

Annuity Market Update

Actuaries' Club of Hartford & Springfield – 2014 Annual Meeting

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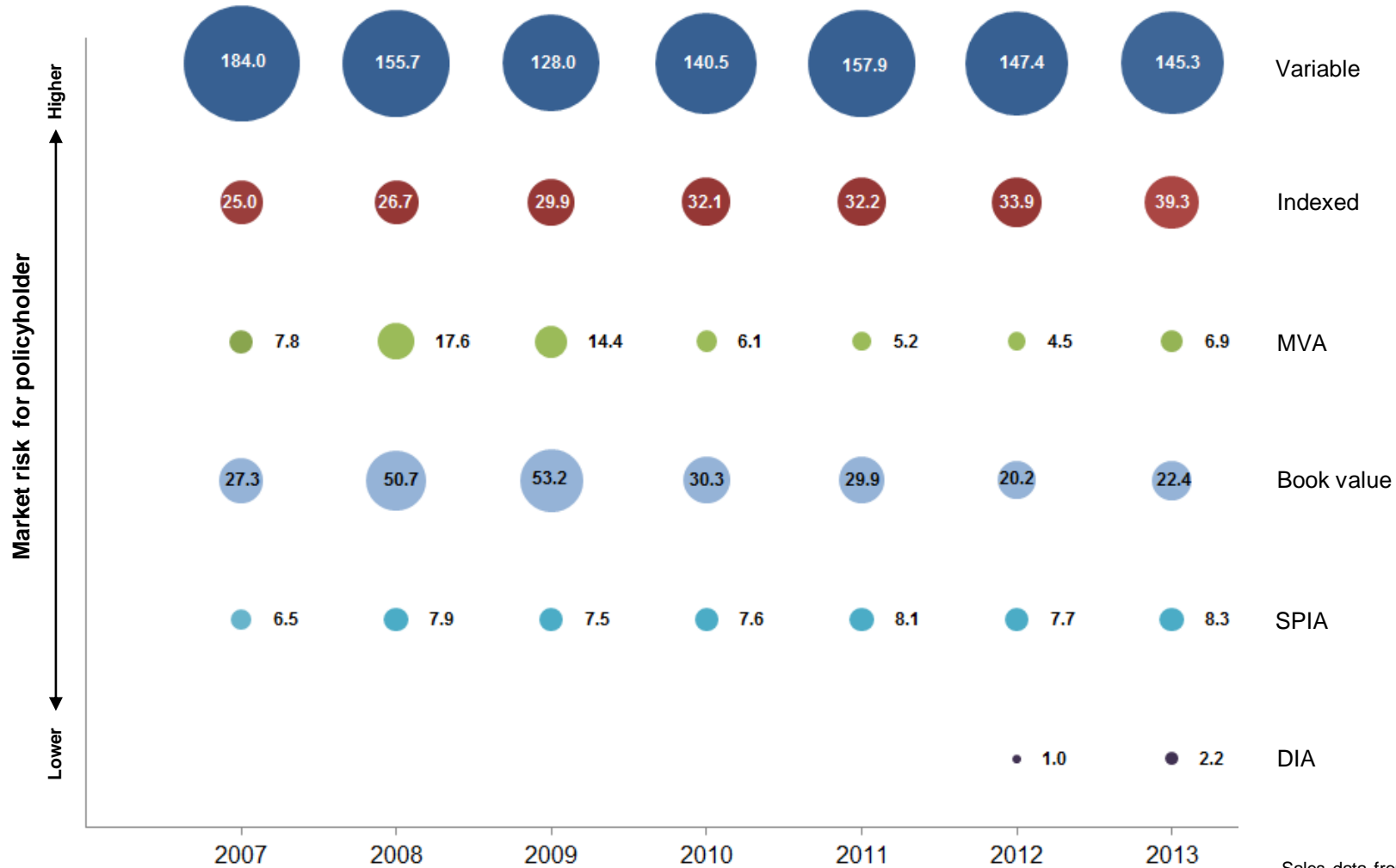
Agenda

- I. Market dynamics
- II. Product trends
- III. Pricing, valuation and risk management issues
- IV. Watch list

Section 1 | Market dynamics

Annuity sales trends (2007-2013)

