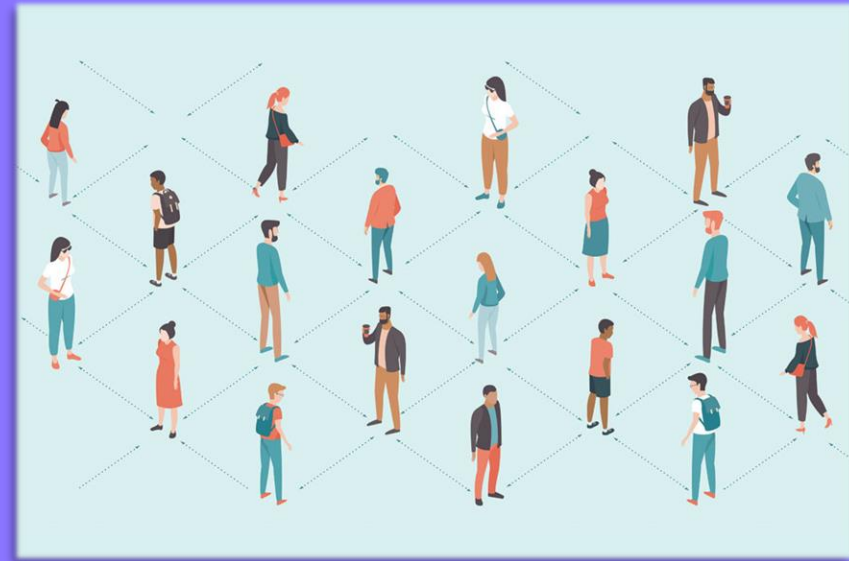


ANNUITIES IN A COVID-19 WORLD

Actuaries Club of
Hartford/Springfield

July 7, 2020



Nicholas Carbo, FSA, MAAA



Jennifer Healy, FSA, MAAA





All great changes are preceded by chaos.

