With “Ascend,” Voya Enters the Structured Variable Annuity Race

By Kerry Pechter *Thu, Oct 26, 2017*

'It’s a new and improved version of a product that we previously offered called Potential Plus,' said Chad Tope (pictured), president of Annuities and Individual Life Distribution for Voya Financial.

Just as tablet computers occupy a niche mid-way between smartphones and laptops, indexed variable annuities (aka structured-note annuities) occupy a niche between fixed indexed annuities (FIA) and variable annuities (VA). Introduced in 2011, IVA sales have doubled yearly since 2014 and could reach $9 billion in 2017, according to LIMRA.

Voya Financial will soon jump into this niche with its first-ever IVA contract. The product, whose September 28, 2017, prospectus awaits SEC approval, is called Voya Ascend Annuity. It joins a field of IVAs issued by AXA, MetLife (now Brighthouse), Allianz Life and CUNA Mutual. The commission-based version of Ascend will be available in early 2018, with a fee-based version for registered investment advisors scheduled later in the year, according to Voya.

“It’s a new and improved version of a product that we previously offered called Potential Plus,” said Chad Tope, president of Annuities and Individual Life Distribution for Voya Financial, in an interview this week at the LIMRA annual conference in the Gaylord National Harbor Convention Center near Washington, D.C.

According to SEC documents, Ascend will offer three term options (one-year, three-years and six-years), four index options (S&P 500, Russell 2000, NASDAQ-100 and MSCI-EAFE), and downside “buffers” of 5%, 10%, 20% and 30%. Not every possible combination of duration, index and buffer will be available. (See chart from the prospectus below.)

Point to Point Cap with Buffer Index Strategy

Index	Segment Term	Buffers Available
MSCI EAFE Index	1 year	10%
NASDAQ 100 Index	1 year	10%
Russell 2000 Index	1 year	5%
Russell 2000 Index	1 year	10%
Russell 2000 Index	3 years	10%
Russell 2000 Index	3 years	20%
Russell 2000 Index	6 years	10%
Russell 2000 Index	6 years	20%
Russell 2000 Index	6 years	30%
S&P 500 Index	1 year	5%
S&P 500 Index	1 year	10%
S&P 500 Index	3 years	10%
S&P 500 Index	3 years	20%
S&P 500 Index	6 years	10%
S&P 500 Index	6 years	20%
S&P 500 Index	6 years	30%

Point to Point Participation with Buffer Index Strategy

Index	Segment Term	Buffers Available
MSCI EAFE Index	1 year	10%
NASDAQ 100 Index	1 year	10%
Russell 2000 Index	1 year	10%
Russell 2000 Index	3 years	10%
Russell 2000 Index	3 years	20%
Russell 2000 Index	6 years	10%
Russell 2000 Index	6 years	20%
Russell 2000 Index	6 years	30%
S&P 500 Index	1 year	10%
S&P 500 Index	3 year	10%
S&P 500 Index	3 years	20%
S&P 500 Index	6 years	10%
S&P 500 Index	6 years	20%
S&P 500 Index	6 years	30%

Voya, which also sells an investment-only variable annuity, FIAs, income annuities and multi-year guaranteed (MYGA) fixed annuities, expects to distribute Ascend primarily through dually-licensed (insurance and securities) bank advisors. (The names of the new IVA, along with the name of the Journey indexed annuity and the Voya brand name itself, are all intended to harmonize around the concept of the investors' lifetime financial journey.)

AXA's Structured Capital Strategies had sales of $1.8 billion in the first half of 2017, a distant second to the $6.59 billion in sales of Jackson National's Perspective II 7-year contract among top-selling individual VA products through June 30 of this year, according to Morningstar. Allianz Life's Index Advantage sold $831.6 million for 14th place among VA contracts.

Indexed variable annuities resemble fixed indexed annuities, but with weaker downside protections and more generous upside potential. Where an FIA protects against any loss of principal (if held through the surrender period), the owner of a IVA is protected from the first five to 30 percentage points of loss over the term and bears all net loss beyond that point. (CUNA Mutual's IVA differs; instead of a buffer, it establishes a downside floor to what the client can lose during the term.)

IVAs lack the stigma that indexed annuities acquired during their "wild west days" of 10 to 15 years ago, when exorbitant commissions fueled sales abuses, bad publicity and an unsuccessful attempt by the SEC to regulate them as securities products. It's noteworthy that AXA, Brighthouse and CUNA Mutual, which have avoided FIAs, have entered the indexed market via IVAs. Allianz Life has been the leader in FIA sales for more than a decade.

Indexed products are to some extent a creature of the low-interest rate periods of the early 2000s and post-financial crisis era. Their hybrid makeup (FIAs are 95% zero-coupon bonds and 5% options on equity indices) renders them richer than certificates of deposit when rates are low and safer than equities when volatility is high.

“These products have never been associated with the dark days of the FIA market,” said Tope. “There’s also a perception that they’ve stayed in a consistent performance range. We’re excited about opening up an advisor base that we’re not attracting today.” After institutional retirement plans, annuities are Voya’s second biggest business, accounting for 29% of earnings as of June 30.

FIAs and IVAs can have caps or participation rates that limit the amount of interest that can accrue to the contract owner during a specific period, IVA caps or participation rates are higher because the contract owner bears more of the risk. Caps and participation rates are announced at the time of purchase.

In addition to a cap, the Ascend contracts will offer a participation rate option, something the Potential Plus contract lacked, Tope told *RIJ*. Under such an option, contract owners are credited with a certain portion of the index gain—a percent of a percent—during the designated term, no matter how much the index grows. Participation rates appeal to investors because there’s no obvious restraint on the product’s upside potential in a rising market.

Ascend will also offer a cap option. An indexed annuity cap offers the contract owner all of the index gain over a given period (one, three or six years in this case) up to a limit or cap. Gains in excess of the cap accrue to the issuer. A product with a “spread” (something that Voya doesn’t offer with Ascend) works the opposite way: The first few percentage points of the index gains over a given period accrue to the issuer. All of the net gain above the upper limit of the spread is credited to the contract owner.

According to the prospectus, the commission-based version of Ascend has a six-year surrender period with a first-year surrender penalty rate of 8%. (The fee-based version of the product will presumably have a smaller surrender period or none at all; surrender penalties ensure that the contract issuer recovers the commission paid by product manufacturer to the advisor or broker who sells it.)

Contract owners can also allocate their premium to a separate account, where they can invest it in either a Voya Financial conservative, moderate or growth fund-of-funds, or to a fixed rate account. The prospectus fee table shows that the current annual separate account fee is 1.25%. It is capped at 1.75%. The annual fund operating expenses are 1.14% to 1.16%. These charges don’t apply to the indexed segments or the available fixed rate strategy.

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