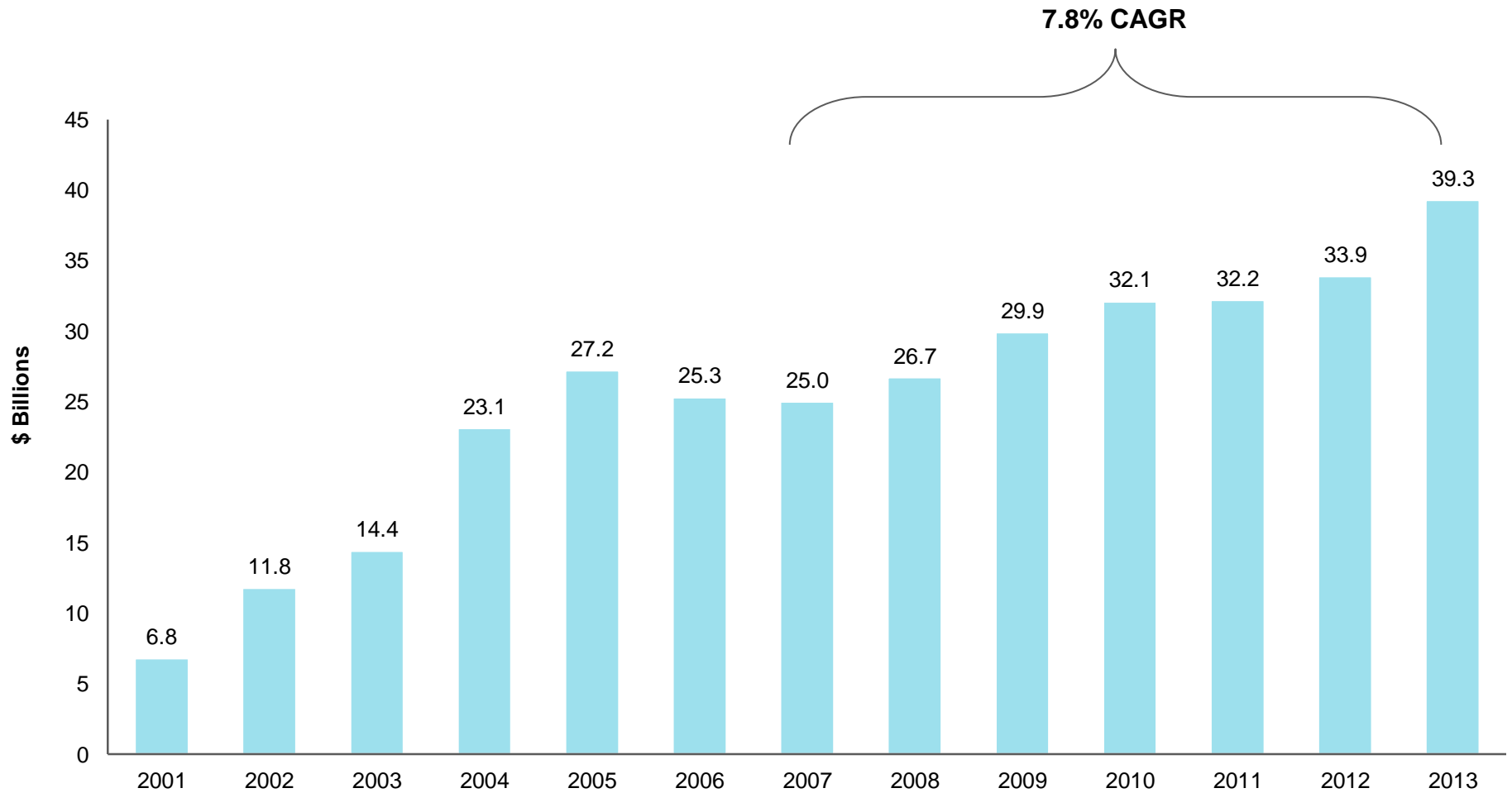
Fixed indexed annuity (FIA) and deferred income annuity (DIA) sales are growing



Sales data from LIMRA

Indexed annuity sales trends (2001-2013)

