Slow Down, You Move Too Fast…
Carriers eliminate add-on payments to manage exposure.

Activity this quarter was brisk. Variable annuity carriers filed 106 annuity product changes in the third quarter of 2012, making for an active period. This compares to 168 new filings during the second quarter of 2012 and 40 in Q3 of last year.

We are seeing a definite mix of strategies, as many carriers continue to adjust (i.e. reduce) benefit levels. At the same time, several new contracts came out with attractive living benefits, so product development continues and carriers are by no means sitting on their hands. In an effort to reign in risk for current customers, a host of VA carriers are eliminating add-on payments, also known as subsequent payments or “sub-pays.” The carriers who recently limited additional investment dollars into existing contracts and benefits include Allianz, AXA, MetLife, John Hancock, Prudential and Transamerica. This trend bodes well for current clients who are fully funded and want to see their guarantees solidified. For those clients who would like to continue to build their balance via additional investments, this development may push their retirement funds to other contracts, VA carriers, or even investment types.

But while some existing players limited additional funding, one notable player sees things differently: New York Life re-entered the individual VA market after a long hiatus. The company introduced a VA contract with a GMIB as well as a version of their deferred income annuity that takes the form of a rider.

Q3 Product Changes
Allianz closed its Vision C and Connections L contracts. In addition they reduced the withdrawal percentage on their newly released Income Focus Lifetime GMWB. As of July 23rd, the withdrawal percentage is 3.75% (3.25% joint life) for a 65 year old (down from 4.25% single and 3.75 joint). The step up on a second version of their Lifetime GMWB, Income Protector, dropped from 7% to 5% in July.

Allianz furthered the trend to I-shares by creating the Retirement Advantage. The cost is 30 bps and the contract carries a GLWB (Retirement Pro Lifetime Income) with a withdrawal rate ranging from 4% to 7% depending on the 10-year U.S. Treasury rate. The benefit has a highest quarterly step up, guard rails on the investment options, and costs 100 bps (single) or 115 bps (joint).

Allianz stopped taking additional purchase payments into a number of its older VA contracts on Sept. 17th. Contracts affected include the High Five, High Five L, Valuemark II, Alterity and Rewards, plus Legacy Vision contracts that were issued before Aug. 17, 2009.

Ameritas released the Guaranteed Lifetime Withdrawal Benefit 2 (fee is 125 bps single; 150 bps joint). The benefit offers 5% withdrawals for a 65 year old with a highest anniversary value step up and a 5% annual fixed step up calculated on top of the HAV (“stacked” calculation).

AXA released a C-share of its Structured Capital Strategies. The contract charge is 165 basis points.

Hartford reduced the withdrawal percentages on their Future5 Lifetime GMWBs from 5% to 4.5% (single and joint), and raised the fee on the Future6 single from 85 bps to 105 bps and Future 6 Joint from 110 to 130 bps.

Jackson National increased the price of its Perspective II contract by 5 bps. The company also issued a new GLWB, the LifeGuard Freedom Flex. The rider costs 100 bps (125 for joint) and offers a 5% simple roll up and quarterly account value step up. The withdrawal rate is 4.75% for a 65 year old. (The older, joint version carries a 6% fixed...
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step up and a 5% withdrawal rate. An “Income Upgrade” feature allows the owner to gain an extra 25 bps of lifetime withdrawal for an extra 25 bps fee, resulting in a 5% withdrawal rate for a 65 years old on a 125 bps fee (single) or 150 bps fee (joint).

Lincoln released an add-on benefit to their i4Life Advantage called 4Later Advantage Protected Funds. This step-up benefit offers annual 5% fixed and highest anniversary value step ups to the benefit base for an annual fee of 105 bps (versus 15% every three years in older versions). The account value must be invested in one of five allocation funds. Lincoln closed the 4LATER Advantage with Guaranteed Income Benefit (i.e. the step-up component of the i4Life). In addition, Lincoln released a new group of American Legacy and Choice Plus contracts for distribution through LPL.

In August MetLife closed its GMIBs and Lifetime GMWBs to new premiums (GMIB Plus III, GMIB Plus IV, Lifetime Income Solution Plus). In addition, on its GMIB Max IV MetLife is decreasing the withdrawal percentage from 5.0% to 4.5% under the no lapse feature at or after age 62 and adding a 5.0% withdrawal for no lapse at or after age 67.

