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Understanding VA Product Trends

A Principia Training Webcast

- **Matt Eckstein, Advisor Software Product Training**
- **Kevin Loffredi, Vice President, Annuity Solutions**

Today's Agenda

- Principia Variable Annuity Data
- Overview of VA Market
- Product Insights
- Living Benefit Insights
- Contract Titling Tips
- Questions and Answers

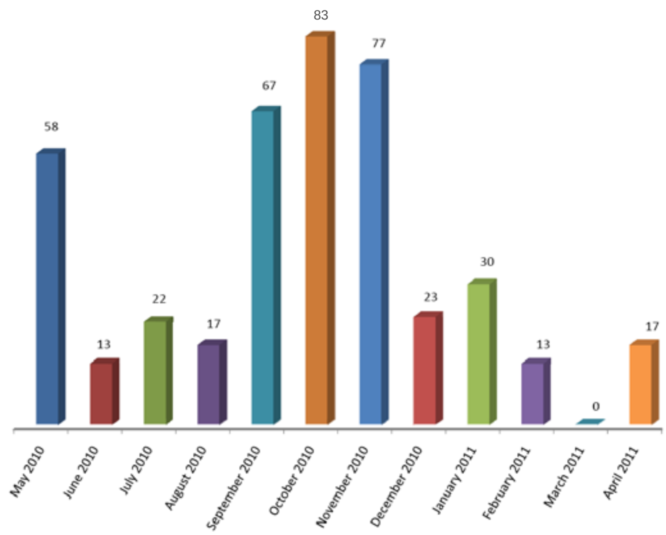
Variable Annuity Industry Update

VA Sales Reverse Their Slide

	2006	2007	2008	2009	2010
VA Sales	$155.1	$179.5	$151.9	$123.9	$136.6

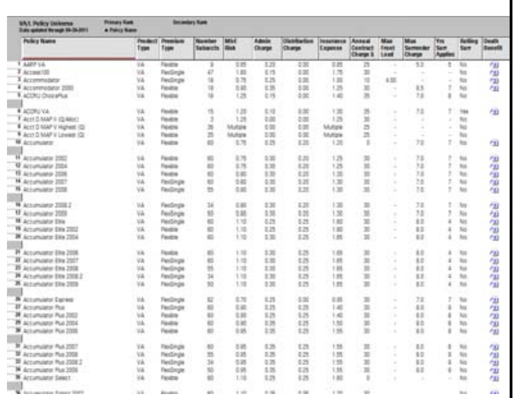
- Over 500 Product changes during 2010
  - Housekeeping
  - New contracts and benefits
  - Innovations
- AUM reached a record $1.50 trillion, an 11.2% increase over 2009
- Over 87% of VAs in 2010 had a living benefit attached

VA Product Changes From May '10 to Apr. '11



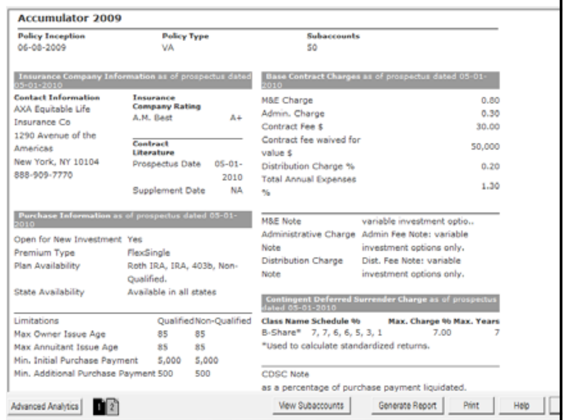
Morningstar Principia Variable Annuity Data

- Coverage of over 1,700 active and historical VA contracts
- Detailed descriptions of contract features
- Living benefit and death benefit details
- Sub-account reports with Style Box and Category info
- Enhanced info pulled from the Annuity Intelligence Report database



Morningstar Principia

- Contract and benefit details in plain-English
- Living benefit and death benefit features:
  - Steps ups
  - Withdrawal %
  - Spousal Continuation
- Complete sub-account performance and style



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Living Benefits—Industry Update

- About 87% of all VAs sold have a living benefit attached

Living Benefit Type	Election Rate
Lifetime GMWB--Single	58%
Lifetime GMWB--Joint	6%
GMIB	16%
GMWB	3%
GMAB	4%
None elected	13%

* As of June 30, 2010

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Lifetime GMWB—Product Trend

- As With Other Benefits, Complexity Has Increased:

Lifetime GMWB Withdrawal %	Nov '06	Mar '10
4.00%	-	1%
4.5%	-	2%
4.75%	-	1%
5%	69%	21%
5.5%	-	1%
6%	-	1%
Time Weighted	-	6%
Age Specific	31%	66%
Totals	100%	100%

Living Benefits—Product Trend

- Investment Restrictions Are More Common:

	Nov '06	**Mar '10**	**% Change**
Lifetime GMWB	62%	93%	+ 31%
GMIB	73%	68%	- 5%
GMWB	54%	36%	- 18%
GMAB	79%	78%	- 1%

Product Innovation and Trends--Benefits

- Guaranteed withdrawal % and step-eups tied to U.S. Treasury rates (AXA)
- Guaranteed and non-guaranteed sleeves (AXA)
- Long-term care riders (Lincoln)
- VIX-based fee structure on a withdrawal benefit (SunAmerica)
- O-shares (Pru), fee-based I-shares (various)

Product Innovation and Trends--Subaccounts

- Dynamic rebalance (Prudential)
- Hedging baked into underlying funds (ValMark and Milliman)
- ETFs as sub-account options (Integrity)
- Expanded subaccount options (Security Benefit)

Common Challenges with Living Benefits

- Many nuances of benefits make them difficult to understand
- Must adequately advise clients of risks
- Adequate disclosure for seniors
- Proper support for 1035 exchanges

Living Benefits—Key Insights

- Election rate of Lifetime GMWB for sample:

Single Life Version of Lifetime GMWB	Joint Life Version of Lifetime GMWB
95.5%	4.5%

Why are so many contracts established with a living benefit that will not continue for both spouses?

Living Benefits—Key Insights

Tips for taking advantage of the joint-life Lifetime GMWB

- Be aware that the single version of the benefit does not continue for both spouses
- Remember that you can elect the joint option on a qualified contract. Usually, you just name spouse as sole primary beneficiary
- Applications can be tricky. Some companies require the joint annuitant position to be populated in order to receive the joint life version of the benefit
- Note the joint life version is usually more expensive and offers a reduced withdrawal amount
- Advisor Tip: Joint life can be elected inside an IRA

Living Benefits—Key Insights

- 25% of lifetime GMWBs reset their benefit base upon an excess withdrawal 25%
- Advisor Tip: If you exceed the withdrawal speed limit, understand that future payments may be reduced

Living Benefits—Key Insights

- Living Benefits That Are RMD Friendly . . .
  - 95% of Lifetime GMWBs
  - 5% of GMIBs
- Advisor Tip—Clients approaching age 78

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1035 Exchanges: Like-for-Like Problem

A

Owners Annuitant

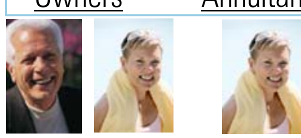
Husband & Wife Wife

Guaranteed benefits are based on the **OWNERS'** lives

Contract A is 1035 exchanged into Contract B

B

Owners Annuitant



Husband & Wife Wife

Guaranteed benefits are based on the **ANNUITANTS'** lives

Problem: Only one Annuitant is named

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The Lighter Side: The Craziest Prospectus Provisions We've Seen

- "This means that all death benefits and surrender charge waivers will continue to be based on the Owner and not the Owner."
- "If the account value is $100,000 on the fourth Friday of any August, the fee is waived."
- "For the most part, we calculate the fee on the anniversary date."
- "The custodian, under a custodial owned IRA, for the benefit of the beneficial owner, may be designated as sole primary beneficiary provided that the spouse of the beneficial owner is the sole primary beneficiary of the custodial account."

