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## VA Issuers Show Optimism: Morningstar

By John McCarthy    *Thu, May 28, 2015*

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*This report on first-quarter changes to variable contracts, produced by Morningstar's John McCarthy, is a must-read for anyone trying to stay abreast of the VA market.*

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Variable annuity contract changes during the first quarter of 2015 offered something for everyone: The investment-only VA (IOVA) trend continued; a new hybrid VA is out and running; a few major carriers issues new living benefit guarantees; and we saw a contract buyback offer, something not seen since the financial crisis a few years back.

More specifically, we saw a smattering of IOVA activity with Sammons releasing a B-share version of their investment-only product. TIAA-CREF, the largest VA issuer by AUM, rolled out two low-cost VAs with no benefits and a short but fundamental list of subaccount offerings.

Voya issued a hybrid VA with growth tied to four equity indexes. We also saw a pick up in living benefit activity with a batch of age-banded Lifetime GMWB issues. And Transamerica offered to buy back selected contracts with certain living benefits attached. (See below for details.)

In the pipeline (see below), we see a pick-up in activity as carriers appear to be using the April and May filing season to actively adjust contract and benefit levels, perhaps a sign of more optimism on their part.

Overall, product development activity in the first quarter of 2015 was moderate. Carriers filed 49 product changes compared to 33 in the same period last year. In Q4 of 2014 there were 31 product changes.

### **First quarter product changes**

**AXA** has updated the Retirement Cornerstone series. The new Retirement Cornerstone 15.0 includes 110 investment options, down from 114 in the 13.0 version. The GMIB rider contains an additional step-up option, a multi-year lock which compounds by 3% annually for the length of the surrender period. The contract free withdrawal amount is also tied to the GMIB benefit base. The fees are 1.55%, 1.65%, and 1.70% (B, Bonus and L shares, respectively).

**Great West** released a Lifetime GMWB (Fixed GMWB) with a 5.00% lifetime guaranteed for a 65-year-old (4.5% joint) and includes a highest anniversary value step-up which continues through the withdrawal period. Only amounts allocated to the covered fund apply to the benefit base. Fee is 0.90%.

**Integrity** released a new Lifetime GMWB. The benefit offers an age- banded withdrawal structure with a 4.5% lifetime withdrawal for a 65 year old (4.05% joint version) and a 7% step up for ten years. Fee is 1.35%.

**Jackson National** released a death benefit that is available only with the LifeGuard Freedom Flex GMWB with the 6% fixed percentage increase (Income Stream Levels 1 to 3). Fee ranges from 0.60% to 0.70%. Death benefit is the greatest of account value; adjusted purchase payments; or highest anniversary value on the seventh contract anniversary.

**Lincoln** re-opened the i4Life Advantage with Guaranteed Income Benefit in January. It was unavailable from 8/26/2013 to 1/19/2015. The benefit offers immediate variable annuitization with an access period of at least 20 years and a guaranteed income payment floor of 4.0% (single) or 3.5% (joint). The benefit costs 1.05% (single; 1.25% joint).

**MetLife** released two versions of a Lifetime GMWB. The FlexChoice Level version offers an age-banded lifetime withdrawal (5.0% for a 65 year old) with a 5% step up. The FlexChoice Expedite offers an age- banded withdrawal (6% initial withdrawal for a 65 year old, dropping to 4% of remaining benefit base if the account value goes to zero. Joint version drops to 3%). Alternatively, the benefit can operate as a GMAB that restores the value of purchase payments after 10 years. Fee is 1.20%.

**Midland National** released a version of the Sammons LiveWell as a B-share with 141 subaccounts. The contract has an optional value endorsement, which reduces the fee by 0.20% in exchange for a surrender charge schedule of five years. Fee is 1.15%.

**Transamerica** filed a contract buyback offer (Alternative Lump Sum Offer 1.2). The one-time buyout applies to an existing policy with an eligible living benefit elected (Family Income Protector, Managed Annuity Program, Managed Annuity Program II, or Guaranteed Minimum Income Benefit rider). Owners have three options: 1) surrender existing contract; 2) trade in existing contract for the Transamerica Freedom Variable Annuity; or 3) exchange existing contract for an annuity product issued by an unaffiliated company.

The buyout amount is equal to the cash surrender value plus the greater of:

- 90% of the benefit base applicable to the eligible benefit minus the cash surrender value, or
- 10% of the benefit base applicable to the eligible benefit minus premium payments.

**Voya** (formerly ING) released the PotentialPlus contract, a B-share with a 1.50% contract fee and an account value only death benefit. The product is a hybrid VA that offers Indexed Segments, or investment options that provide performance tied to an equity index. All or part of the account value may be allocated to one or more index-linked options.