Deepak Chopra



AGENDA



Economic Environment



Industry Sales



Product Development & Inforce Management



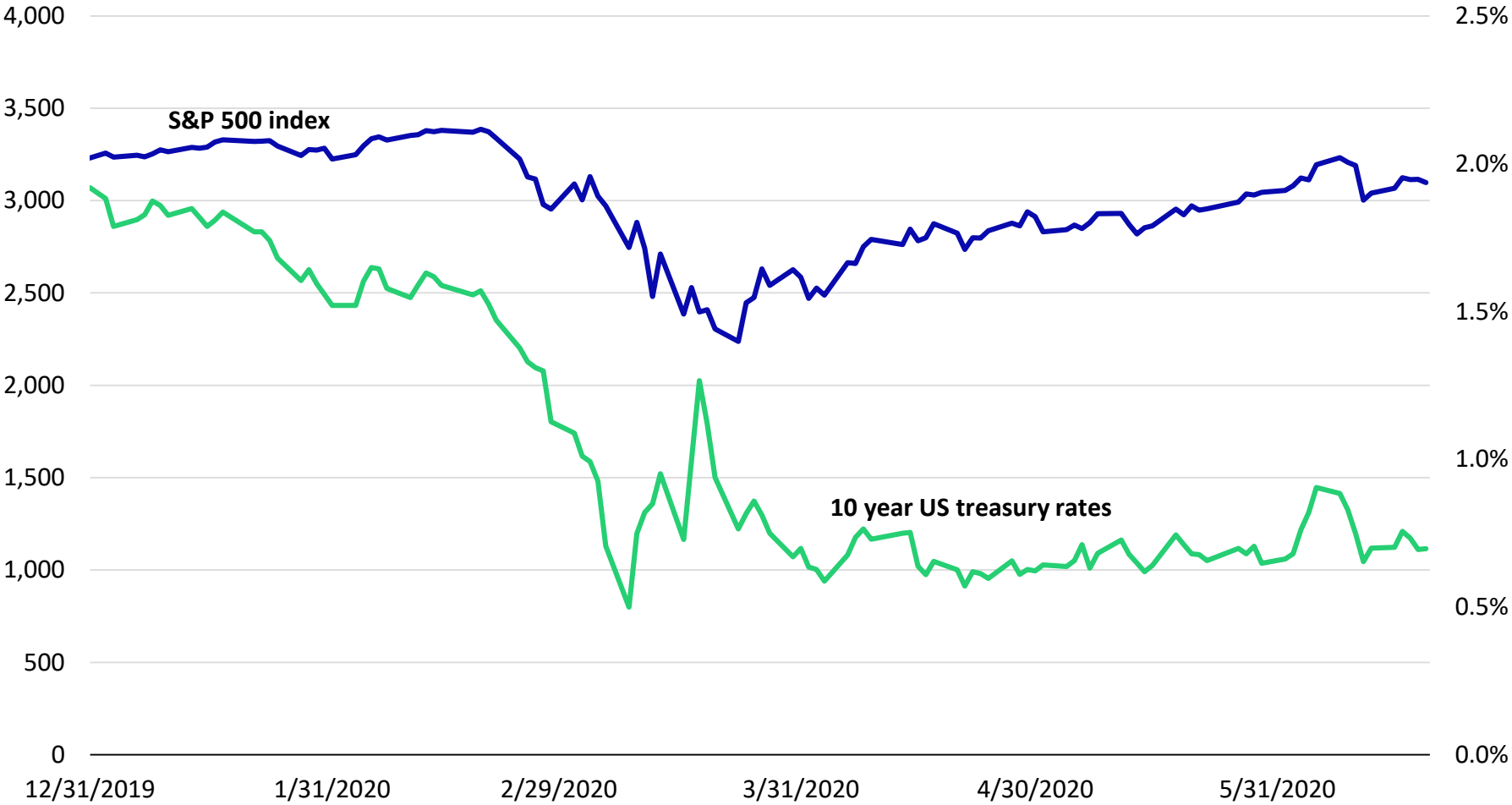
Regulatory



Future

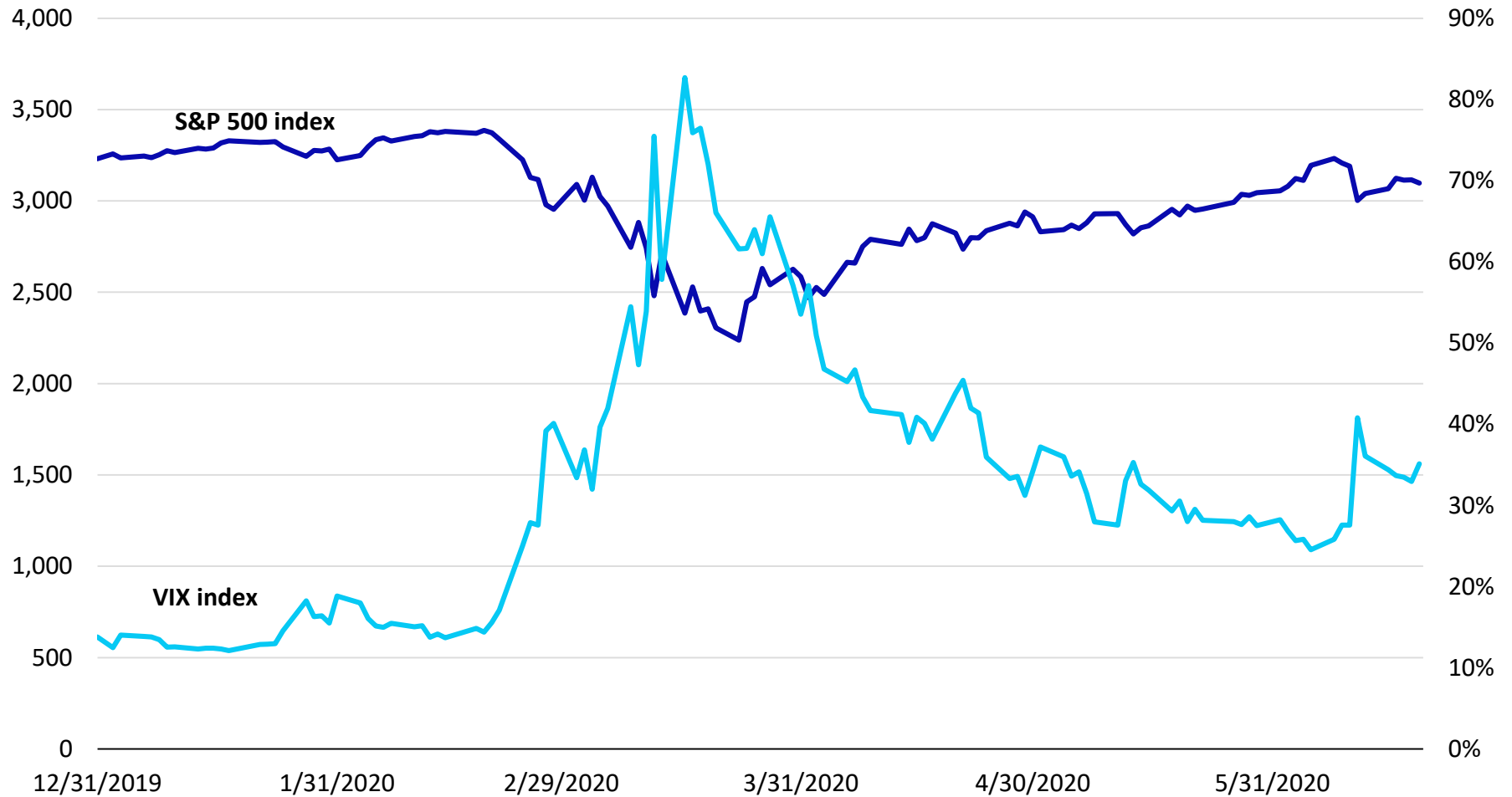
ECONOMIC MARKET

Significant market decline and drop in interest rates became headwinds for the insurance industry



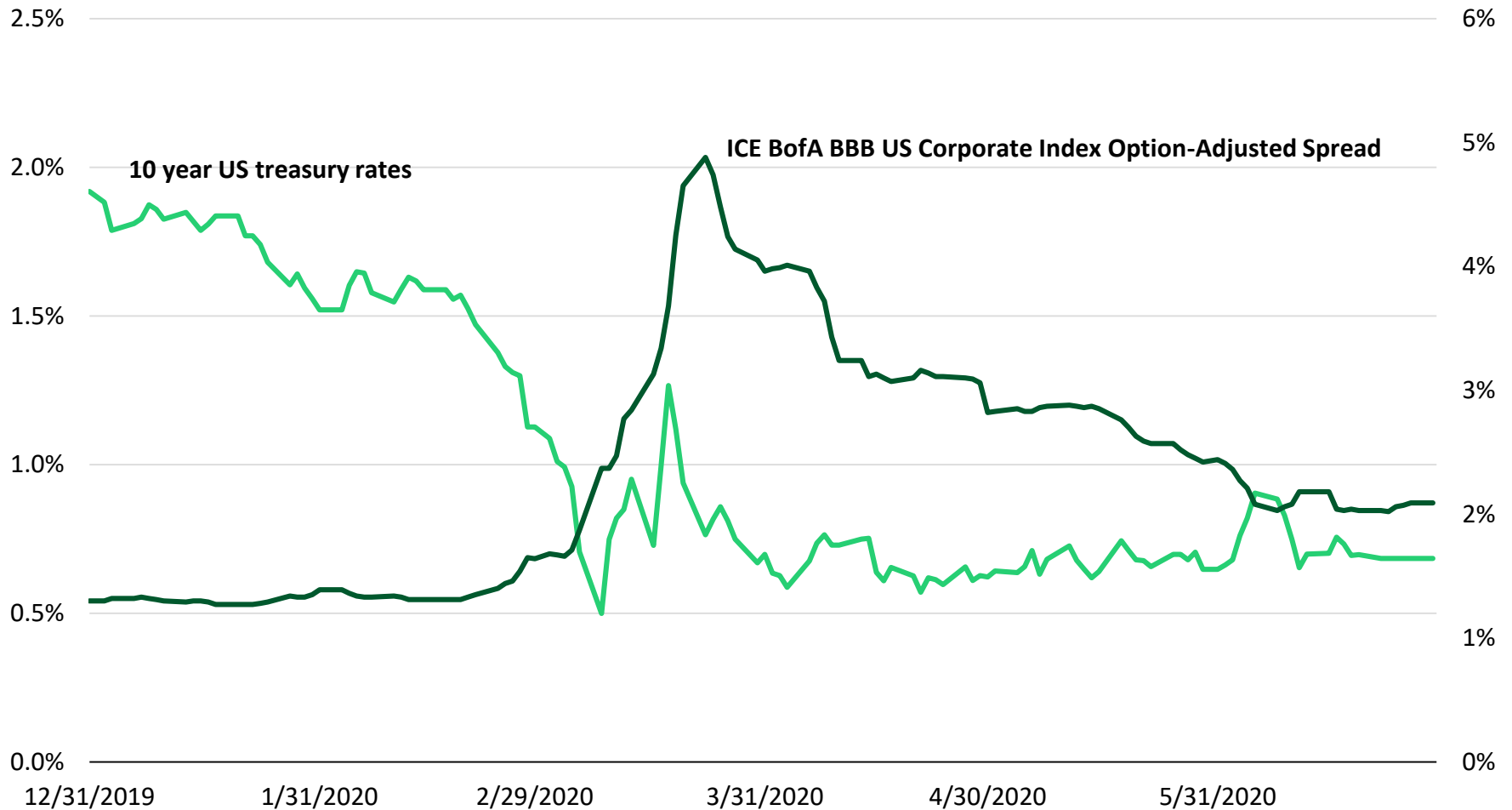
S&P 500 AND VIX INDEX

Significant market decline was also coupled with a significant increase in volatility, impacting inforce and new business blocks of VA, FIA, FA, and structured annuities



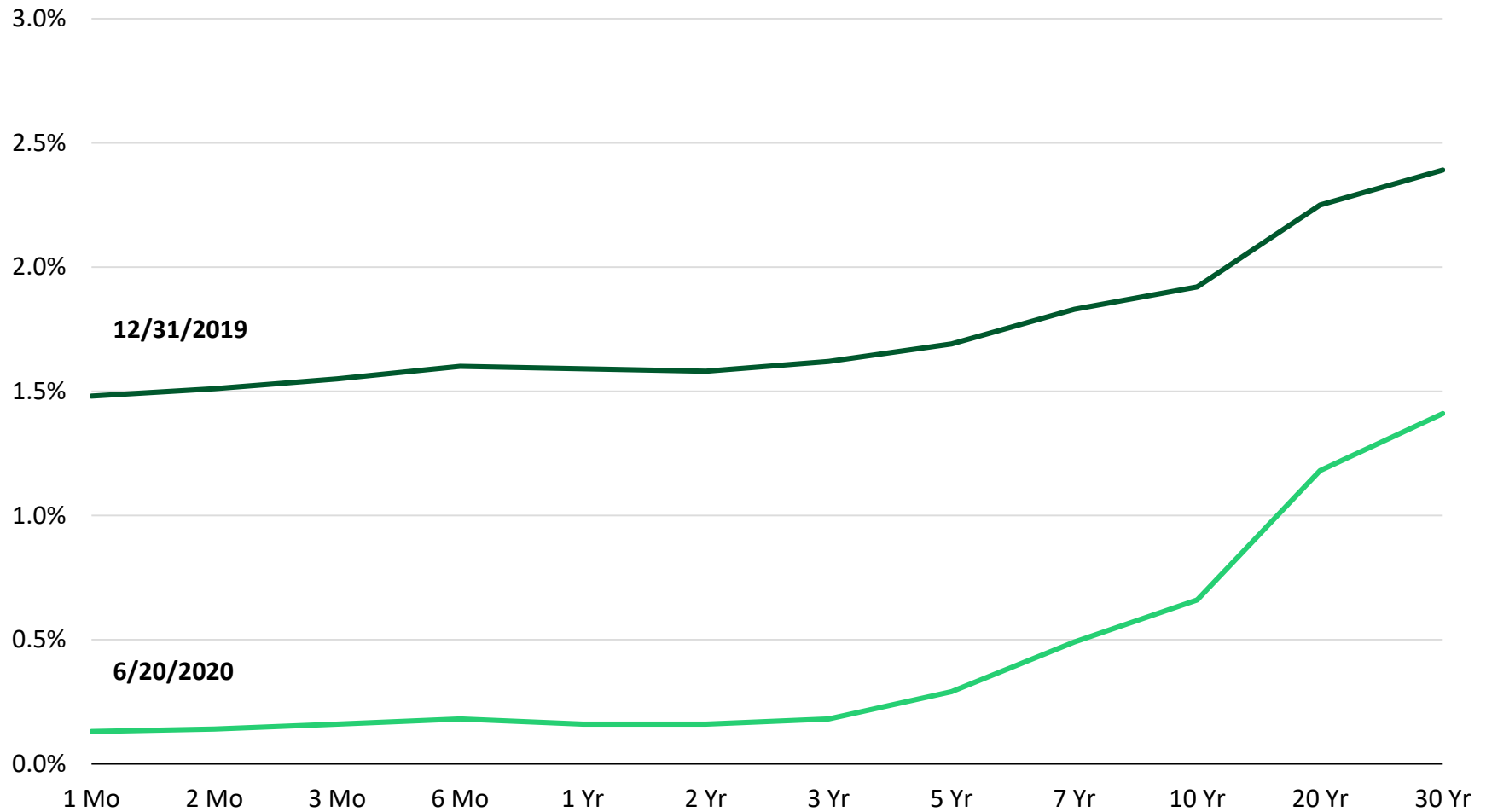
CREDIT SPREADS AND 10 YEAR US TREASURY RATES