Summary

- VA sales have rebounded
- Carriers continue to innovate
- Living benefits are complex; titling must be titled properly
- Principia offers timely, comprehensive and enhanced VA info

Questions?

Thank You!

- As a thank you for participating:
  - Spring 2011 Annuity Intelligence Brief
  - Q1 2011 VA Product Trend Summary
  - Visit xxxxxxxxxx.advisor.morningstar.com
- Call Matt Eckstein at 312-696-6058
- Matt.eckstein@morningstar.com
- Kevin.loffredi@morningstar.com
- Principia Product Support 312.xxx.xxxx

MORNINGSTAR®

March 2011

Volume 1
Issue 5

Morningstar®

Annuity Intelligence Brief

News you can use on the annuity industry

In This Issue:

by Kevin Loffredi

Annuity Carriers Continued to Innovate During 2010

Here is a summary of VA product development trends during 2010

In 2010 variable annuity issuers responded to the rising equity markets and continued need for guaranteed income by releasing a slew of benefits with innovative features. The innovation was mostly directed at helping the insurers manage risk by more closely linking the guarantees to factors that influence the fluctuations.

Overall, the theme for 2010 was "steady ahead." Carriers reacted to the positive equity returns with a push toward more generous benefits at slightly higher fees. A couple of carriers upped their guaranteed lifetime withdrawal percentages anywhere from 0.25% to 0.50%. The increase in benefit levels was generally accompanied by a fee increase, which ranged from 5 to 45 bps.

The first quarter was a particularly active one for product filings, though the vast majority of changes were minor, covering fee increases, tweaks to benefits, and the removal of riders and contracts. None of the changes pushed the envelope when it comes to product development.

Early in the year, benefit levels remained pared back, with no increases to withdrawal rates or step-ups after the paring down from 2008 and 2009. By the second quarter, the product development pendulum started to swing back toward more generous benefits and the accompanying modest increases in fees to fund these benefits.

Carriers refined their benefits by adding withdrawal opportunities for younger owners, continuing a trend toward availability of guarantees at earlier ages (for example, 60 instead of 65). Allianz added an age band for 60- to 64-year-olds.

Continued on Page 2

New Product Releases During 2010

Date	VA Contract	New VA Contract	Closed VA Benefit	New VA Benefit	Closed Fee Changes	Revision to Product	Total
Q4 2010	12	2	15	8	18	10	**65**
Q3 2010	9	1	13	9	10	19	**61**
Q2 2010	8	12	7	10	20	19	**76**
Q1 2010	26	27	7	30	20	30	**140**
Q4 2009	7	0	6	2	13	9	**37**

Average Fees for VA Living Benefits/Cost per $1,000 Invested

	% Fee	$
GMIB	.62	6.24
GMWB	.92	9.20
Lifetime GMWB	1.02	10.20
GMAB	.89	8.90
All Types	**.87**	**8.70**

Source: Morningstar, Inc. as of December 31, 2010. Weighted by assets under management.

Continued from Page 1

The continued popularity of living benefits is apparent, especially the Lifetime GMWB. Six out of the seven new benefits released in Q2 were lifetime withdrawal benefits. Nine out of the eleven new living benefits released in Q3 were Lifetime GMWB benefits. All of the benefits released in Q4 had a Lifetime GMWB component. The typical lifetime withdrawal percentage for a 65-year-old is 5%.

The largest VA issuers increased their share of the market, while the smaller carriers were challenged to find a niche, re-focus their distribution strategy, or exit the market. The top three carriers (Prudential, MetLife, Jackson National) increased their share of the market from 32.3% of the market in 2009 to 39.7% of the market in 2010 (based on year to date Q3 sales flows).

Increasingly, carriers are constructing their step-ups inside a Lifetime GMWB as a three-part "greatest of" arrangement. The three components are highest anniversary value, a fixed percentage increase (from 5% to 8%, simple or compounded) or a deferred bonus (usually resetting the benefit base to 200% of the purchase payments) tacked on after a waiting period, typically 10 years. The highest of these elements becomes the benefit base on the contract anniversary.

For 2011, we expect to see a continued swing back toward more generous benefits. We believe the large carriers will continue their dominance, and we look for a continued innovation in how VA benefits are structured to allow carriers to manage the risk of guarantees and the associated cost of hedging. M

by Marco Chmura

Be Aware of Excess Withdrawals

When Using Living Benefits, There is a Limit to Liquidity

Some VA living benefits trigger significant changes when a client takes excess withdrawals. Because carriers must hedge these guarantees, they put limits on the amount that can be withdrawn.

For example, with a Lifetime GMWB rider, if you run the account value down to zero due to an excess withdrawal the benefit will terminate, even if a benefit base still exists.

Often a "no lapse" guarantee protects against those times when the account balance goes to zero. But if the balance is fully depleted due to an excess withdrawal, the no lapse guarantee does not apply.

Tip—Be sure to have a cash cushion available for short-term, unexpected expenditures, since variable annuities are long-term investments. Be sure you understand how an excess withdrawal will affect a guaranteed amount. M

Continued on Page 3

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What happens when a withdrawal reduces the VA account value to zero?

	Lifetime GMWB	GMIB
If Normal Withdrawal	Benefit continues until death of owner.	Benefit terminates unless "no lapse guarantee" in place. If so, annuitization is triggered.*
If Excess Withdrawal	Benefit terminates.	Annuitization payments begin.

*Note: GMIB products from MetLife, AXA and Ohio National currently offer a no lapse guarantee.

by John McCarthy

How Are Variable Annuities Different When Held in a Qualified Account?

Features, titling and taxation are all affected with a VA inside a qualified shell.

There are some basic differences when a VA is held inside a qualified account, meaning an IRA or employer plan. Here are some factors to keep in mind:

Contract Titling Difference

- A non-qualified contract can be held by two owners or a trust, whereas a VA held in a qualified account must have an individual owner who is also named as the annuitant. (Note that on the Lifetime GMWB, joint spousal coverage can be achieved on an individual retirement account.)

Product Differences

- Often, a VA contract or benefit held in a qualified account has different issue age. For example, one lifetime income rider must be purchased by age 77 when held in a qualified account, versus age 80 in a non-qualified account.

- In a few cases, fees and expenses are different. One variable annuity contract charges an extra 20 basis points when held in a qualified account. One carrier waives the annual account fee for qualified accounts with a minimum balance of $20,000.

