Pru's VA price hike too much for Raymond James

With cost reaching 245 basis points, VA hits a most expensive stratum

By Darla Mercado

February 11, 2013 1:54 pm ET

Prudential Financial Inc.'s decision to raise the fees on its Premier Retirement variable annuity is causing some broker-dealers to think twice about offering it.

The insurer has filed with the Securities and Exchange Commission updates for Premier Retirement, including a 15-basis-point increase in the mortality-and-expenses fee for the B-share version of the product. That brings the M&E fees to 145 basis points and, counting the cost of a living-benefit rider, pegs the single-life version of the product at about 245 basis points.

The changes are expected to go into effect Feb. 25.

At Raymond James Financial Inc., the 245-basis-point price tag makes the VA too expensive. The firm has a 235-basis-point limit on the combined cost of the VA chassis and the rider.

"With this product change, Prudential is going over the limits," said Scott Stolz, president of Raymond James Insurance Group. "They will raise the M&E to the point where [the chassis] is the most expensive variable annuity on the street."

The firm has decided that it will stop offering B and C shares of the product, and will consider adding Prudential's O class instead, Mr. Stolz said.

Raymond James does not offer the L share, a class that generally comes with a four-year surrender period — shorter than the B share's seven-year period — and at a higher cost.

O-share variable annuities, currently available at Edward Jones, have no upfront charges and assess M&E expenses over the course of the surrender period. Those expenses decline over time. Clients also can take advantage of break point discounts, leading to lower fees for clients who deposit more money.

Other distributors are weighing Prudential's product change.

“Those are meaningful changes that they're making to this product, based on what's going on in the industry,” said Bernie Gacona, director of annuities at Wells Fargo & Co. “We're analyzing what that means to us at Wells Fargo.”

The firm hasn't decided yet how to proceed or whether it will offer the costlier version of Prudential's product.

Bruce Ferris, vice president of sales and distribution at Prudential Annuities, said that rather than looking at one particular component of a VA's cost, distributors ought to place those expenses in context with what clients are receiving in exchange.

“What matters are the all-in fees you pay for the benefits,” he said. “We believe the majority of our distributors feel that we provide a compelling value proposition, and the fees are in line with the industry average.”

Attempts to stem VA volume at the Big Three — Jackson National Life Insurance Co., MetLife Inc. and Prudential — have continued for well over a year as the insurers fret about taking on long-dated liabilities amid lengthy periods of low interest rates. However, financial advisers are already gravitating toward insurers they find more attractive.

At Raymond James, the reaction from advisers on the Prudential development was muted.

“For the most part, advisers understand what we're doing and why we're doing it,” said Mr. Stolz. While Prudential once made up 15% to 20% of the broker-dealer's variable annuity business, it's now down to about 7%, he added.

These days, Jackson National continues to be a big seller, but Lincoln National Corp. and The Ohio National Life Insurance Co. have climbed into the ranks of the top three at Raymond James, Mr. Stolz said.