Declines in rates were a positive for credit spreads, which helped support FA, FIA, and structured annuity crediting rates



CHANGE IN YIELD CURVE (US TREASURY)

Yield curve dropped 100+ bps, but still upward sloping, encouraging long term investments





Economic Environment



Industry Sales



Product Development & Inforce Management



Regulatory



Future

2019 TOTAL ANNUITY SALES: \$242B

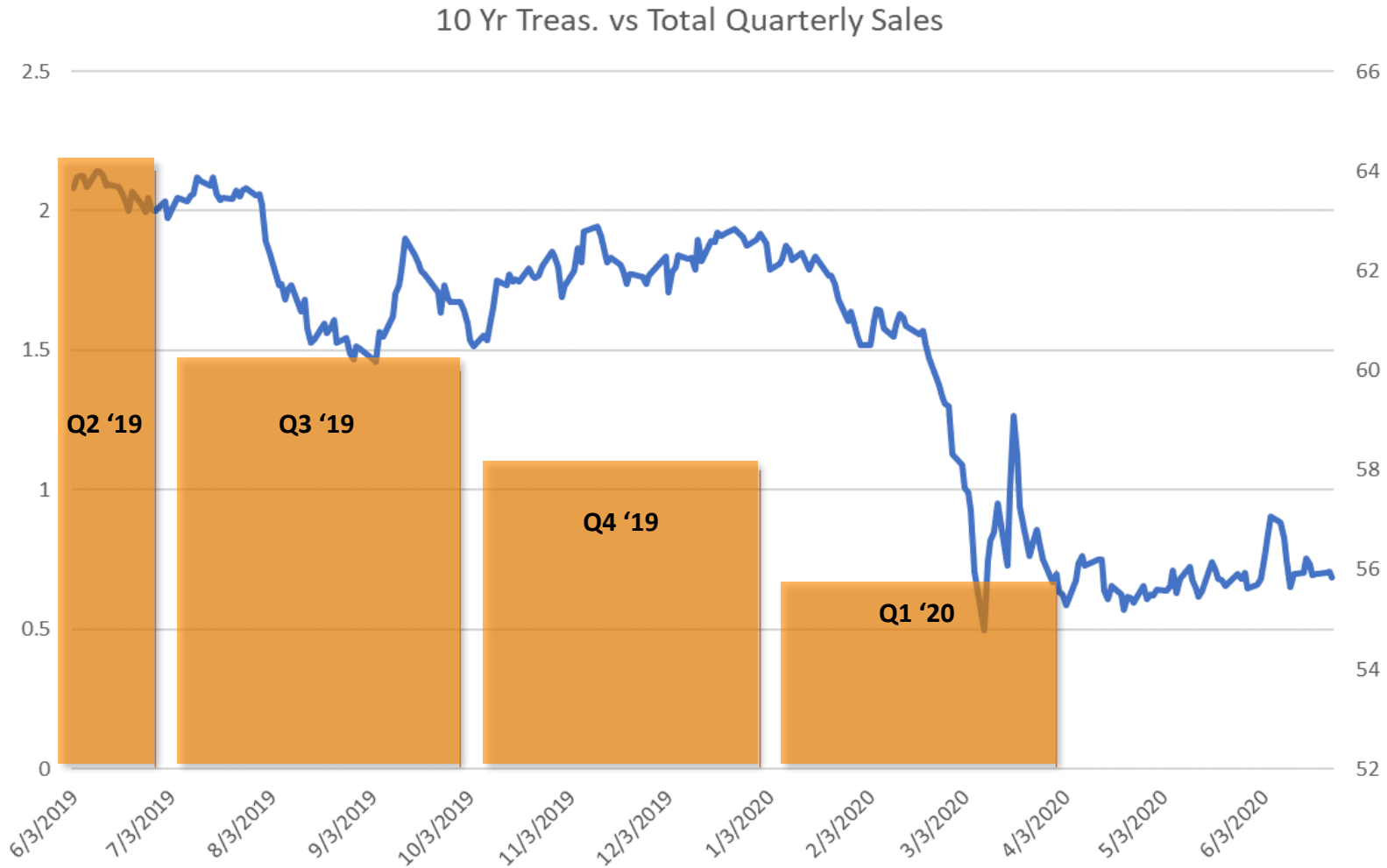
2019 Total Annuity Sales

+ 3.5%



Strongest Year of Sales in a Decade

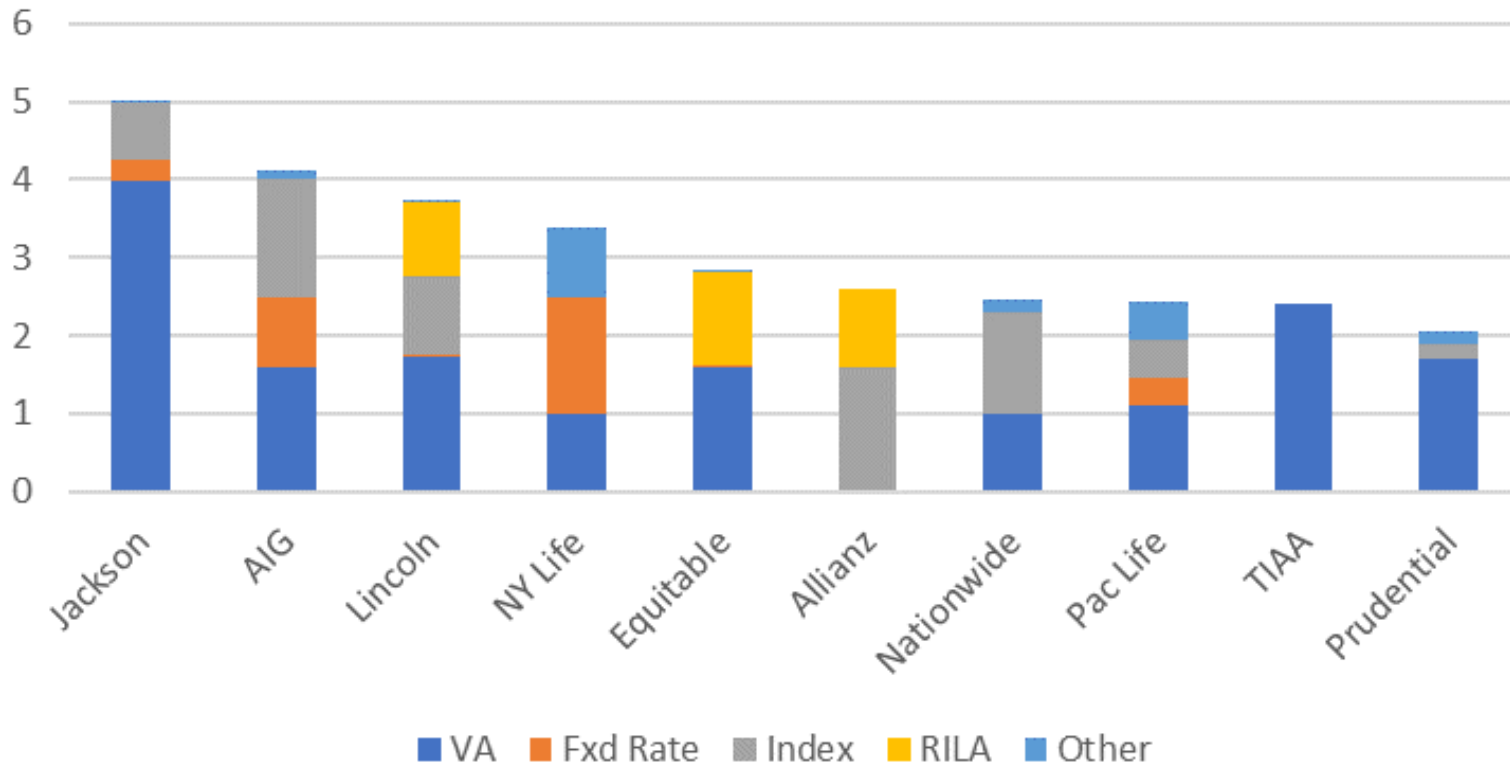
SALES GENERALLY TREND WITH INTEREST RATES