- In one case, the VA product itself was designed exclusively as a qualified contract. The VA has a modest selection of subaccounts that includes ETF options and a Lifetime GMWB benefit. The contract must be titled in the name of the owner who is also the annuitant and no spousal continuation is allowed.

- For one carrier, an owner of a qualified contract has the option to terminate a living benefit, whereas non-qualified contracts cannot terminate a benefit once elected.

- Select carriers increase the withdrawal percentage to equal the RMD (MetLife). Other living benefits treat RMDs favorably (MetLife is another example of this).

Tax treatment

- Different IRS limits on contributions: Non-qualified VAs do not have IRS restrictions on annual contributions, while qualified VAs are limited by the $5,000 annual contribution ceiling.

- RMD requirements: Qualified VAs need to commence required minimum withdrawals at age 70 ½. Non-qualified contracts do not have RMD requirements.

- RMD calculation is different: When calculating the RMD, the carrier factors in the present value of any enhanced death benefit and living benefit. As a result, RMDs can seriously erode account value.

- Treatment of annuity payments: There is no exclusion ratio on payouts from a qualified VA, since no taxes have been paid on any of the investment principal. So 100% of the withdrawals are taxed as ordinary income.

Continued on Page 4

Continued from Page 3

‣ Acceptance of rollovers: Proceeds from a qualified plan rollover are eligible to be rolled over directly to a qualified VA without taxation. Conversely, qualified plan rollovers cannot be placed in a non-qualified VA contract without taxes being owed.

Advisor Tips

‣ When a variable annuity is held in a qualified account, name the owner and the annuitant as the same person. Once the owner passes away, the death benefit will pay to the primary beneficiary.

‣ When a living benefit is held inside a qualified account, an RMD may erode the account value quicker unless the rider is "RMD friendly," meaning an RMD above the allowable withdrawal percentage is not considered an excess withdrawal.

‣ Be aware of how an RMD affects the benefit base, especially when using a GMIB rider, most of which have no special treatment of RMD withdrawals. Look for "RMD friendly" living benefits.

by Kevin Loffredi

Tips on Contract Titling For Top-Selling VA Contracts

VA Contract Titling Scenarios in the Event of Death

	Sample Contract	Owner	Joint Owner	Annuitant	Death Of	Result
Example 1	**Contract A**	Trust	—	Husband	Husband	Pays to owner. But insurer will also pay a death claim on the death of the beneficial owner of the trust.
	Contract B	Trust	—	Husband	Husband	Pays to trust as owner.
Example 2	**Contract X**	Husband	Wife	Husband	Husband or Wife	Pays to primary beneficiary. If no primary beneficiary is named, the surviving joint owner may elect to assume ownership of the annuity.
	Contract Y	Husband	Wife	Wife	Husband or Wife	Generally pays to the primary beneficiary. But a contingent owner (if one exists) would supersede the primary beneficiary in this situation. Also, no death benefit would be payable upon a non-annuitant owner's death. Instead, ownership transfers, which may be considered taxable.

Variable annuities can be complex, and no area is more confusing than VA contract titling. Interestingly, the same titling scenario can lead to two different results when applied to different contracts. Above we give you examples of how that works using actual contracts. Studying these examples may improve your knowledge of titling and help you avoid unexpected results for clients.

by Frank O'Connor

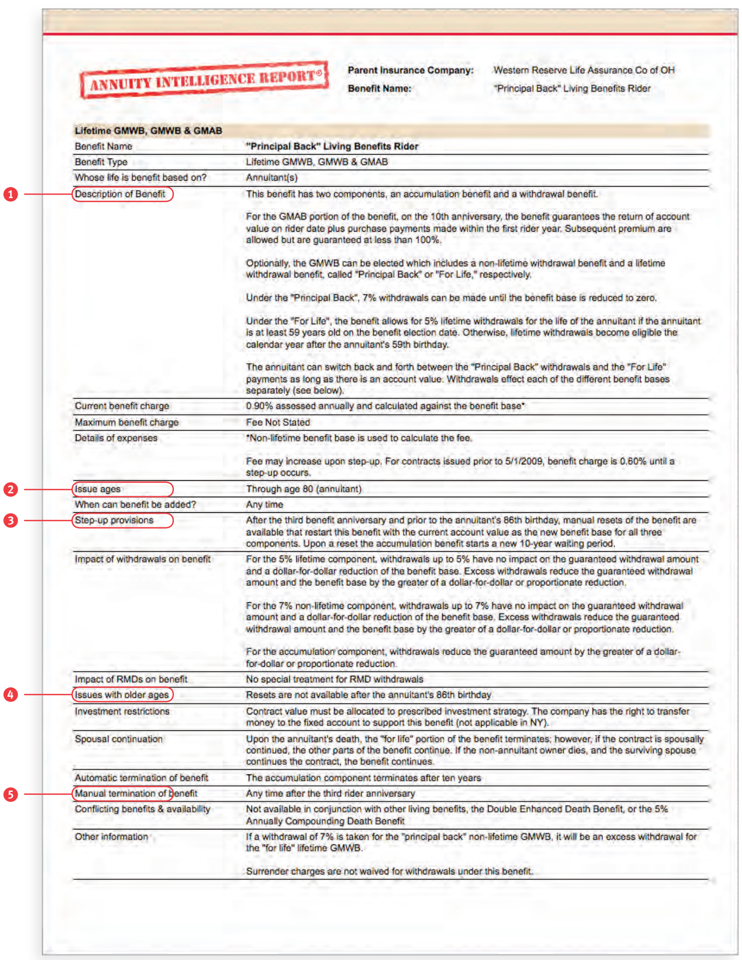
How the AI Report Helps With Suitability for Seniors

This hot-button FINRA topic cools down with help from the AI tool

Advisors and suitability reviewers are well aware of the focus FINRA puts on sales to seniors. Regulators speak frequently about making sure VA sales to older clients are appropriate. There are a number of areas where seniors can be at a disadvantage when it comes to features and benefits:

Long surrender periods—Older clients need income and access to their funds while in the decumulation stage. Regulators don't like to see older clients with long surrender periods.

Benefits that end at a certain age—Some living benefits, if not exercised by a certain age, will terminate. Advisors need to be aware of mile-stone dates which trigger termination of benefits.