New York Life introduced Income Plus, a variable annuity with a standard GMIB and the optional Guaranteed Future Income Benefit. With this benefit, the owner elects an income start date, then makes discretionary transfers from the account balance to purchase annuity payments. The 100 bps rider allows the purchaser to lock in a guaranteed income stream to be started in the future, which is also funded over time either automatically by the company or with discretion by the owner.

Ohio National decreased the withdrawal percentage on its GLWB from 5.1% to 5.0% (single) and 5% to 4.5% (joint) as of 8/20/12.

On August 1st Pacific Life released a new contract for the Schwab platform, Schwab Retirement Income, an I-share with a 60 bps contract fee and a Lifetime GMWB (80 bps single; 100 bps joint) at a 5% withdrawal guarantee with a selection of three funds of ETFs subaccounts. There is no death benefit on the product.

Protective released the Income Builder 3, a GLWB which offers a 5% withdrawal for a 65 year old (4.5% joint) and annual step ups in the first three years of 7%, 6% and 5% respectively. The fee is 95 bps. The Income Builder 10 is similar except for a 5% step up for 10-years without withdrawals (fee is 110 bps).

Prudential stopped selling the bonus version of Premier Retirement in July. It also launched a new version of its Lifetime GMWB, Highest Daily Lifetime Income 2.0, in August. It differs from the currently sold version in that it has reduced withdrawal rates, a higher fee, and different investment guidelines. The fee is increased from 95 bps to 100 bps (single life) or 110 (joint life), and 150 for the combination death benefit version. The minimum issue age is 50 (up from age 45). The Lifetime GMWB continues to offer a 5% withdrawal for a 65 year old, but a new age band from 59 ½ to 64 years old offers 4.0%. Clients can invest among 19 pre-approved asset allocation models or designated funds. Subsequent payments after year two will be limited to the total premiums deposited in the first year. The custom portfolio program is longer available. A new Highest Daily Death Benefit is available for an additional 50 bps (only available with HDI 2.0/Spousal HDI 2.0). Prudential is closing the Combo 5%/HAV death benefit.

RiverSource launched a new GMAB, Accumulation Protector, in July. It allows the owner to invest in the Columbia Managed Volatility sub-account. The fee is 130 bps.

SunAmerica lowered the base rollup on the version of the Income Builder GLWB on its O-share contract from 6% to 5.25% effective June 25.

In September Transamerica issued the updated Retirement Income Choice 1.6. The fees range from 70 bps to 155 bps, adjusted for different equity allocation options with equity exposure ranging from 35% to 70%. In addition, the fee for the optional return of premium death benefit attached to this living benefit has increased to 0.40% for single life coverage and 0.35% for joint life protection (previously 0.25% and 0.20%, respectively). The company closed the Retirement Income Choice 1.2 in September.

In July, VALIC announced its IncomeLOCK benefit was closed to new sales.
Pipeline
In October Allianz is raising the fixed percentage step up to 6% from 5% on the Income Protector GLWB. The simple interest is credited quarterly before the first withdrawal (or age 91). The change applies to new sales.

Fees will increase on six different Genworth benefits to 1.25% on December 3rd.

Jackson National is dropping 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 which 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.

John Hancock is closing 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, purchase payment restrictions were added to multiple JH Venture contracts on October 15th.

Lincoln 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) or 85 bps to 100 bps (joint). In addition the withdrawal percentages for Lifetime Income Advantage 2.0 will change, though new age bands were not specified. The changes are effective in December 2012.

Nationwide is launching a new I-share contract (Destination Income) on November 15th. The fee is 70 bps and it carries a lifetime withdrawal benefit (100 bps).

Protective is increasing the fee for Protective Income Manager to 1.20% (1.30% under the RighTime option) effective December 10th. SecurePay R72 is closing, to be replaced by a new SecurePay benefit with a different roll-up percentage that was not specified in the supplemental filing.

On October 1st Pacific Life will increase fees on multiple versions of its CoreIncome Advantage benefits. Fees increases ranged from 10 to 20 bps.

The RiverSource Accumulation Protector Benefit (multiple versions attached to different contracts) fee increases to 1.75% on October 20th.

Marco Chmura, John McCarthy, and Frank O’Connor contributed to this article.

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Rolling 12 Month Annuity Product Changes

3rd Quarter 2012 New Contracts and Benefits by Company (Total 55)

3rd Quarter 2012 Annuity Changes by Company (Total 106)

3rd Quarter 2012 Annuity Changes by Type (Total 106)
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3rd Quarter 2012 Annuity Changes by Type and Firm (Total 106)