Source: LIMRA Secure Retirement Institute: 1Q2020 SRI US Individual Annuity Sales Report REVISED 05.27

TOP 10 CARRIERS – Q1 2020

Top 10 Carriers: Q1'20 Sales













Source: LIMRA Secure Retirement Institute: 1Q2020 SRI US Individual Annuity Sales Report REVISED 05.27

TOP 5 – SALES CHANGES Q4 2019 / Q1 2020

Total Fixed Rate sales up 4% Q/Q

Total Indexed sales down 4% Q/Q

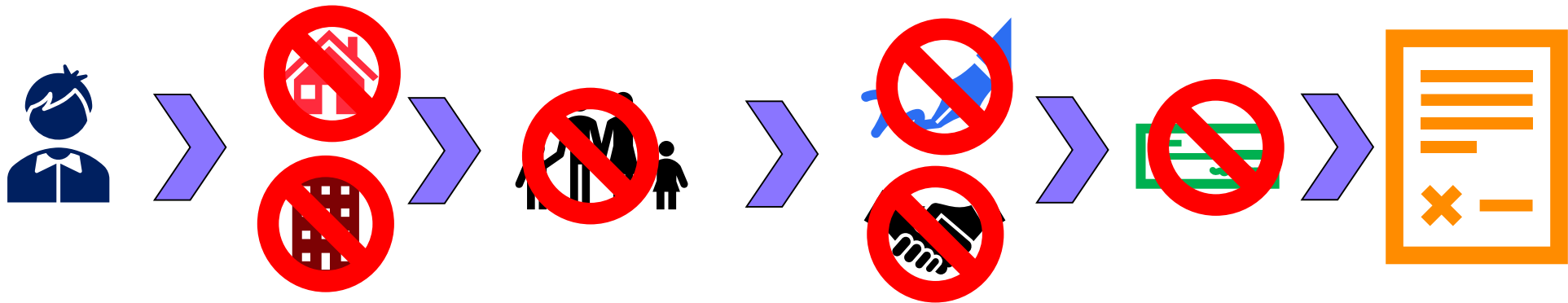
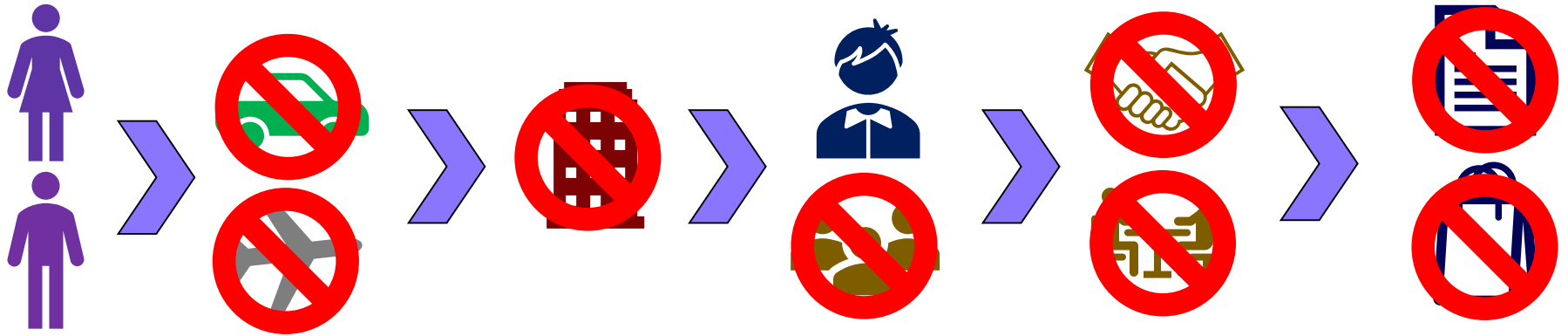
	Fixed Rate
 New York Life	+ 29%
 AIG	- 13%
 Global Atlantic	+ 15%
 MassMutual	- 35%
 Western Southern	+ 290%

	Indexed
 Allianz	- 7%
 AIG	- 4%
 Nationwide	- 13%
 Athene	- 2%
 Lincoln	- 2%

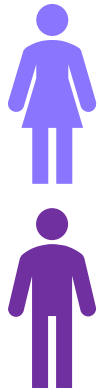
Athene	+1038%
American National	+335%
Brighthouse	+289%
Reliance Standard	+159%
Sammons Financial	+125%
Symetra	-42%
Principal	-74%

Security Benefit Life	+66%
Reliance Standard	+51%
Protective	+35%
Pacific Life	+27%
Sammons Financial	-23%
Jackson National	-41%

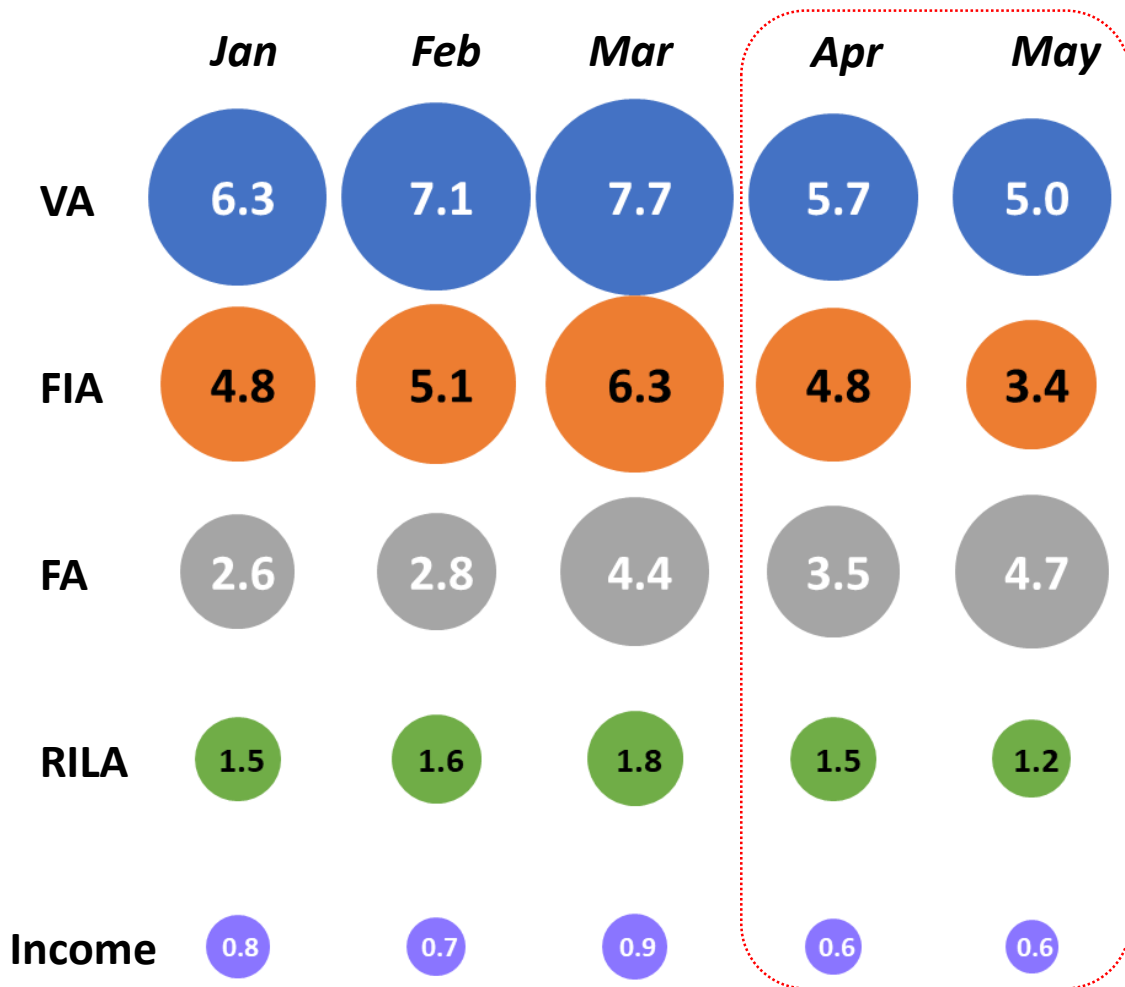
SALES PROCESS- THIRD PARTY MODEL – BEFORE COVID-19