ANNUITY INTELLIGENCE REPORT®

Parent Insurance Company: Western Reserve Life Assurance Co of OH
Benefit Name: "Principal Back" Living Benefits Rider

Lifetime GMWB, GMWB & GMAB	
Benefit Name	**"Principal Back" Living Benefits Rider**
Benefit Type	Lifetime GMWB, GMWB & GMAB
Whose life is benefit based on?	Annuitant(s)
1 Description of Benefit	This benefit has two components, an accumulation benefit and a withdrawal benefit. For the GMAB portion of the benefit, on the 10th anniversary, the benefit guarantees the return of account value on rider date plus purchase payments made within the first rider year. Subsequent premium are allowed but are guaranteed at less than 100%. Optionally, the GMWB can be elected which includes a non-lifetime withdrawal benefit and a lifetime withdrawal benefit, called "Principal Back" or "For Life," respectively. Under the "Principal Back", 7% withdrawals can be made until the benefit base is reduced to zero. Under the "For Life", the benefit allows for 5% lifetime withdrawals for the life of the annuitant if the annuitant is at least 59 years old on the benefit election date. Otherwise, lifetime withdrawals become eligible the calendar year after the annuitant's 59th birthday. The annuitant can switch back and forth between the "Principal Back" withdrawals and the "For Life" payments as long as there is an account value. Withdrawals effect each of the different benefit bases separately (see below).
Current benefit charge	0.90% assessed annually and calculated against the benefit base*
Maximum benefit charge	Fee Not Stated
Details of expenses	*Non-lifetime benefit base is used to calculate the fee. Fee may increase upon step-up. For contracts issued prior to 5/1/2009, benefit charge is 0.60% until a step-up occurs.
2 Issue ages	Through age 80 (annuitant)
When can benefit be added?	Any time
3 Step-up provisions	After the third benefit anniversary and prior to the annuitant's 86th birthday, manual resets of the benefit are available that restart this benefit with the current account value as the new benefit base for all three components. Upon a reset the accumulation benefit starts a new 10-year waiting period.
Impact of withdrawals on benefit	For the 5% lifetime component, withdrawals up to 5% have no impact on the guaranteed withdrawal amount and a dollar-for-dollar reduction of the benefit base. Excess withdrawals reduce the guaranteed withdrawal amount and the benefit base by the greater of a dollar-for-dollar or proportionate reduction. For the 7% non-lifetime component, withdrawals up to 7% have no impact on the guaranteed withdrawal amount and a dollar-for-dollar reduction of the benefit base. Excess withdrawals reduce the guaranteed withdrawal amount and the benefit base by the greater of a dollar-for-dollar or proportionate reduction. For the accumulation component, withdrawals reduce the guaranteed amount by the greater of a dollar-for-dollar or proportionate reduction.
Impact of RMDs on benefit	No special treatment for RMD withdrawals
4 Issues with older ages	Resets are not available after the annuitant's 86th birthday
Investment restrictions	Contract value must be allocated to prescribed investment strategy. The company has the right to transfer money to the fixed account to support this benefit (not applicable in NY).
Spousal continuation	Upon the annuitant's death, the "for life" portion of the benefit terminates; however, if the contract is spousally continued, the other parts of the benefit continue. If the non-annuitant owner dies, and the surviving spouse continues the contract, the benefit continues.
Automatic termination of benefit	The accumulation component terminates after ten years
5 Manual termination of benefit	Any time after the third rider anniversary
Conflicting benefits & availability	Not available in conjunction with other living benefits, the Double Enhanced Death Benefit, or the 5% Annually Compounding Death Benefit
Other information	If a withdrawal of 7% is taken for the "principal back" non-lifetime GMWB, it will be an excess withdrawal for the "for life" lifetime GMWB. Surrender charges are not waived for withdrawals under this benefit.

Step ups that end at a certain age—Automatic or manual growth of the benefit base often is offered for a fixed period of time.

Other suitability issues with seniors involve fees, 1035 replacements, marketing and sales practices, riders that may be given up, and death benefit values given up.

The Annuity Intelligence Report has several sections that help ensure that a VA is appropriate for an older client. The report highlights age provisions and other features to keep in mind when dealing with clients in their golden years.

Here is where you can look on the benefits page to find the information you need:

❶ **Description of benefit**—View a summary of the benefit. Important ages are referenced to highlight what type of client the product is fit for.

❷ **Issues ages**—Specific guidelines on the maximum and minimum issue ages for the benefit.

❸ **Step Ups**—Look for milestone dates that indicate how long a step-up lasts or when a step-up ends.

❹ **Issues with Older Ages**—This section pulls together the main issues to consider with older clients, and spells out waiting periods, mile-stone dates and other product provisions you need to know about.

❺ **Automatic Termination of Benefit**—This section cross references other sections to let you know what to watch out for. Look for ages when the benefit ends.

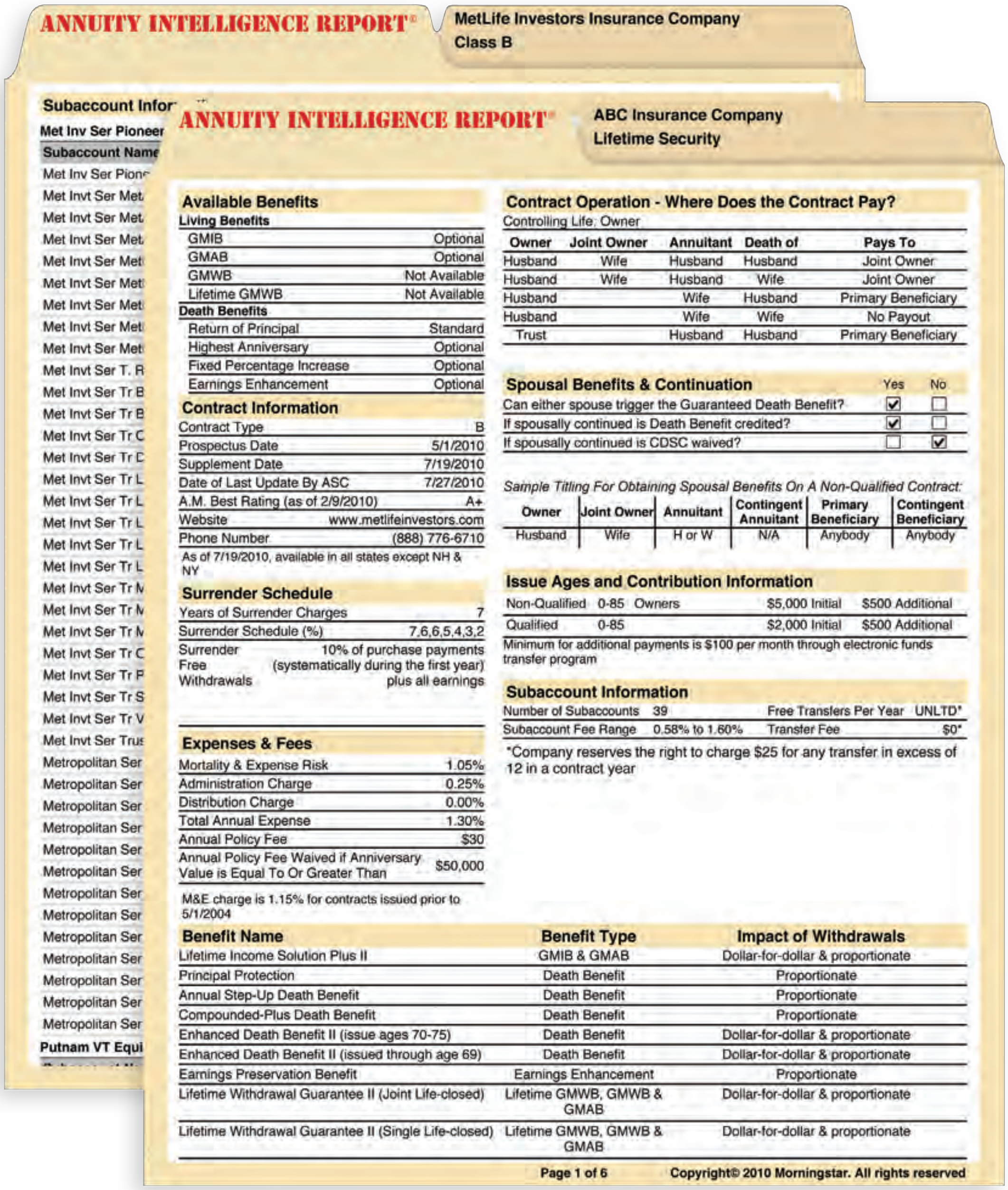
by John McCarthy

Fixed Annuity versus Variable Annuity: What are the Main Differences?

