Retirement Income Security.

Sales of New York Life’s mutual funds (MainStay Funds) are up 43%, totaling more than $7 billion in the first nine months of the year, with strong performances from third party channels accounting for approximately $6 billion of the total.

Individual life insurance sales increased 47% through September, compared to the previous all-time record for sales in the first nine months of 2009. This growth is being driven by agents, with life insurance sales through the company’s 11,500-member national field force up 34% over the same 2009 period.

The company’s sales of long-term care insurance are up 10% over last year. New York Life reported earlier this year that for the sixth consecutive year, it will pay a dividend to its LTC*Select* Premier long-term care insurance policyholders.