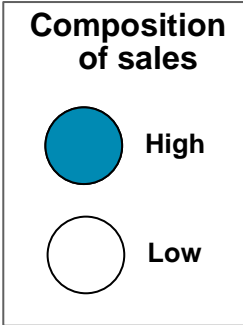
FIA sales have grown at a robust 7.8% annual rate since 2007



Source: Wink's Sales & Market Report (2006 and prior) and LIMRA (2007 and later)

Top annuity writers in 2013 (1-10)

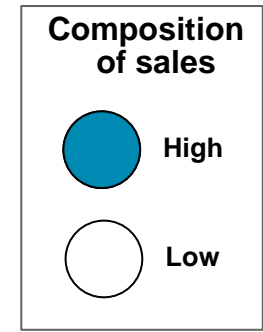
Rank (2013)	Company	2013 Sales (\$ Billions)	2012 Sales (\$ Billions)	YoY Change (%)	Variable	Indexed	Fixed
1	Jackson National	23.2	22.4	3.5%			
2	AIG	17.5	12.0	45.5%			
3	Lincoln	16.6	13.4	23.2%			
4	TIAA-CREF	13.9	14.1	-1.1%			
5	MetLife	12.4	19.5	-36.4%			
6	Prudential	12.0	22.4	-46.3%			
7	AXA	9.7	8.9	9.7%			
8	New York Life	9.7	7.5	29.2%			
9	Allianz Life	9.1	8.8	3.3%			
10	Transamerica	8.6	5.4	57.2%			



Source: LIMRA

Top annuity writers in 2013 (11-20)

Rank (2013)	Company	2013 Sales (\$ Billions)	2012 Sales (\$ Billions)	YoY Change (%)	Variable	Indexed	Fixed
11	Pacific Life	7.4	7.5	-0.9%			
12	Nationwide	6.9	7.5	-7.9%			
13	Security Benefit	6.4	3.9	65.0%			
14	Ameriprise	5.5	5.6	-2.5%			
15	American Equity	4.2	3.9	6.7%			
16	Great American	4.0	2.9	36.0%			
17	MassMutual	3.6	2.3	56.6%			
18	Thrivent Financial	3.6	3.2	10.6%			
19	Protective Life	2.6	3.3	-22.9%			
20	Symetra	2.5	1.4	80.8%			