SALES PROCESS- COVID IMPACTS



COVID DISRUPTION - Q2 SALES ESTIMATED TO BE DOWN



- Social distancing and WFH mandates were major disruptions to the sales process
- Advisors/customers focused elsewhere
- Inventory/pipeline helped keep sales levels higher early in the pandemic, closing out 1Q
- Spread widening due to economic turmoil helped boost rates and sales in early Q2
- Industry was quick to adapt and adjust to new working conditions

COVID DISRUPTION – SALES OUTLOOK

- 2020 sales estimated to be down 8% - 15%
- It will be 2022 before industry sales near 2019 levels
- Products with potential to “win” in 2020:
 - Fixed Rate Deferred – safe, guaranteed. Short duration. Transactional
 - RILA – Provides combination of downside protection and growth potential



Economic Environment



Industry Sales



Product Development & Inforce Management



Regulatory



Future

PRODUCT IMPACTS

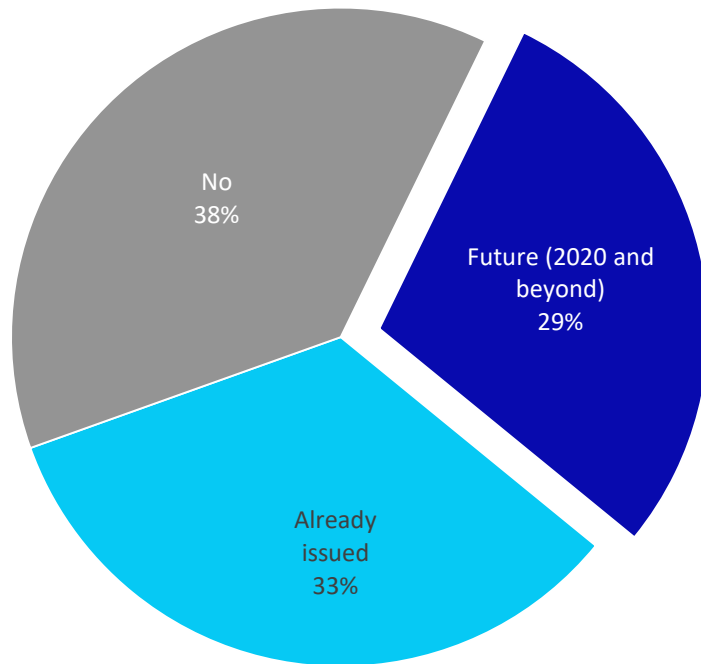
Product type	Fixed and income annuities	Fixed index and structured annuities	Variable annuities
Economic impacts	<p>Lower earned rates</p> <p>MVA linked to treasuries</p>	<p>Lower earned rates</p> <p>Increased option prices (market volatility)</p> <p>MVA linked to treasuries</p>	<p>Increased cost to hedge</p> <ul style="list-style-type: none"> • Lower treasury rates • Increase market volatility <p>Decreased emphasis</p>
Product impacts	<p>Decrease in credited rates</p> <p>GLWB riders pulled in many cases</p> <p>Re-filings to lower guaranteed credited rates / index features</p> <p>Re-filings related to MVAs linked to treasury rates</p>	<p>Decreases in credited rates</p> <p>GLWB riders pulled in many cases</p> <p>Re-filings to lower guaranteed credited rates / index features</p> <p>Launching or plans to launch Structured annuities</p> <p>Re-filings related to MVAs linked to treasury rates</p>	<p>GLWB rider fee increases</p> <p>GLWB riders pulled in some cases</p> <p>Launching or plans to launch structured annuities to offset VA risks</p>

Market volatility has been beneficial to structured annuities products and will likely accelerate the development of these products

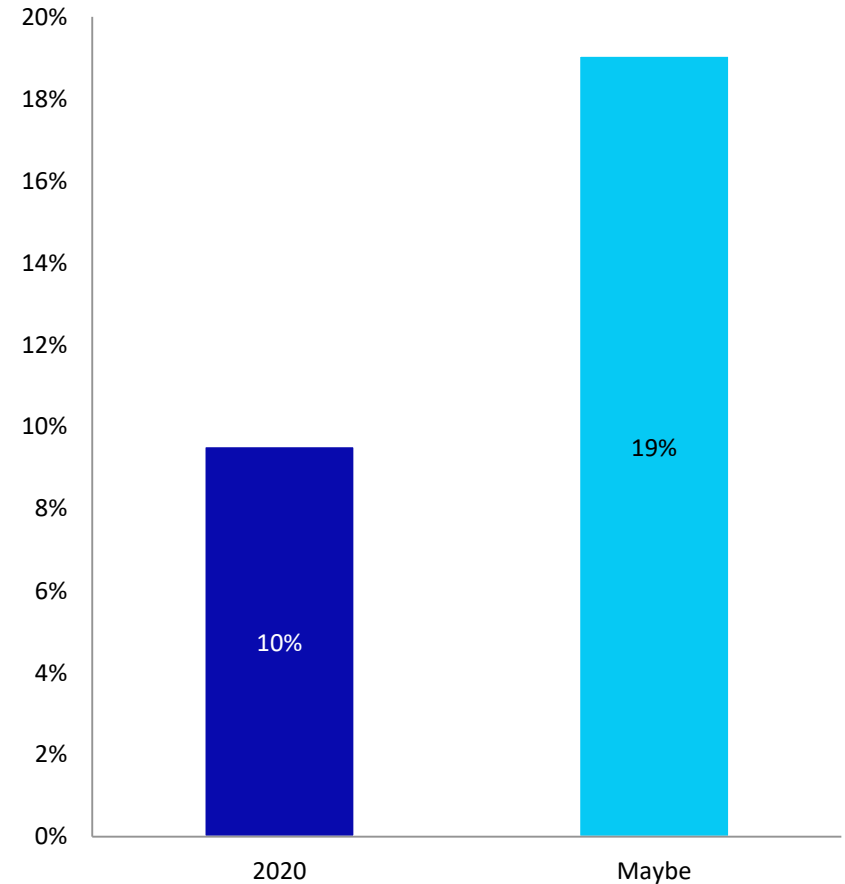
SURVEY OF FIA WRITERS CURRENTLY WRITING STRUCTURED ANNUITIES

More than 50% of FIA writers have considered or plan to offer a structured annuity

Have you started issuing structured annuities?