	Fixed Annuity	**Variable annuity**
How does this investment work?	Investor gets safety of principal and an interest payment based on the initial investment, usually at least 3%.	Investor's payment depends on how subaccount investments, which are similar to mutual funds, perform.
Who is this investment suitable for?	Long-term investors seeking tax-deferred growth. Those seeking more modest retirement income in exchange for principal protection.	Long-term investors seeking tax-deferred growth. Those seeking potentially higher retirement income via equity exposure in exchange for higher volatility and risk to principal
Is my principal value guaranteed during my lifetime?	Yes. Principal value does not fluctuate and is guaranteed by the strength of the insurer.	Depends. Generally, principal value fluctuates based on investments selected. Additionally, owner can purchase a rider that guarantees initial principal after a waiting period (usually 10 years).
Is my principal guaranteed upon death?	Yes. The principal is guaranteed upon the death of the owner.	Yes. Most VAs pay out at least the value of the original investment upon death.
Is my principal exposed to market volatility?	No.	Yes, equity exposure unless investments are placed in a fixed investment option.
Is my income payment guaranteed?	Yes. Fixed annuities carriers guarantee a rate, historically 3%-4%, currently around 1.5%.	Yes, via an optional rider that guarantees a stream of withdrawals or annuity payments.
Is there a surrender charge?	Yes. Generally a declining % for 3 months to more than 10 years.	Yes. Generally a declining % for 1–8 years.
Is my investment held by the insurer?	Yes. Mixed in with general funds of the insurer.	No. Placed in a separate account not subject to insurer's financial condition.
Is my principal amount subject to bankruptcy risk of insurer?	Yes.	No.
Is my investment guaranteed by a government entity?	Yes. Each state has a guarantee fund that helps pay claims for financially impaired insurance companies.	Yes. Also covered by state guarantee fund. In addition, product falls under the SIPC, which protects investors from failed brokerage firms. (Possible coverage if held in a custodial brokerage account.)
Who regulates product?	State Insurance Regulators	State Insurance Regulators and Federal Securities Regulators

While no retirement product is right for everyone, be sure you know your client and their primary retirement needs.

Morningstar's Annuity Intelligence Report®


ANNUITY INTELLIGENCE REPORT®
MetLife Investors Insurance Company
Class B

ANNUITY INTELLIGENCE REPORT®
ABC Insurance Company
Lifetime Security

Available Benefits

Living Benefits	
GMIB	Optional
GMAB	Optional
GMWB	Not Available
Lifetime GMWB	Not Available
Death Benefits	
Return of Principal	Standard
Highest Anniversary	Optional
Fixed Percentage Increase	Optional
Earnings Enhancement	Optional

Contract Information

Contract Type	B
Prospectus Date	5/1/2010
Supplement Date	7/19/2010
Date of Last Update By ASC	7/27/2010
A.M. Best Rating (as of 2/9/2010)	A+
Website	www.metlifeinvestors.com
Phone Number	(888) 776-6710

As of 7/19/2010, available in all states except NH & NY

Surrender Schedule

Years of Surrender Charges	7
Surrender Schedule (%)	7,6,6,5,4,3,2
Surrender Free Withdrawals	10% of purchase payments (systematically during the first year) plus all earnings

Expenses & Fees

Mortality & Expense Risk	1.05%
Administration Charge	0.25%
Distribution Charge	0.00%
Total Annual Expense	1.30%
Annual Policy Fee	$30
Annual Policy Fee Waived if Anniversary Value is Equal To Or Greater Than	$50,000

M&E charge is 1.15% for contracts issued prior to 5/1/2004

Contract Operation - Where Does the Contract Pay?

Controlling Life: Owner

Owner	Joint Owner	Annuitant	Death of	Pays To
Husband	Wife	Husband	Husband	Joint Owner
Husband	Wife	Husband	Wife	Joint Owner
Husband		Wife	Husband	Primary Beneficiary
Husband		Wife	Wife	No Payout
Trust		Husband	Husband	Primary Beneficiary

Spousal Benefits & Continuation

	Yes	No
Can either spouse trigger the Guaranteed Death Benefit?	☑	☐
If spousally continued is Death Benefit credited?	☑	☐
If spousally continued is CDSC waived?	☐	☑

Sample Titling For Obtaining Spousal Benefits On A Non-Qualified Contract:

Owner	Joint Owner	Annuitant	Contingent Annuitant	Primary Beneficiary	Contingent Beneficiary
Husband	Wife	H or W	N/A	Anybody	Anybody

Issue Ages and Contribution Information

Non-Qualified	0-85	Owners	$5,000 Initial	$500 Additional
Qualified	0-85		$2,000 Initial	$500 Additional

Minimum for additional payments is $100 per month through electronic funds transfer program

Subaccount Information

Number of Subaccounts	39	Free Transfers Per Year	UNLTD*
Subaccount Fee Range	0.58% to 1.60%	Transfer Fee	$0*

*Company reserves the right to charge $25 for any transfer in excess of 12 in a contract year

Benefit Name	Benefit Type	Impact of Withdrawals
Lifetime Income Solution Plus II	GMIB & GMAB	Dollar-for-dollar & proportionate
Principal Protection	Death Benefit	Proportionate
Annual Step-Up Death Benefit	Death Benefit	Proportionate
Compounded-Plus Death Benefit	Death Benefit	Proportionate
Enhanced Death Benefit II (issue ages 70-75)	Death Benefit	Dollar-for-dollar & proportionate
Enhanced Death Benefit II (issued through age 69)	Death Benefit	Dollar-for-dollar & proportionate
Earnings Preservation Benefit	Earnings Enhancement	Proportionate
Lifetime Withdrawal Guarantee II (Joint Life-closed)	Lifetime GMWB, GMWB & GMAB	Dollar-for-dollar & proportionate
Lifetime Withdrawal Guarantee II (Single Life-closed)	Lifetime GMWB, GMWB & GMAB	Dollar-for-dollar & proportionate

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For more information, please contact Morningstar's Advisor Software:

Call our sales group:
866 619-5932

Vist our website:
www.global.morningstar.com/annuityintelligence

You can increase sales and improve handling of variable annuities with Morningstar's Annuity Intelligence Report®. It's an easy-to-use, comprehensive, online tool that simplifies the process of researching variable annuity contracts.

You can use it to enhance knowledge of annuities, improve suitability, and improve client service. Advisors, broker/dealers, and insurance carriers use the AI Report to quickly search, filter, sort, and analyze variable annuity information.

