Retirement Income
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Variable Annuity Carriers ‘Mix It Up’ in Q4

By John McCarthy *Thu, Feb 21, 2013*

"We may be at an inflection point, with the first carriers beginning to tweak products in small ways for competitive advantage despite the ongoing low interest rate environment," writes John McCarthy, Product Manager, Annuity Solutions, at Morningstar Inc.

Variable annuity product development activity this quarter was healthy. Carriers filed 101 annuity product changes in the fourth quarter of 2012. This compares to 106 new filings during the third quarter of 2012 and 130 in Q4 of last year.

New product development was modest. Carriers filed very few new contracts and a small number of new benefits. Most of the activity this quarter centered on fee changes to existing products and revisions to step ups and withdrawal percentages.

Interestingly, activity flowed in both directions, as Allianz and VALIC made their benefits more generous, while a host of carriers trimmed benefit guarantees and raised fees. We may be at an inflection point, with the first carriers beginning to tweak products in small ways for competitive advantage despite the ongoing low interest rate environment.

The list of carriers attempting to pare their risk exposure continues. In addition to selling its VA distribution business earlier in the year, Hartford this quarter announced an annuity buyout effective in 2013. In November, Jackson National suspended exchange inflow activity for approximately one month. Similar moves were made earlier in the year by Transamerica and AXA, in addition to last quarter’s host of carriers that limited additional contributions to existing contracts and benefits, including Allianz, AXA, MetLife, John Hancock, Prudential and Transamerica.

(Click here for the original pdf of this article, with charts.)

Innovations of note

Forethought Financial is on the board with a new VA filing for Q1 2013. Nationwide figured out a creative way to provide benefit portability. They launched a new contract called Destination Income in December available for rollovers from Nationwide qualified plans that offered living benefits. This contract allows the living benefit from the qualified plan to be carried over as-is to an individually owned contract. This addresses the portability problem and is a leader in this category.

More to come

What may be even more interesting is the pipeline activity for Q1 2013. The hits keep coming as far as limiting exposure for carriers. SunAmerica limited the contributions considered for its Lifetime GMWB benefits to the first year instead of the first two years. SunLife sold its U.S. variable annuity business to Delaware Life Holdings, owned by Guggenheim Partners.

Q4 product changes

Bucking the trend, Allianz in October raised the fixed percentage step up on the Income Protector GLWB to 6% from 5%. The simple interest is credited quarterly before the first withdrawal (or age 91). The change applies to new sales.

Fees increased on six different Genworth benefits. Increases ranged from 15 bps to 50 bps to bring all benefits to 1.25% on December 3rd. Benefits include Income Protector, Lifetime Income Plus Solution, and Lifetime Income Plus 2008.

In December Hartford filed a living benefit buyout offer scheduled to execute in the first quarter 2013. The firm will offer a cash buyout to current contract owners who have the Lifetime Income Builder II GLWB as a way to reduce exposure on their books. Investors who have not started income payments (withdrawals or annuitization) and who have a minimum contract value will be eligible for an enhanced surrender value payment to terminate their contracts. These owners will get the greater of the contract value on the surrender date, or if the account is underwater the contract value plus 20% of the benefit base (the total payout is capped at 90% of the benefit base). The payment can fluctuate with the market until Hartford receives all the appropriate documents from the client. Contracts affected include the Director M series and the Leaders series.

Jackson National dropped the joint option on its LifeGuard Freedom 6 Net and Flex benefits effective Oct. 15. This applies not only to new contracts but also to existing contracts that do not have the option elected. Jackson is also eliminating the bonus credits on contracts, which range from 2% to 5%. In addition, the Perspective Advisors II and Perspective Rewards VA contracts are closing.

Jackson National limited the sales flows from exchanges into VAs that offer optional guaranteed benefits on November 13, 2012, but began accepting flows again on December 17. The limitations did not apply to Elite Access, the alternative-fund loaded B-share.

John Hancock closed multiple contracts effective October 15th: Venture Opportunity A-Series, Venture Opportunity A-Share (national & NY), Venture Opportunity O-Series, Venture 4 (national & NY) and Venture (national & NY). In addition, subsequent purchase payment restrictions were added to multiple John Hancock Venture contracts on October 15th.

Lincoln National filed changes to the Lincoln ChoicePlus and American Legacy Fusion contracts. The fee for SmartSecurity Advantage will increase from 65 bps to 85 bps (single) and 85 bps to 100 bps (joint). In addition, the withdrawal percentages for Lifetime

Income Advantage 2.0 (Lifetime GMWB) changed for younger age bands, decreasing one-half percentage. The change became effective December 3, 2012.

Minnesota Life rolled out the MultiOption Guide contract (B-share and L-share). The contract will be marketed by Securian and costs 1.35% (B-share; 1.70% for L-share) and comes with a Lifetime GMWB and a GMIB. The withdrawal benefit (1.20% for single and joint versions) offers an age-banded withdrawal (5% for 65 year old single; 4.5% for joint) and the three standard types of step ups: highest anniversary value; 6% fixed step up for ten years; and a doubling of the benefit base after 10 years provided there are no withdrawals. Investments must go into one of three allocation plans. The existing GMIB (cost 95 basis points) is attached with a 5% fixed and HAV step ups and allowable 5% dollar-for-dollar withdrawals.