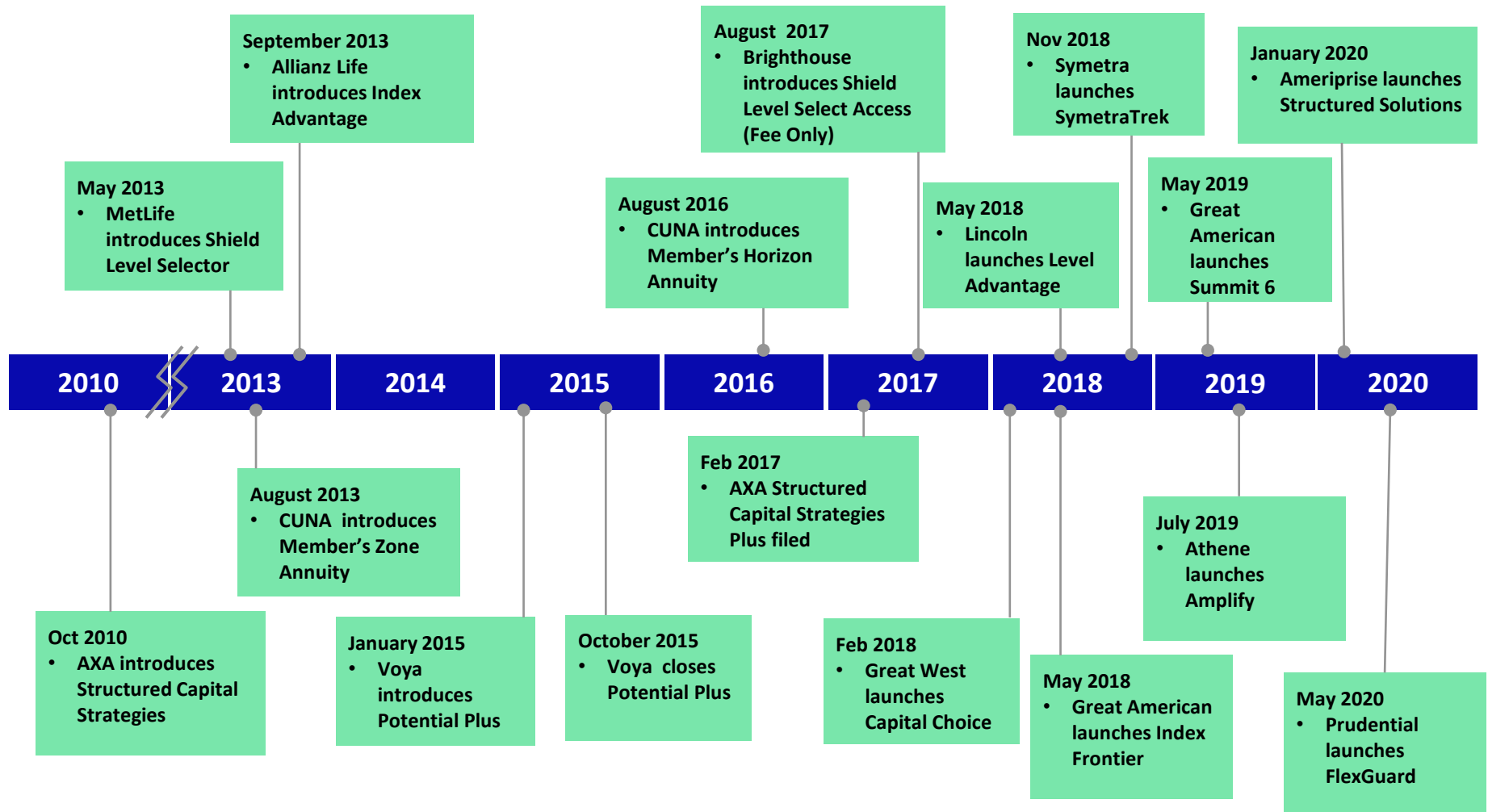


Future (2020 and beyond)

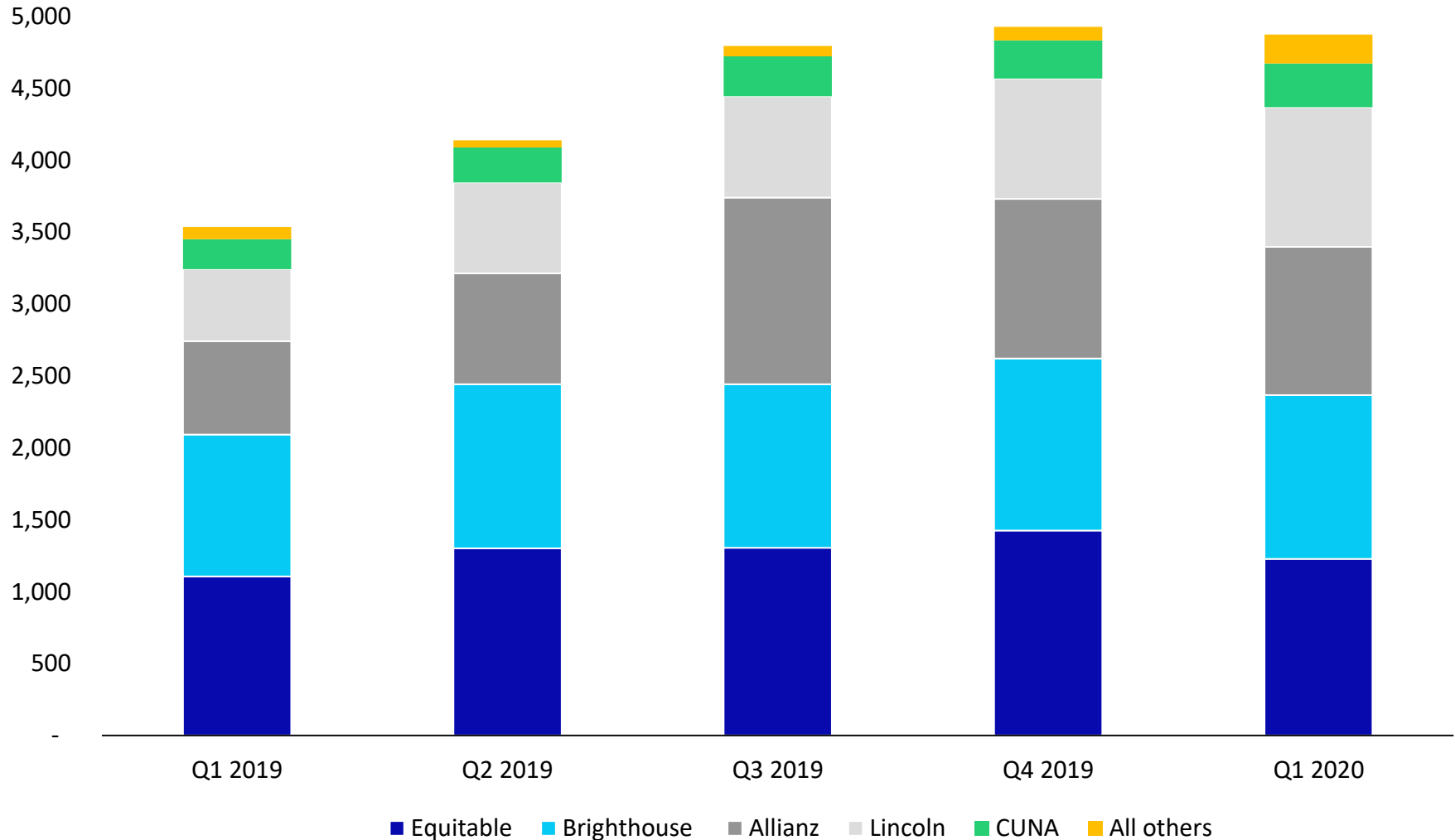


STRUCTURED ANNUITY PRODUCT LAUNCHES

Increasing sales has attracted more participants into the structured annuity space



STRUCTURED ANNUITY SALES (QUARTERLY \$MM)