These plain-English reports feature constantly updated, independent information on 1,400+ active and inactive contracts—including details found nowhere else on contract titling, spousal continuation, and benefits.

Meet the Authors

Kevin Loffredi, Vice President
Annuity Solutions

Kevin manages the development of tools and services for the insurance market, including the Annuity Intelligence Report, which is an easy-to-use, comprehensive tool for annuity research and sales as it explains a very complex investment in plain-English. Kevin is a recognized expert in annuity contract titling, has been a keynote speaker, and has been quoted in various publications, such as Bloomberg, Washington Post, Annuity Market News, Ignites, and National Underwriter.

John McCarthy, Product Mngr
Annuity Solutions

John is responsible for product development, marketing, and strategic partnerships for the Annuity Intelligence Report. He also supports the business development and account management functions as they relate to annuity solutions. John holds a CPA certification, an MA from DePaul University, and a BA from Illinois State University.

Frank O'Connor, Product Mngr
VA and Variable Life Database

Frank has overall responsibility for the development of Morningstar's annuity and retirement product data capabilities, and he is also the Product Manager for the Annuity Research Center, Morningstar's institutional variable annuity research application. Frank holds an MBA with Finance Concentration from The John H. Sykes College of Business at the University of Tampa and a BA in International Relations from the University of South Florida.

Marco Chmura, Operations Mngr
VA and Variable Life Database

Marco Chmura manages the variable annuity data team and the firm's institutional annuity product, Morningstar® Annuity Research Center. Prior to assuming his current role in January 2009, he was a variable annuity data project manager. He joined Morningstar in March 2008. Chmura holds a bachelor's degree in mathematics and business from Purdue University.

Testimonials

"The benefit selector is saving us time and improving client service. We are able to sort through the hundreds of VA living benefits out there and really make sense of what's right for the client."
—Ethan Young, Annuity Product Manager
Commonwealth Financial Network

"We maintained a variable annuity search engine in house. It was taking our marketing and technology team over 100 hours a month to keep pace with getting all of the 'correct' information updated and added to the system, not to mention the lag time for getting product changes added to the system. Adding [the Annuity Intelligence Report's] technology and daily updates has lifted a huge burden off our team."
—Wes Riemondi, Annuity Sales Manager
NFP Securities, Inc.

"For compliance, [the Annuity Intelligence Report] helps those who conduct suitability reviews. Our supervisors use the tool when conducting suitability reviews of sales. It has sped up the review process. It helps fulfill our regulatory training requirement under Rule 2821."
—Diana Giraldo
Bank of America

"The Annuity Intelligence Report actually helped me close a piece of business already. An advisor… turned in his first piece of business with us because of the expertise I displayed with the breadth of carriers out there, thanks to the Annuity Intelligence Report."
—J.G., Top Wholesaler, Independent Channel
Major Carrier

"All in all, you folks have done a wonderful job in putting [the Annuity Intelligence Report] together—it is a great value-add! We appreciate the constant improvements…"
—Matt Chiccuarelli, Annuity Product Consultant
Commonwealth Financial Network

Brief Pause in Product Innovation as Carriers Get Back to Basics

VA Industry Product and Sales Highlights from Q1 2011

by John McCarthy
Product Manager, Annuity Solutions

The first quarter of 2011 saw 49 significant product changes filed by variable annuity carriers. This compares to 64 filings last quarter. The industry consolidated further with the announcement that Genworth will exit the VA business. Carriers moderated their product innovation efforts, with new benefit designs sticking to tried and true step up methods, and withdrawal percentages staying in the 5% range.

The number of new contracts issued this quarter was about average. Living benefit activity remained brisk, though few fresh ideas emerged in structure or design. Material revisions dropped slightly, and fee changes dropped significantly. Overall, VA product developers continued to push toward more generous benefits, with modest increases in step ups and withdrawal rates. A total of seven new contracts were issued and one closed. At this time last year, carriers were coming off one of the most prolific product filing periods ever, with a total of 140 changes filed in Q1 2010.

Living benefit activity continued at a strong pace. The Lifetime GMWB (Guaranteed Minimum Withdrawal Benefit) continues to be the living benefit of choice among product developers and those distributing VAs. All 11 living benefits released in Q1 2011 were designed as lifetime withdrawal riders.

Sales flows picked up in calendar year 2010, with a 10.3% increase in new sales. Full year new flows were $136.6 billion in 2010 compared to $123.9 billion in 2009. With assets reaching an all-time high of $1.50 trillion, the variable annuity industry has surpassed the pre-crisis level of Q3 2007. We expect product development to remain brisk in Q2 2011 based on preliminary filings.

Overall, we continue to expect the pendulum to swing back toward more generous benefits during 2011.

First Quarter 2011 Review
Western & Southern (Integrity) issued VAROOM—Variable Annuity for Roll Over Only Money—which offers individual exchange-traded funds (ETFs) from iShares and Vanguard as subaccount options. Until now, ETFs were available in variable annuities only through a fund-of-funds structure. The product carries a Lifetime GMWB rider with a fee of 60 bps or 80 bps, depending on the asset allocation chosen. The product is available for qualified money only as an IRA for tax-qualified rollovers. The Lifetime GMWB offers 4.5% at age 65 with a highest anniversary value step up.

There is a continued focus on the fee-only market. SunLife issued a no-load contract (aka "I-share"). The contract offers an optional Lifetime GMWB rider that allows 5% withdrawals for a 65-year-old. The insurance expense cost is 65 bps. The firm is one of five carriers on the newly established LPL fee-only VA platform, along with Allianz, AXA, Lincoln and Prudential.

AXA has also versioned its Retirement Cornerstone contract for the fee-only market. The total insurance expense on the contract is .65% and the contract carries only a Lifetime GMWB option and a death benefit with the three common step-up methods.

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AXA also updated all of its Retirement Cornerstone contracts to the "11" series. The main changes were an expanded number of subaccounts, and changing the Lifetime GMWB from an optional to a standard benefit with an opt-out. As for the Lifetime GMWB, the HAV step up component was removed, the benefit base reset was moved to annually instead of every three years, and the fee was increased by 5 bps. The Retirement Cornerstone lifetime benefit is unique in that it ties its step up to the 10-year U.S. Treasury note rate.

John Hancock released a Lifetime GMWB with a 5% withdrawal for a 65-year-old. Step ups are 5% simple additions for 10 years, or highest anniversary value. The fee ranges from 80 to100 bps, depending on share class. (Income Plus for Life 1.11)

Ohio National also released a Lifetime GMWB with a 5% withdrawal for a 65-year-old. Step ups offer an 8% simple increase for 10 years, or highest anniversary value, or a deferred benefit base bonus of 200% of principal provided no withdrawals have been taken in first 10 years. The fee is 95 bps.

Pacific Life released a new Lifetime GMWB in the first quarter of 2011, also with a 5% withdrawal rate for a 65 year-old. The benefit offers an automatic step up and a manual step up option. The rider carries a 60 bps charge. (CoreIncome Advantage 5 Plus)

Prudential revised its Lifetime GMWB. The new version moves to a 5% step up of the highest daily value (down from 6%). They also moved the deferred bonus period out to 12 years instead of 10, pushed the 5% withdrawal age band starting at age 59 ½ out to ending age 84 from age 80, and raised the fee by 10 bps to 95 bps (HD Lifetime Income). The long-term care portion of the benefit did not change (HD Lifetime Income with Income Accelerator.)

