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## The Secret to MetLife's VA Success

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By Editor Test      Wed, Aug 31, 2011

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*MetLife was able to knock off Prudential as the top seller of variable annuities in the second quarter because it de-risked its income benefit in a way that actually improved its marketing story.*

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MetLife replaced Prudential as the country's top seller of variable annuities in the second quarter and the reason was plain to see.

In a de-risking move at the end of 2010, Prudential reduced the annual roll-up on its hot-selling Highest Daily 6 guaranteed lifetime withdrawal benefit rider (GLWB) to a conservative 5%. Only a few months later, in May, MetLife introduced a "Max" version of its guaranteed minimum income benefit (GMIB). The Max promised a flexible 6% annual bonus instead of the usual 5%.

More about the GMIB Max in a moment.

Prudential's VA sales momentum continued through the end of the first quarter, when it sold \$6.82 billion worth of product and was the top-seller in the bank, wirehouse and independent advisor channels. But sales of the HD5 dropped by a dramatic one-third, to \$4.53 in the second quarter of 2011, and Prudential's market share fell to 11.5% on June 30 from 17.6% on March 31. Presumably, Prudential knew what it was doing from a long-range risk management perspective and wasn't shocked.

"Prudential's reduction of the HD Lifetime Withdrawal benefit step-up rate from 6% to 5% likely contributed to the drop-off in sales activity," wrote Morningstar's Frank O'Connor in his *Second Quarter 2011 Variable Annuity Sales and Asset Survey*.

Jackson National's Perspective II contract has been the top-selling individual contract for the entire first half of 2011, but otherwise the VA sales picture was all about MetLife in the second quarter. Led by sales of the Investor Series VA, MetLife sold a remarkable \$6.97 billion, up from \$5.68 billion in the first quarter.

MetLife's market share rose to 17.7% from 14.7%, and it was among the top five companies in all six sales channels—banks (1), wirehouses (1), regional broker-dealers (1), independent advisor (2), captive agency (3), and even direct response (5) via its partnership with Fidelity on the Growth and Guaranteed Income contract offering.

Back to the design of the GMIB Max. With the introduction of this option, MetLife was betting that advisors and investors would give up a bit of investment freedom in return for the more noticeable higher guaranteed minimum payout rate. The bet appears to have paid off. As MetLife CEO Steven Kandarian said during a second quarter analyst conference call, "Part of [our second quarter] growth was driven by our new GMIB Max offering, a simpler retirement income solution that significantly reduces our hedging costs and we believe will provide customers with more consistent returns over time."

Specifically, the GMIB Max offers to increase the contract owner's benefit base (the annuitizable amount)

by 6% each year, up to age 91 or when the account balance fell to zero, if ever. In any individual year, the owner can choose instead to withdraw up to 6% of the current benefit base in cash without changing the base. (The Max is sold alongside the existing rider, which continues to offer a 5% roll-up and has fewer investment limitations.)

For instance, an owner who invested \$100,000 at age 60 and took no withdrawals would have a benefit base of at least \$179,000 after 10 years, at age 70. If the owner chose to initiate withdrawals at that point, he could take 6% of \$179,000 each year for life—about \$10,700—and still have the option of annuitizing at least \$179,000 for life. Or, he could skip a year of income and let the benefit base go up another 6%.

What was the catch? To get the 6% rate, the owner is restricted to five investment options, four of which use various risk-dampening (and potentially return-dampening) management strategies during downturns or volatile periods. Also, the MetLife contract isn't cheap. All-in fees for the B share, including mortality and expense risk, investment and rider fees, can run north of 3%.

There's little reason to believe that investors flocked to MetLife in the second quarter because they suddenly preferred the GMIB over the GLWB. As noted above, GMIB Max contract owners can opt to convert the value of their benefit base to a life annuity, and must do so if and when they reach age 91 or the account value goes to zero. VA analyst Ryan Hinchey at nobullannuities.com, for one, has recommended the GMIB Max but advised against annuitizing it.

So went the second quarter. Looking ahead to third quarter, Morningstar's O'Connor was optimistic about VA sales.

"The July sales estimate of \$11.6 billion, though 16% lower than the June estimate, was still 12% higher than the July 2010 estimate of \$10.4 billion, and historically July is one of the weakest months of the year," he wrote.

"Absent a significant market shock, recent volatility should continue to fuel interest in guarantees and drive sales back up to the \$13-\$14 billion per month level for the remainder of the year, with full year 2011 sales reaching \$150 to \$160 billion, or a 9%-16% increase over 2010."

VA marketers will be crossing their fingers and hoping so. There's been a lot of anecdotal chatter about the public's rising interest in annuities, but the Morningstar 2Q 2011 report showed that of the \$78.1 billion in total VA sales in the first half of 2011, only \$11.5 billion was "net flows", or new money. That hardly seems like a stampede. On the other hand, SPIA sales, from a low base, are up a reported 30% in the latest quarter.