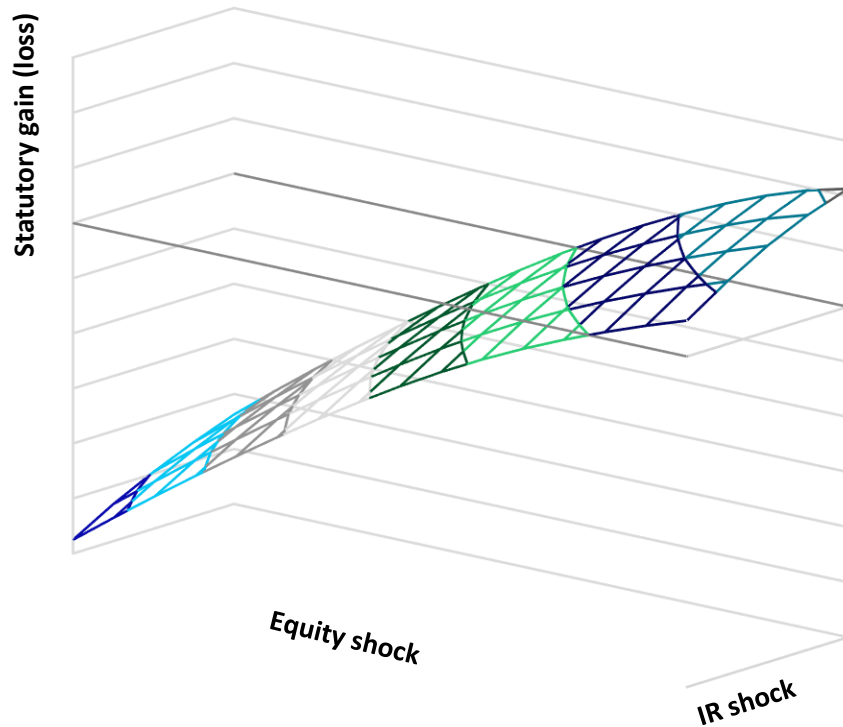
Source: WINK

STRUCTURED ANNUITIES - HEDGING BENEFITS

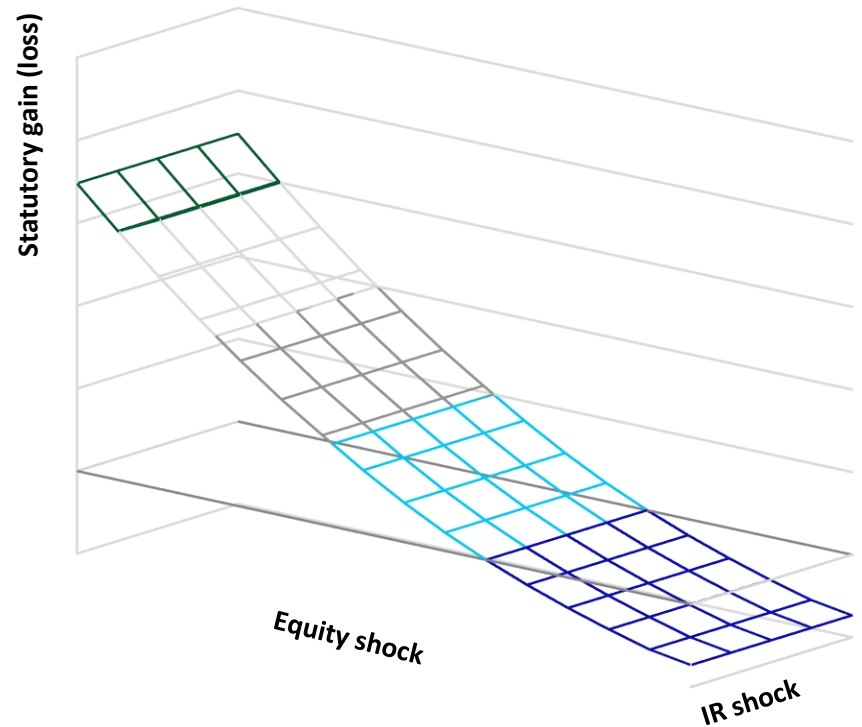
Structured annuities can be used as a hedge against VA GMxB liabilities

Statutory gain (loss) profile across shocks

Traditional VA GMxB



Structured annuities



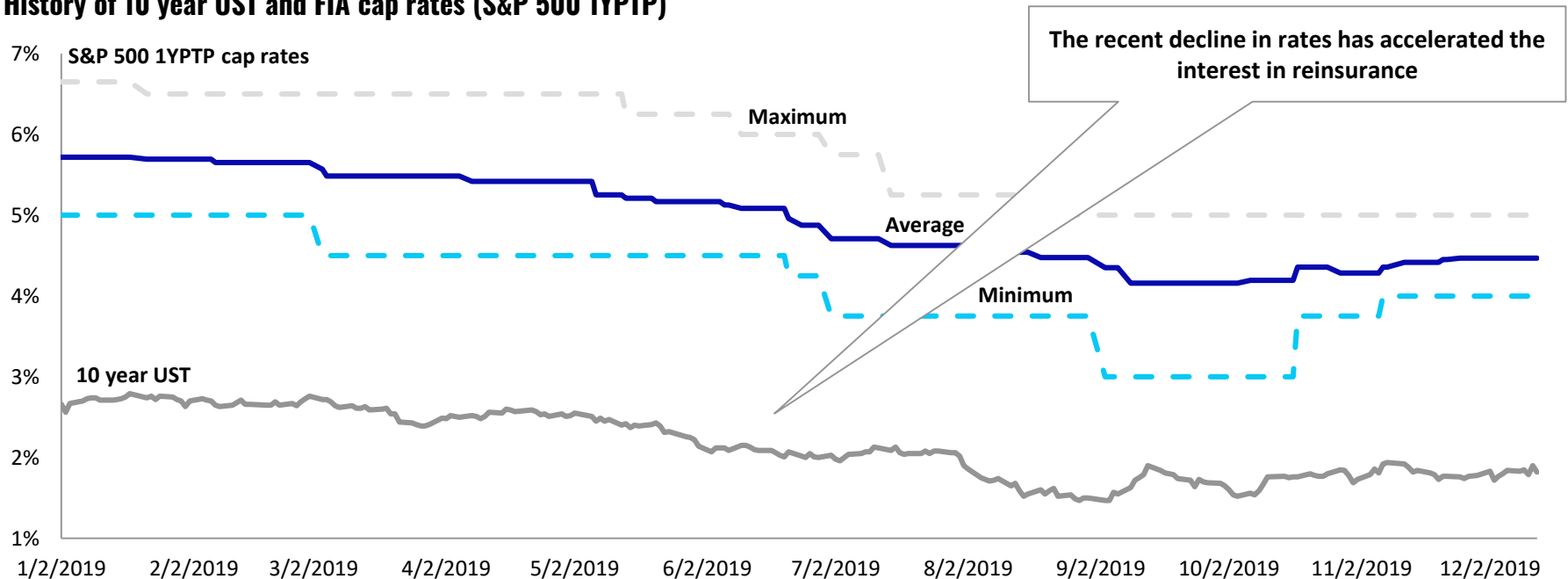
When aggregated with traditional VA GMxBs, unhedged structured annuity exposure essentially acts as an OTM put option – therefore reducing the total hedge need of the VA portfolio

FA AND FIA FLOW REINSURANCE

Most FA and FIA carriers have entered or are considering entering a flow reinsurance arrangement to improve profitability and product competitiveness

~1/3rd of current FIA writers use reinsurance

History of 10 year UST and FIA cap rates (S&P 500 1YPTP)



