VA Issuers Limit Inflows in 3Q: Morningstar

By John McCarthy *Thu, Nov 28, 2013*

During 3Q 2013, carriers filed 84 annuity product changes. AXA Equitable made a buyout offer, several carriers limited new payments to contracts, and Jackson National made living benefits available on joint life products again, according to Morningstar's quarterly update.

The third quarter of 2013 showed modest activity. Last quarter's "house cleaning" meant most carriers already made their impactful product adjustments. So changes to the nuts and bolts of products and structures were minimal this quarter. The biggest movement related to access to products, with AXA Equitable making a buyout offer, a group of carriers limiting subsequent payments to their products, and Jackson National expanding access by reopening the availability of living benefits for its joint life products.

Hartford continued to execute on its reallocation requirements. Several carriers including MetLife, Nationwide, and Prudential (via a cap) managed exposure by limiting subsequent payments to contracts and benefits. Carriers have a number of ways they can limit exposure. Much of the heavy lifting in this area was done last quarter via fee increases, limits to step ups, and reductions in with- drawal rates. This quarter, carriers triggered their option to limit inflows to earlier, more generous versions of contracts in order to control liability.

Low interest rates continued to put pressure on carriers and hampered any ability to ratchet benefit levels back up.

During the third quarter, carriers filed 84 annuity product changes compared to 182 product changes in the second quarter of 2013 and 106 in the third quarter last year.

Q3 Product Changes

Allianz rolled out a hybrid VA (Index Advantage). This contract costs 1.25% as a B share and has no living benefits. Funds can be invested in three subaccounts or tied to two interest crediting strategies based

on indexes from S&P, Nasdaq, or Russell. The first "protection" cred- iting strategy bumps up the account value by a predetermined percentage if the index gains value after a year. The credit percentage changes every year (it is currently 4.5%) and will never be less than 1.5%. A second "performance" crediting strategy either steps up the account value (subject to a cap) or reduces the benefit base (offset by a buffer that never changes over the contract life). Losses worse than the buffer reduce principal.

Released in July, Allianz Investment Protector is a Guaranteed Minimum Accumulation Benefit that covers a 10-year protection period and offers return of premium or, if higher, 80% of the highest anniversary value during this period. Its fee is 1.30%.

Also in July, AXA filed a buyback offer to owners of certain living benefits for the Accumulator series of contracts issued between 2004 and 2009. The buyback was executed in September. The offer asks the client to terminate either the Guaranteed Minimum Income Benefit rider or enhanced earnings rider in exchange for a credit to the account's value. The calculation factored in multiple values and credited an amount to the contract owner's account.

As of September 13, 2013, and for a limited time, AXA offered an increased account value to owners of certain Accumulator
contracts who have elected the Guaranteed Minimum Income Benefit. If accepted, the Guaranteed Minimum Income Benefit, optional death benefits, and standard death benefit will terminate and only the account value will be payable upon death. Contact the carrier for details.

AXA closed the Accumulator 11.0 Series (B, C, CP, and L shares) in September.

In September, Jackson National re-released the joint versions of its living benefits after a hiatus. The joint versions of the LifeGuard Freedom 6 and the LifeGuard Freedom Flex are available again. The Freedom 6 offers an age-banded guaranteed withdrawal (currently 4.5% for a 65-year-old). The three standard step ups are available: highest anniversary value; a 6% fixed step up for 10 years of no withdrawals; or a doubling of the benefit base after 12 years. Its fee is 1.60%. The LifeGuard Freedom Flex offers an age-banded guaranteed withdrawal (currently 4.5% for a 65-year-old), and a fixed step up of 5%, 6%, or 7%—one of which is chosen by the client. The step up chosen then determines the rider fee range (from 1.35% to 1.60%). The other two step up options (highest anni- versary value and deferred benefit base) are similar to the Freedom 6.

MetLife limited subsequent payments in its GMIB Max series of riders as of August.

As of July 15, 2013, Nationwide limited subsequent payments into its lifetime withdrawal benefits (5%, 7%, and 10% Lifetime Income Options).

Principal changed the age bands on its lifetime withdrawal benefit (Guaranteed Minimum Withdrawal Benefit). The single-life version consolidated from five age bands to three. The withdrawal rate for a 65-year-old dropped from 5.25% to 5%. Principal also reduced the number of age bands on its Income Builder series (Income Builder 3 and Income Builder 10). It reduced the Income Builder 3 age bands from eight to five and from seven to four for the Income Builder 10. The withdrawal rates for a 65-year-old did not change.

Protective rolled out a new Lifetime Guaranteed Minimum Withdrawal Benefit called SecurePay 5. It offers a 5% lifetime withdrawal and two step ups: a highest anniversary value and a 5% fixed step up for 10 years. The rider has a nursing-home provision that doubles the withdrawal percentage if the contract owner is confined to a nursing home. There is also a medical-condition provision that increases the withdrawal percentage between 0.25% and 2% if the contract owner's medical condition qualifies. The fee is 1.20%.

Prudential tweaked the withdrawal rates on its relatively new Defined Income benefit, which guarantees lifetime withdrawals now ranging from 3.35% for age 45 to 7.35% for ages 85+. A different percentage applies for each issue age between 45 and 85. Contracts issued prior to September 13, 2013 ranged from 3.15% to 7.15%, while contracts issued prior to July 15, 2013 ranged from 3% to 7%. Prudential also increased the step up to 6% from 5.5% (single and joint versions).

Prudential limited subsequent payments into some of its HD Lifetime Income benefits to a $50,000 annual maximum on additional purchase payments. The change was effective July 29, 2013 (August 8, 2013 for employer-sponsored qualified retirement plans). This applies to HD Lifetime Income, Spousal HD Lifetime Income, and HD Lifetime Income with Lifetime Income Accelerator.

Security Benefit updated its EliteDesigns. The new C share contract has 275 subaccounts including alternative asset classes and offers a return of premium death benefit. The cost is 1.45%.

SunAmerica closed the Polaris Advantage, Polaris Advantage II, and Polaris Preferred Solutions bonus contracts in the third quarter.

Pipeline

Hartford set an October 4, 2013 deadline for owners of the Director M lineup to reallocate their investments or face losing the Lifetime Income Builder rider. Contract owners are required to place a minimum of 40% of assets in fixed-income investments and a risk- based asset allocation model. This follows a first quarter cash buyout offer to owners of the Lifetime Income Builder II rider on the Director M series and the Leaders series.

As of October 25, 2013, Jackson National stopped taking applications for 1035 exchanges or qualified transfers of assets. Transactions involving contracts with living benefits will not be accepted unless they are submitted through a Jackson National affiliated broker/ dealer. The company is planning to lift this restriction beginning December 16 of this year.

Minnesota Life released a contract for Waddell & Reed. The Advisors Retirement Builder II contract carries a series of four lifetime Guaranteed Minimum Withdrawal Benefits. Each is set up with a separate fee, step up, and withdrawal percentage. The suite of benefits includes: withdrawals for a 65-year-old ranging from 4% to 5.25%; steps ups from zero to 6%; and fees from 0.45% to 1.40%. The B share costs 1.30% and offers 29 Ivy Funds subaccounts.

Transamerica is readying an O share filing. More info is to come in a future product change summary.