The growth is capped by a percentage defined when the segment is chosen. Losses are buffered by 10%; any loss beyond that is absorbed by the contract owner's maturity value. Results are calculated annually, and segments are re-upped at that time; the segments are re-upped automatically, though the owner has flexibility in how the segments are re-established. Four indexes are available: S&P 500; Russell 2000; NASDAQ 100, and MSCI EAFE. There is also a fixed account and a money market subaccount.

### **Changes in the VA pipeline**

**Allianz** raised the fee from 1.20% to 1.40% on the Income Protector Lifetime GMWB.

**Forethought** is releasing its Daily Step-Up Lifetime GMWB benefit. The age-banded withdrawal percentage is 5% for a 65-year-old (4.5% for the joint version). Step-ups are either the benefit base compounded at between 4% and 7% for the first 15 years, or highest daily value before age 95. Must allocate to models. Fees range from 1.10% to 1.25%.

**MetLife** is releasing the Accumulation Annuity with a low 0.70% fee as a B-share. The contract carries one subaccount, the Fidelity VIP FundsManager 60% moderate allocation fund. The previously released GMAB benefit, the Preservation and Growth Rider, is available at a fee of 1.40%, up from 1.15%.

**New York Life** releases seven new contracts on May 1st:

- The NYL Complete Access II is a C-share priced at 1.60% with an HAV (highest anniversary value) death benefit. It carries the Future Income Rider, a deferred income annuity that is standard at issue. The benefit provides guaranteed annuity payments based on transfers from the variable account to the funded account. The income start date is determined by the owner on the application. Transfers are voluntary but irrevocable. The deferred payments are based primarily on the amount of premium payment, guaranteed

rates at the time of transfer, and the age of the annuitant. The initially set income start date can be accelerated to any date at least 13 months from the policy issue date, or deferred by up to five years or the year the oldest annuitant is age 85.

- The NYL Premier II offers two base contract fee structures: Owners may elect to have charges assessed against the premiums (Level) or against the account balance (Traditional). These contracts also carry the Future Income rider as well as a suite of existing death benefits and GMAB benefits.
- The NYL Flexible Premium III also offers two base contract fee structures as above. The contract also carries the Future Income rider as well as standard and HAV death benefits.
- NYL new contract fees:
  - NYL Flex Premium III: 1.35% on account value; 1.55% on premiums
  - NYL Premier II: 1.30% on account value; 1.50% on premiums
  - NYL Premier Plus II: 1.60% on account value; 1.70% on premiums
  - All fees drop 0.20% after the surrender period except the Premier II Account value

**RiverSource** is issuing a new Lifetime GMWB suite. The SecureSource 4 offers an age-banded guaranteed income of 5% for a 65-year old (4.75% joint). There are two step-ups: an HAV and a fixed 6% simple step up for 10 years. At the time of the first withdrawal each contract year a 1% increase to the withdrawal percentage applies unless the account value is at least 20% less than the benefit base reduced proportionately for withdrawals. Must allocate to models. The benefit also includes the “Principal Back” component which allows beneficiaries to access to the annual withdrawal payments until purchase payments (adjusted) are returned. Fee is 1.25% (1.35% joint). The SecureSource 4 Plus offers a 5.0% lifetime withdrawal (4.65% joint) and the same step-ups and 1% withdrawal increase. Fee is 1.50% (single) and 1.65% (joint). Benefit is available on the RAVA 5 suite of contracts.

**SunAmerica** is issuing a C-share version of Polaris Select Investor C, an IOVA (investment-only variable annuity) offering. The fee is 1.35%.

**TIAA-CREF** is releasing two new contracts: Retirement and Supplemental Annuity R2 and R3. They charge no M&E and instead assess fees via the eight subaccounts ranging in fee from 0.29% to 0.46%.

All fees are charged at the fund level as a percentage of net assets annually. Certain

subaccount choices incur an M&E charge of 0.005% to 0.05%. Administrative charges are 0.185% and 0.245%, respectively. Distribution charge is 0.07% and 0.10% respectively. There is a standard death benefit.

**Transamerica** filed an update to their Lifetime GMWB. The Retirement Choice 2.0 offers an age-banded 5% withdrawal (4.75% joint) with a 5.5% step up for ten years; an HAV step-up; and a manual step up at the five-year mark that resets the withdrawal, fee and growth rates. Must allocate to model portfolios; fee is .07%.

**VALIC** issues the Polaris Platinum Elite (B-share) and Polaris Choice Elite (L-share) contracts. They carry the existing Income Plus Dynamic suite of Lifetime GMWB benefits. Fees are 1.30% and 1.65%, respectively.

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