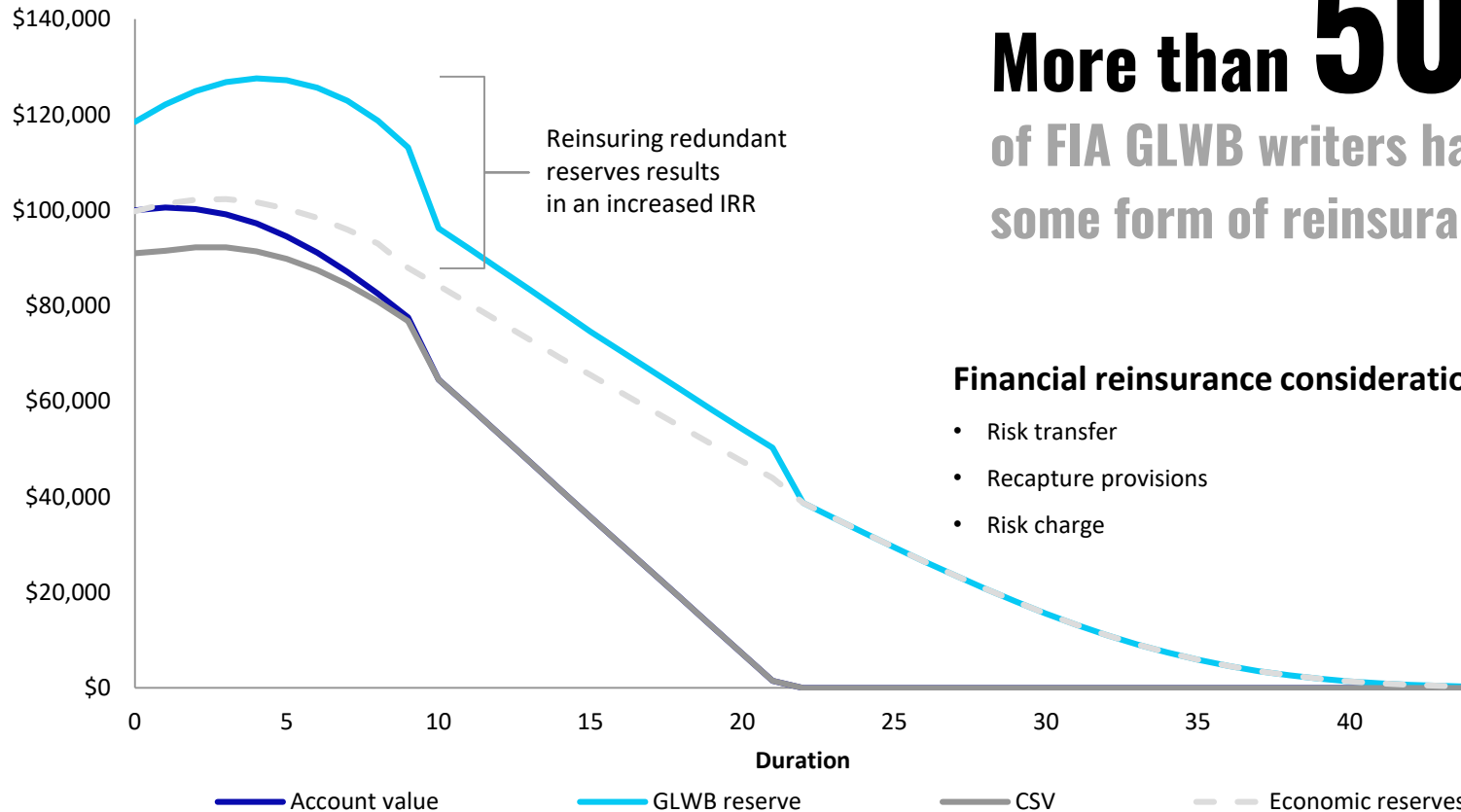
Source: Oliver Wyman pricing survey

Reinsurer pricing advantages include tax, asset origination and capitalization

FIA GLWB RESERVE FINANCING

Financial reinsurance allows direct writer to hold less redundant reserves, reducing rider driven strain

Illustrative account value and reserves



More than **50%**
of FIA GLWB writers have
some form of reinsurance

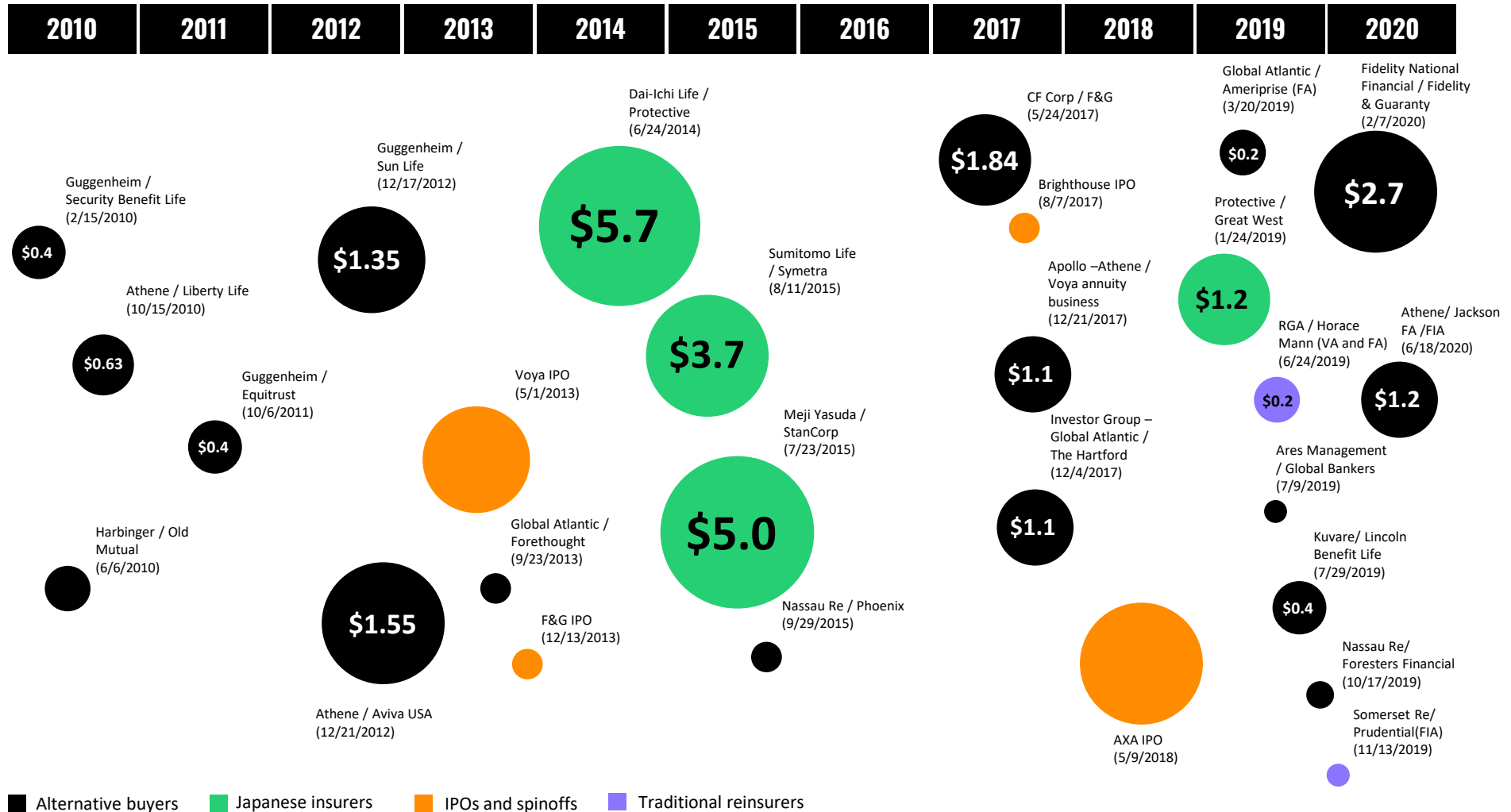
Financial reinsurance considerations

- Risk transfer
- Recapture provisions
- Risk charge

Financial reinsurance is an opportunity to reduce strain and increase product profitability, but treaty and regulatory elements require careful consideration

HISTORY OF FIXED AND VARIABLE ANNUITY M&A DEALS (\$BN)

Over the last 10 years, the fixed and variable annuity market has been transformed by a number of acquisitions, IPOs, and new entrants





Economic Environment



Industry Sales



Product Development & Inforce Management



Regulatory



Future

REGULATORY

- **SEC Regulation Best Interest (Reg BI)** went into effect June 30
 - Securities or investment strategies involving securities - Requires advisors act in the customer's best interest without placing their own financial or other interest ahead of the interest of the retail customer.
- **NAIC Best Interest Model Reg** – adopted by 2 states (Arizona and Iowa), both effective 1/21
 - Establishes enhanced standard of conduct for advisors recommending annuity products
- **SECURE Act**
 - Effective 1/1/20
 - Extended RMD age from 70.5 to 72
 - Changes to Stretch bene IRA's, lifetime income within retirement plans

REGULATORY

- **CARES Act - Coronavirus Aid Relief and Economic Security Act**

Passed 3/27/20 – largest economic stimulus bill in history

- Focused on stimulus package \$2T
- Paycheck Protection Program for small businesses
- Direct check for individuals
- Waives RMD requirements for 2020
- No tax penalty up to \$100K withdrawal for qualified individual from plan or IRA

- **RILA Bill - Registration for Index Linked Annuities Act**

- Bi-partisan bill introduced to the Senate in May 2020
- Requires the SEC to design a form for the filing of RILAs
- The new form would remove the requirement to provide GAAP financials
- Insured Retirement Institute created RILA Act Task force to coordinate lobbying to advance the bill



Economic Environment



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Regulatory



Future

LOOKING FORWARD- WHAT WILL OUR INDUSTRY LOOK LIKE AFTER COVID?

Sales Process & Processing

- Will sales process/wholesaler models completely change? Stay virtual?
- Will industry more widely adopt more efficient digital technologies for processing business?

Products

- Will products be re-designed to be more capital efficient and better aligned with financials?
- With “lower for even longer” rates, will we see an overhaul in product pricing and expenses in an effort to maximize customer value?
- Will RILA market continue to expand? Will it become the “arms race” of the 20’s?

Carriers & Inforce Management

- Will we see more remote work and hence lower expense infrastructure for carriers?
- Will we see more M&A and consolidation?
- Will we see more transactions on inforce?
- Will more private equity investors (or foreign investors) come onto the scene?

QUESTIONS