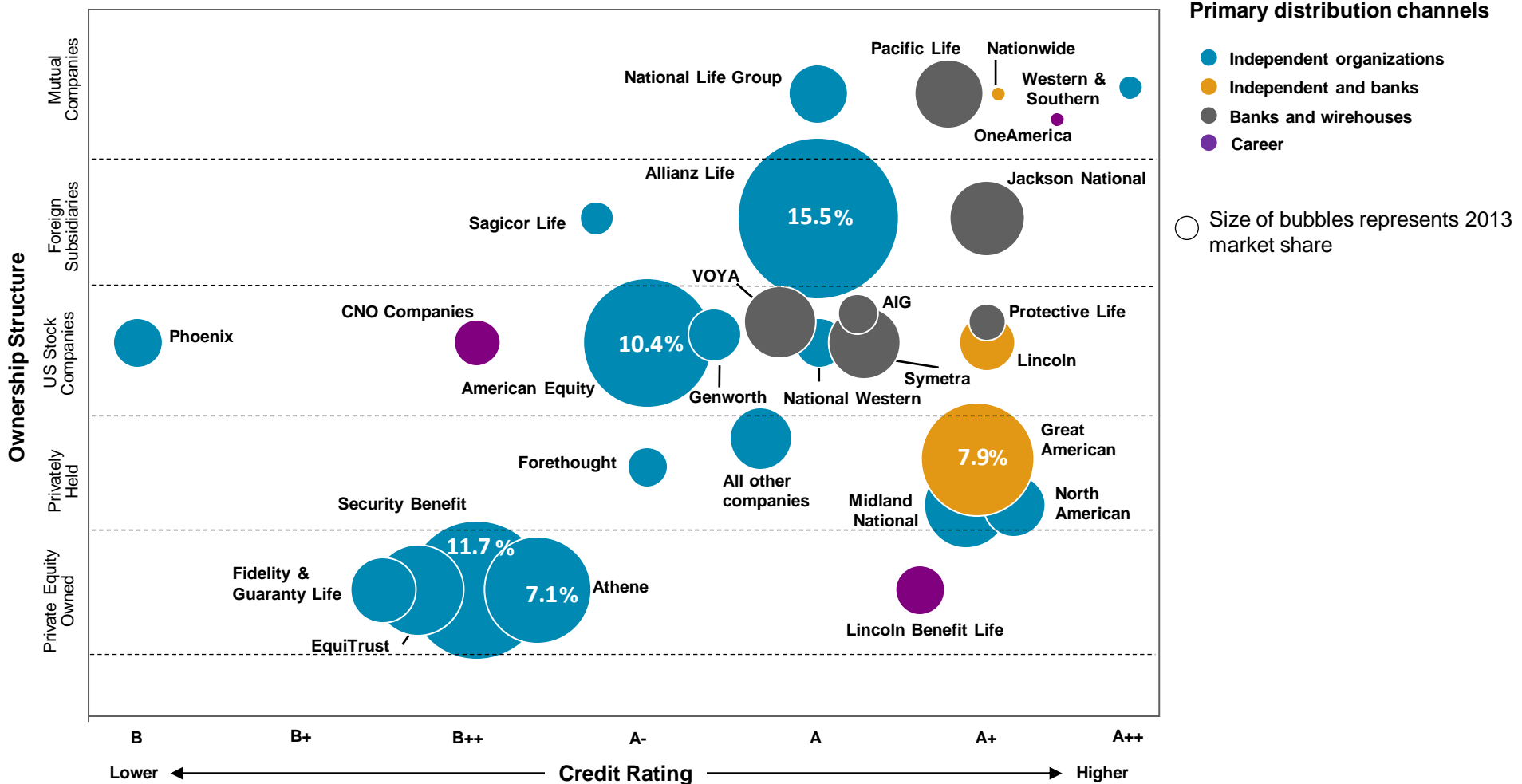


Source: LIMRA

Expansion of the FIA market

Today's FIA market has a broad range of players with increasing representation outside of the independent channel

Market share and dominant distribution channels by ownership structure and credit rating