Genworth announced on January 7th, 2011 its intention to exit the VA business. The firm ranked 24th in VA sales flows for the full year 2010, the same spot as the year before.

Update to Pipeline

Allianz filed a preliminary Lifetime GMWB with a guaranteed withdrawal percentage based not on age, but on the rate of the 10-year U.S. Treasury note. This ties payouts directly to market performance, removing the age factor, as opposed to the AXA benefit that maintains age-based payout bands but uses the 10-year Treasury as a step-up benchmark rate. The benefit has not been rolled out yet.

Hartford is offering two new Lifetime GMWBs. The first offers a 6% step up and a 4% withdrawal for a 65-year-old and carries a 100 bps charge (Future6). The second offers a 5% step up and a 5% withdrawal and charges 135 bps (Future5). The benefits will be available on the Personal Retirement Manager (Series II) contracts.

John Hancock will discontinue sales of three share classes of the AnnuityNote: A-, C-, and I-share effective April 29, 2011. Integrity will discontinue sales of PinnaclePlus as of May 1st.

Lincoln National filed a new long-term care benefit that pays a monthly amount for long-term care expenses and costs 0.87% to 1.71%, depending on options chosen (the fee calculation is complicated). This benefit pays for long-term care expenses up to three-times the initial purchase amount (which must range from $50,000 to $400,000). Payments are offered monthly beginning after the first anniversary and are not taxable. The optional Growth feature (50 bps) gives the ability to increase the annual payment amount by capturing the investment gains (highest anniversary value) through age 76. The benefit is capped at $1.6 million, covers a single life, and applies only to non-qualified assets. (Lincoln Long-Term Care Advantage)

MetLife is bumping up its GMIB step up to 6% for the Series Xtra 6 contract.

Principal plans to release a new B-share contract (Principal Lifetime Income Solutions) with a 125 bps M&E charge, a Lifetime GMWB benefit and two types of death benefits (return of premium and highest anniversary value). The new Lifetime GMWB offers a 5% step up on the first two anniversaries and a 5.25% withdrawal for a 65-year-old.

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Prudential is coming out with a new share class contract (O-share) specifically designed for Edward Jones. The fee structure pulls elements from both the A-share and B-share structure. A front-end sales charge is assessed against the net amount invested and spread over 7 years, ranging from 15 bps to 70 bps based on break-points from $50,000 to $1 million, and surrender charges also vary based on the amount invested. The contract offers a Lifetime GMWB and a Return of Premium death benefit.

Transamerica is releasing a fee-based contract (I-share) with a low 45 bps charge (DWS Personal Pension VA) which offers a Lifetime GMWB benefit with a 5% simple step up, or highest anniversary value, and a 5% withdrawal for a 65-year old (Retirement Income Choice 1.5).

A Note on Fees

Despite the ongoing innovation and ratcheting up of benefits, VA contract costs have remained remarkably steady over the past five years when measured as industry averages.

Variable Annuity Fees Have Remained Steady

	2006	2007	2008	2009	Q4 2010
Contract fees	1.54	1.53	1.51	1.53	1.51
Subaccount fees	.98	.97	.98	.98	.98
Total Average Expenses*	2.51	2.49	2.49	2.51	2.49

*Note: May not sum due to rounding.

Marco Chmura, Kevin Loffredi, and Frank O'Connor contributed to this article.

Average Living Benefit Expenses Per $25,000 Charge Basis

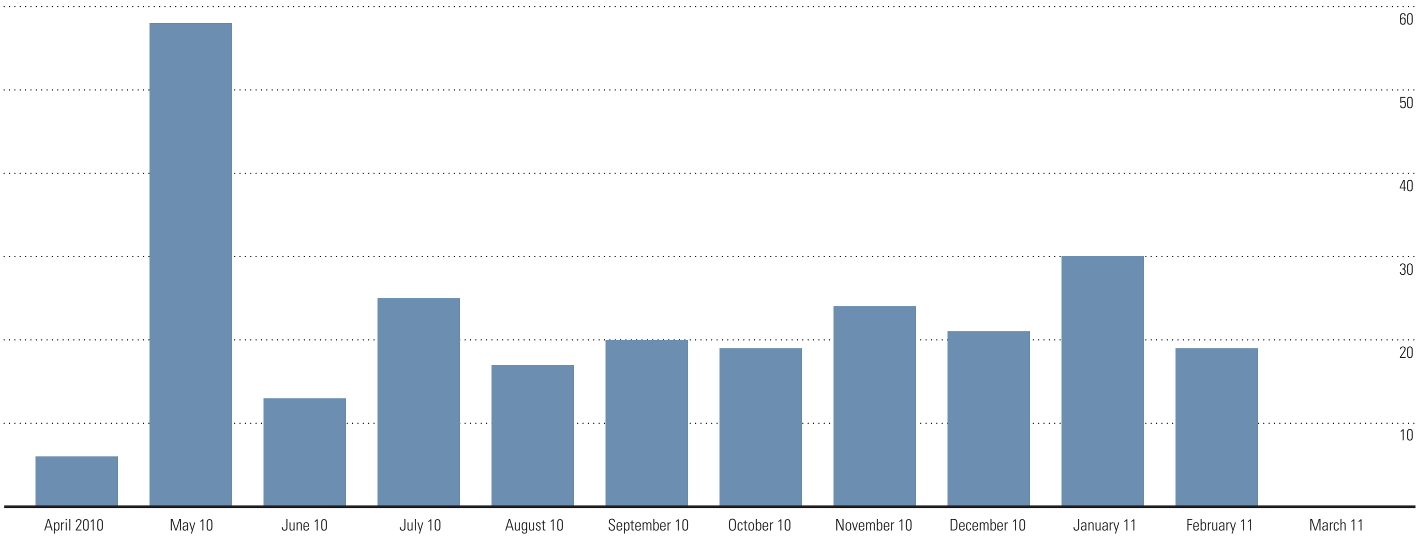
	Guaranteed Minimum Income		Guaranteed Minimum Withdrawal		Lifetime Guaranteed Minimum Withdrawal		Guaranteed Minimum Accumulation		All Types	
	%	$	%	$	%	$	%	$	%	$
4th Quarter 2010	0.707	176.75	0.763	190.75	1.032	258.00	0.880	220.00	0.846	211.38
3rd Quarter 2010	0.624	156.00	0.921	230.25	1.023	255.75	0.895	223.75	0.866	216.44
2nd Quarter 2010	0.585	146.25	0.864	216.00	0.978	244.50	0.796	199.00	0.806	201.44
1st Quarter 2010	0.606	151.50	0.793	198.25	0.932	233.00	0.725	181.25	0.764	191.00