Nationwide launched a new I-share contract called Destination Income in December. The fee is 70 bps. The contract is only available for rollovers from Nationwide qualified plans. The contract creates benefit portability with a Lifetime GMWB that carries over the lifetime guarantee from the qualified plan; thus, withdrawal percentages vary. The benefit offers an HAV step up. The living benefit is automati- cally included for an additional 1.00%. The contract offers seven subaccounts. The contract can only be titled to one owner, but the benefit can continue for a surviving spouse.

Nationwide continues the trend toward risk-management-based subaccounts by adding four managed volatility funds to its core lineup. One of the managed volatility funds is available with the L.inc GLWB benefit.

Ohio National made changes to its GLWB Plus benefit. The step up was decreased from 8% to 7% (simple). The deferred benefit base bonus step up was eliminated. In addition, the GMAB component was eliminated on the joint version only.

On October 1st Pacific Life increased fees on multiple versions of its CoreIncome Advantage benefits. Fee increases ranged from 10 to 20 bps. The single-life version went from 60 bps to 80 bps before a step up occurs. Joint version went from 80 bps to 100 bps until a step up occurs.

Protective increased the fee for Protective Income Manager to 1.20% (1.30% under the RighTime option) effective December 10th. SecurePay R72 closed, replaced by a new SecurePay benefit with a highest anniversary value step up and no fixed percentage increase step up.

The RiverSource Accumulation Protector Benefit (multiple versions attached to different contracts) fee increased to 1.75% on October 20th. Symetra released a New York version of its True VA. The New York version contract fee is slightly higher at 75 bps (versus 60 bps), and it does not carry the enhanced death benefit rider.

Thrivent closed its Return Protection Allocation GMAB on December 20th. This affects the Flexible Premium DVA 2005, which still carries a Lifetime GMWB benefit.

VALIC decreased the fee on its IncomeLOCK 8 Lifetime GMWBs to 1.10% from 1.30%. Also, the guaranteed lifetime withdrawal percentage decreased to 4.75% (4.25% joint) from 5% (4.5% joint) for a 65 year old. After the account balance reaches zero, the remaining benefit base is paid out periodically at 4.75% (4.25% joint), or 3.75% (3.25% joint) if the age of the older owner at first with- drawal was younger than age 65. Previously, these percentages were 4% and 3%, respectively.

VALIC also made changes to its IncomeLOCK 6 benefits. Fees dropped 20 bps and now range from 1.10% (single) to 1.35% (joint). For a 65 year old, lifetime withdrawals range from 5% to 6.5% (single) (4.5% to 6% joint), depending on the asset allocation options chosen. Once the account value reaches zero, the withdrawal percentage drops to 3% on some versions, 4% on others. For all versions, the withdrawal percentage is 4% if the age of the older owner at first withdrawal was younger than age 65 and there is a highest anni- versary value step up after age 65. The benefit maintains its three step ups: a highest anniversary value; a fixed 6% simple each year; or 200% of the benefit base after 12 years of no withdrawals.

Pipeline Q1 2013

Forethought Financial is issuing its first variable annuity contract, the ForeRetirement VA (B-, C-, and L-shares). These are the first filed under the new Forethought registrant and the targeted launch date is March 4th, 2013. Forethought purchased the new VA business capa- bilities of Hartford in mid-June of 2012. Forethought now strikes out on its own with new contracts, which unsurprisingly look similar in structure to the old Hartford Personal Retirement Manager series.

Lincoln National filed a new contract called Secure Retirement Income (Versions 1–4). The target launch date is end of Q2 2013.

Nationwide is increasing the withdrawal percentage of the joint version of its Lifetime GMWB benefit called "7% Lifetime Income Rider" on January 14th. It is also increasing the fee to 1.50% from 1.20%. A 65-year old will now get 4.75%, up from 4.5%.

Pacific Life is increasing the fee on its CoreIncome Advantage 5 Plus Joint rider. The fee increases to 1.35% from 1.00% on February 1st.

SunAmerica limited the purchase payment calculation to only include first year purchase payments, down from the first two years of payments. This applies to the Income Plus-Dynamic Options 1–3 and the custom option (Lifetime GMWBs).

SunAmerica changed its name to American General; however, the Polaris line of contracts is still being marketed under the SunAmerica name.

SunLife sold its U.S. variable annuity business to Delaware Life Holdings, owned by Guggenheim Partners. Guggenheim is clearly growing their footprint in the annuity spaces as this move follows prior annuity acquisitions that include Security Benefit, Standard Life of Indiana, EquitTrust Life, and the U.S. fixed annuity business of Industrial Alliance Insurance and Financial Services of Quebec. The proposed sale includes Sun Life's U.S. domestic variable annuity, fixed annuity and fixed index annuity products.