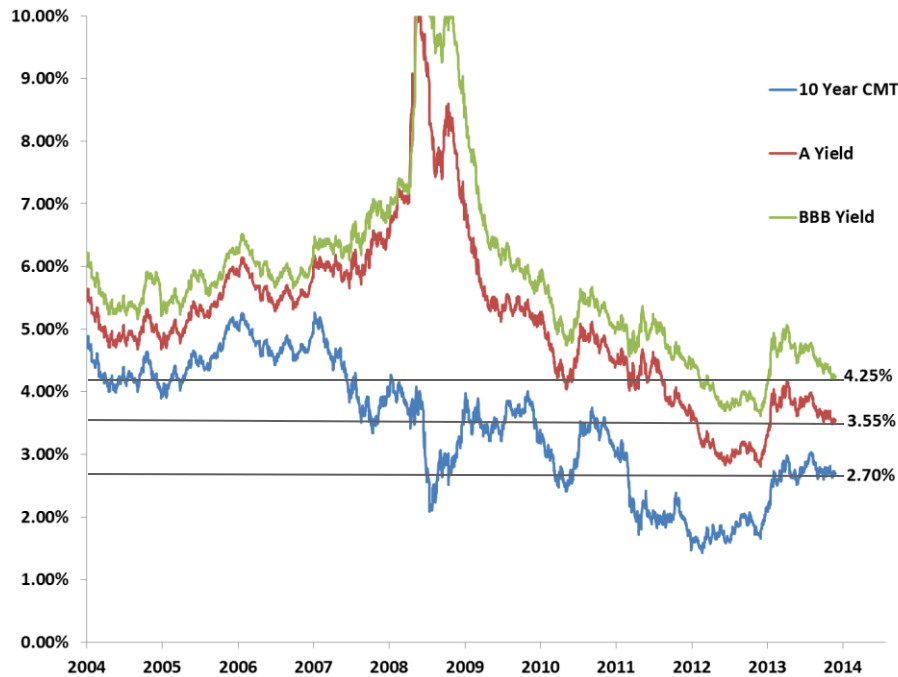


Source: Wink's Sales & Market Report and Oliver Wyman Research

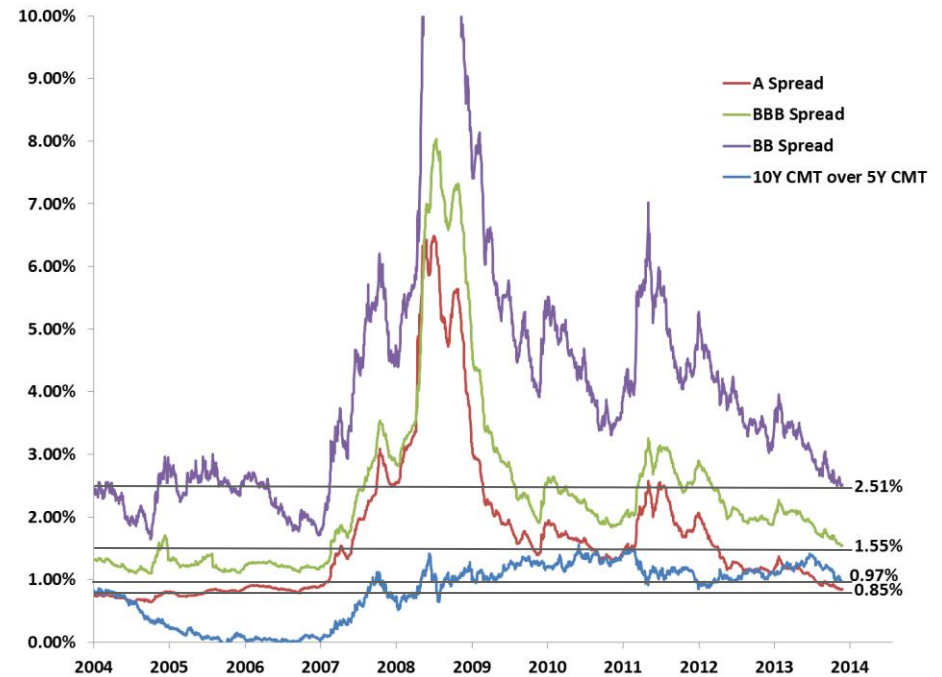
Economic conditions

The yield environment favors longer duration fixed annuities

Select Bond Yields



Credit and Maturity Spreads

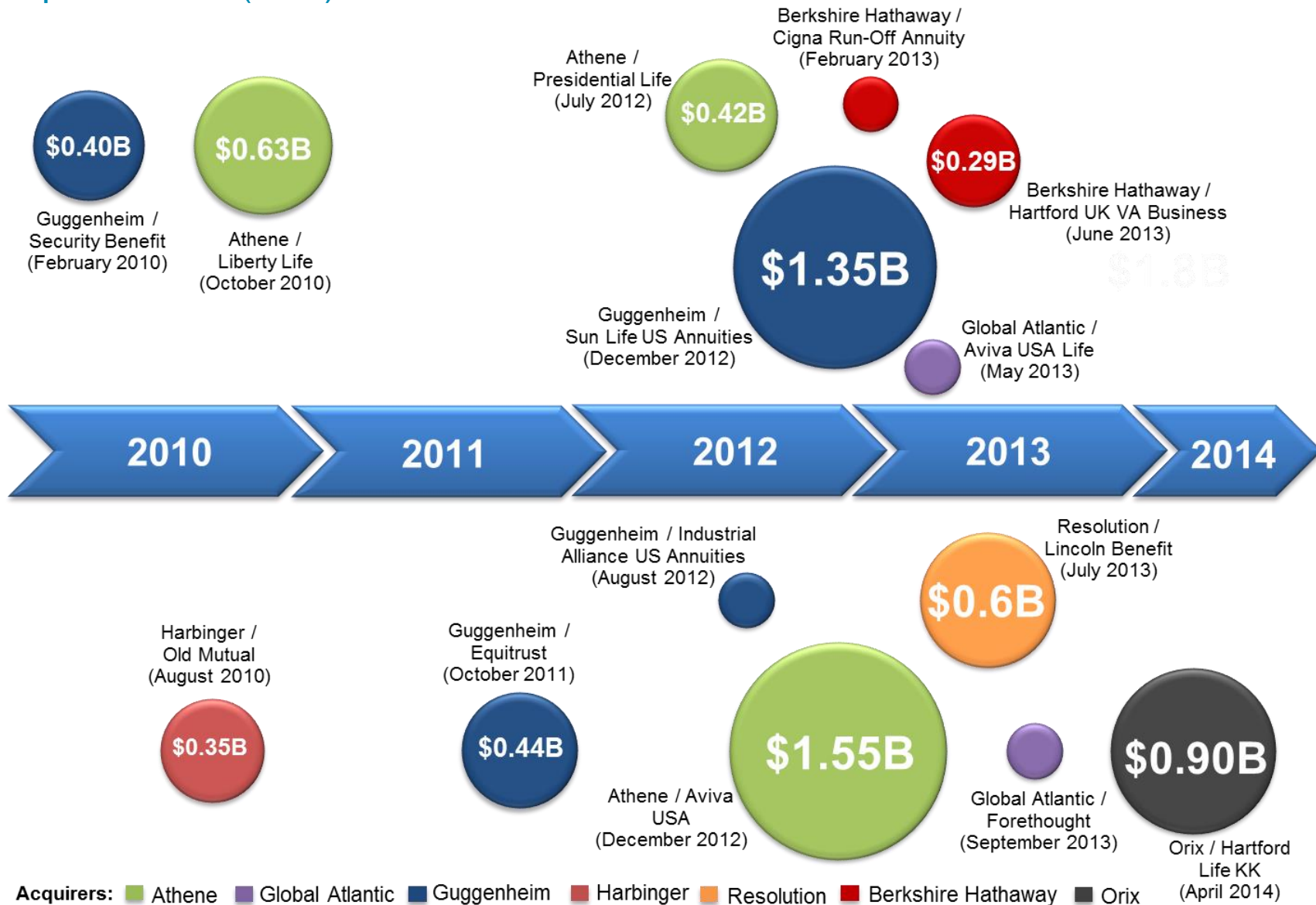


Credit spreads returned to pre-crisis levels, but the yield curve is steeper. This environment favors longer duration products such as FIA with GLWBs.

Source: Federal Reserve of St Louis, Treasury data and BofA Merrill Lynch US Corporate Option-Adjusted Spreads

Annuity M&A activity is being driven by private equity and alternative buyers

Acquirer/Seller (date)



Recap of annuity market dynamics

- 1 Stable VA sales, but shifting players**
- 2 FIA market is expanding fast**
- 3 Risk premiums back to pre-crisis levels**
- 4 Significant M&A activity dominated by private equity and alternative buyers**

Section 2 | Product trends

Key annuity product trends

1

VA / FIA hybrids

- Short surrender charge designs with floors less than zero, registered and no minimum contract value
- Can be VA or FIA by design
- Downside protection via “protection buffers” or “protection floors”, but higher upside
- Sellers include AXA, Allianz Life, MetLife and CUNA Mutual

2

Volatility control strategies

- Firmly established in VA space
- Emerging in FIA space

3

Nursing home benefits

- Up to double the GLWB income for a number of years if cannot perform 2 of 6 ADLs
- Increasingly common in FIA space

4

Deferred income annuities

- Predictable deferred income
- Level income, constant increases, CPI increases or dividend increases

Key annuity product trends (continued)

-
- 5** **VA sales with no living benefits**
- Certain carriers successful in driving VA sales with no living benefit guarantees
 - Lower cost designs
 - Investment and tax deferral play

-
- 6** **Stacked rollups**
- Emerging in FIA space
 - AG 33 friendly

-
- 7** **Flexible designs**
- At issue: Tie income rates to rate environment
 - After issue: Indexing product features

-
- 8** **Buyback programs**
- Variable annuities: AXA, The Hartford and Transamerica
 - Fixed annuities: The Harford
-

Section 3 | Pricing, valuation and risk management issues

Pricing considerations

1

Lapses

- Base rate + impact of GLB
 - Policy year skew
 - Dynamic rate (base contract for FA / FIA)
 - Dynamic rate (GLB in-the-moneyness driven)
-