Product Development

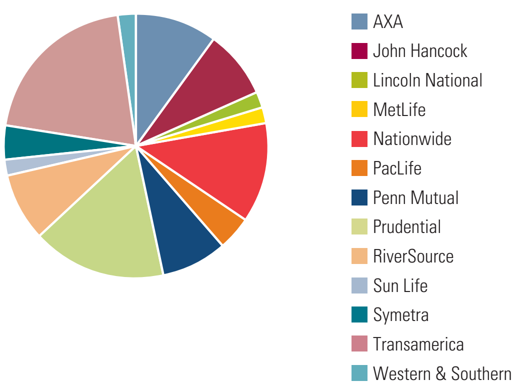
VA Contract New	VA Contract Closed	VA Benefit New	VA Benefit Closed	Fee Changes	Revision to Product	Total	Date
7	1	11	12	9	9	**49**	Q1 2011
12	2	15	8	18	10	**65**	Q4 2010
9	1	13	9	10	19	**61**	Q3 2010
8	12	7	10	20	19	**76**	Q2 2010
26	27	7	30	20	30	**140**	Q1 2010
7	0	6	2	13	9	**37**	Q4 2009

Brief Pause in Product Innovation as Carriers Get Back to Basics

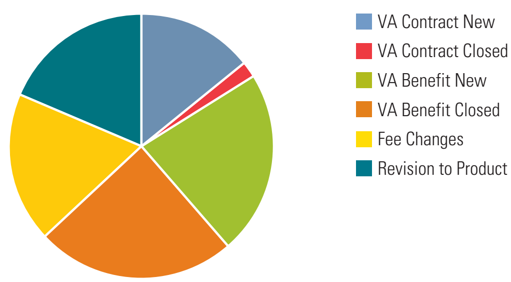
Rolling 12 Month Annuity Product Changes



4th Quarter 2010 Annuity Changes by Company (Total 49)

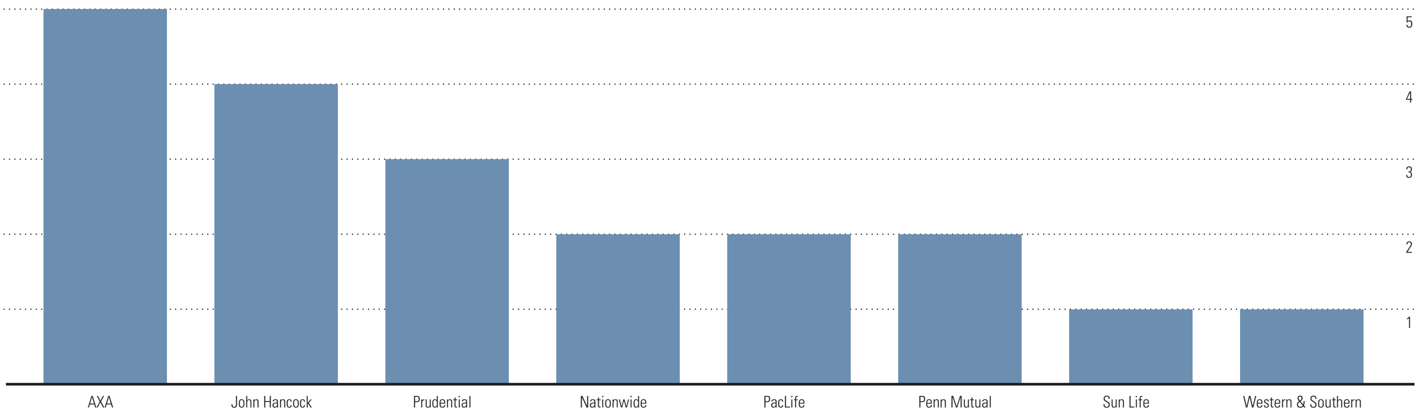


4th Quarter 2010 Annuity Changes by Type (Total 49)

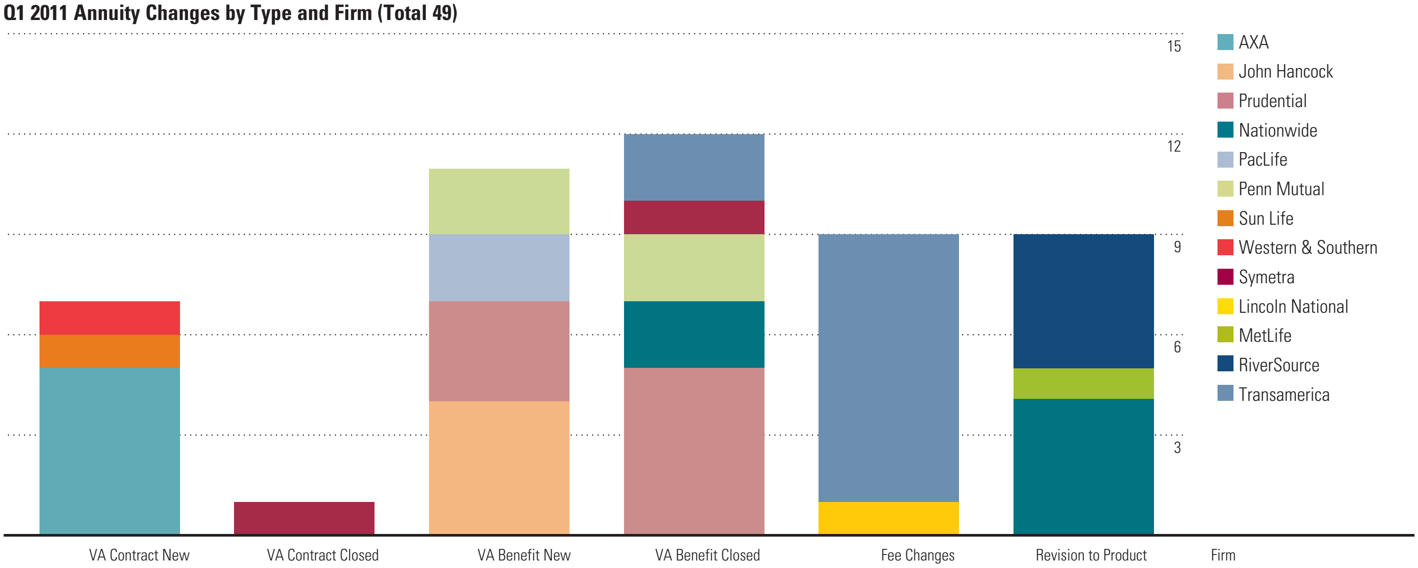


Brief Pause in Product Innovation as Carriers Get Back to Basics

Q1 2011 New Contracts and Benefits by Company (Total 20)



Q1 2011 Annuity Changes by Type and Firm (Total 49)



VA Contract New	VA Contract Closed	VA Benefit New	VA Benefit Closed	Fee Changes	Revision to Product	Firm
5	0	0	0	0	0	AXA
0	0	4	0	0	0	John Hancock
0	0	3	5	0	0	Prudential
0	0	0	2	0	4	Nationwide
0	0	2	0	0	0	PacLife
0	0	2	2	0	0	Penn Mutual
1	0	0	0	0	0	Sun Life
1	0	0	0	0	0	Western & Southern
0	1	0	1	0	0	Symetra
0	0	0	0	1	0	Lincoln National
0	0	0	0	0	1	MetLife
0	0	0	0	0	4	RiverSource
0	0	0	2	8	0	Transamerica
7	**1**	**11**	**12**	**9**	**9**	**Total**