2

Age Mix / GLWB Election

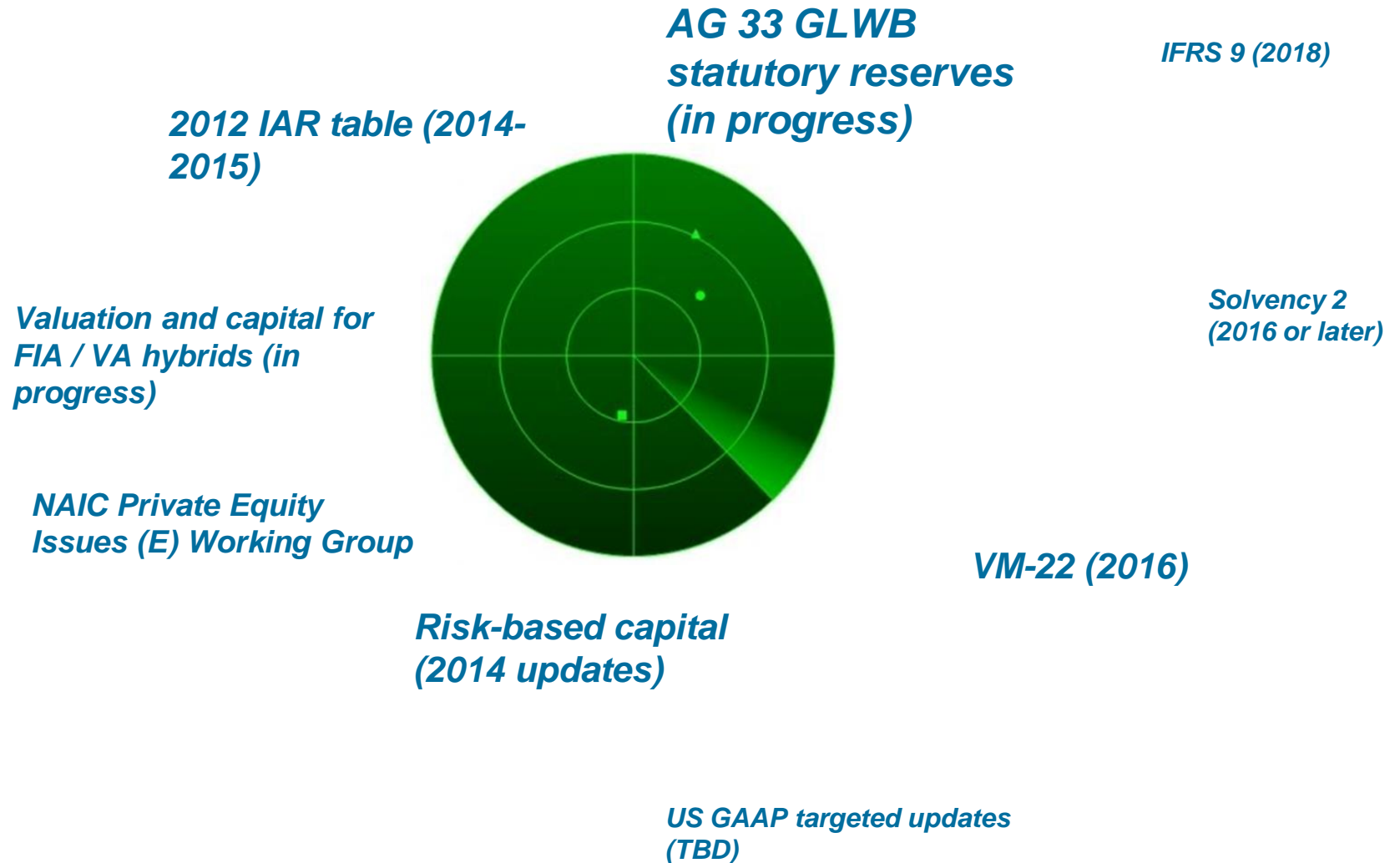
- Utilization cohorts
 - Utilization skew (feature driven)
 - Utilization skew (attained age driven)
-

3

Mortality

- Base rate
 - Mortality improvement
-

Valuation and regulatory radar



Risk management radar

*Emerging GLWB
utilization experience*

ORSA (2015)

*Low rate environment /
Federal Reserve actions*

Hedging of GLWBs

Dynamic lapses

Hedging of interest rates



Volatility as an asset class

*Inforce blocks
approaching end of the
surrender charge period*

Section 4 | Watch list

Watch list

- 1** Interest rates
- 2** M&A activity
- 3** Product innovation
- 4** Behavioral assumptions