



Fixed Index and Registered Fixed Index Annuity Product Trends

Actuaries' Club of Hartford and Springfield – 2017 Fall Meeting

Hartford - November 14, 2017
















Tom Buckingham, MBA, FSA, MAAA
Nicholas Carbo, FSA, MAAA

Agenda

- 1 Product comparison of FIAs, RFIAs and VAs**
- 2 FIA and RFIA market dynamics**
- 3 Accumulation market**
- 4 Income guarantee market**

Product comparison of FIAs, RFIsAs and VAs

RFIsAs are a new product segment bridging the differences of VAs and FIAs

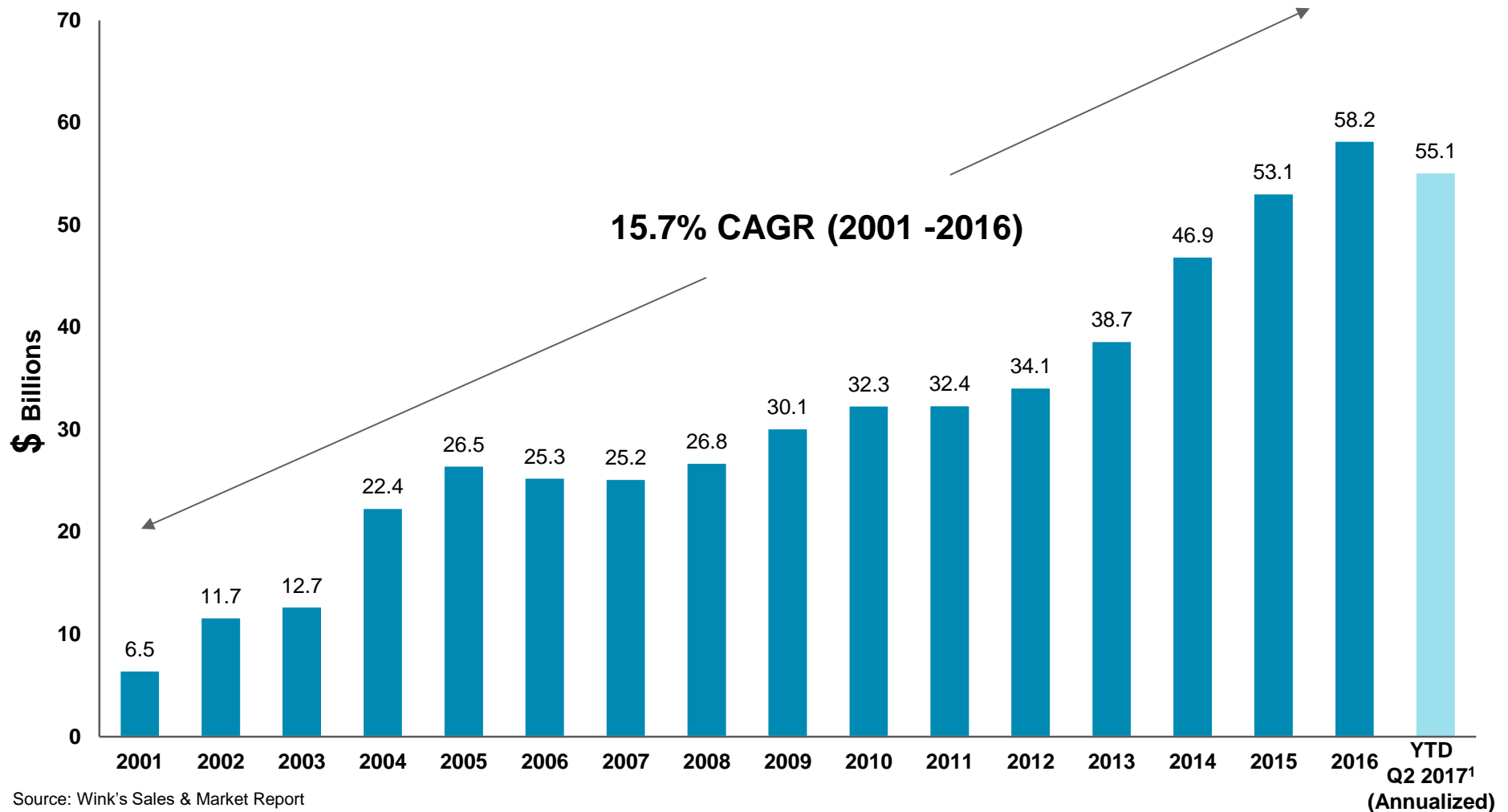
	Fixed Index Annuities (FIAs)	Registered Fixed Index Annuities (RFIsAs)	Variable Annuities (VAs)
Upside participation	 <ul style="list-style-type: none"> Limited participation in market returns 	 <ul style="list-style-type: none"> Higher participation in market returns than FIAs 	 <ul style="list-style-type: none"> Full participation in market return less fees
Downside protection	 <ul style="list-style-type: none"> Down side protection 	 <ul style="list-style-type: none"> Subject to downside with floor or buffer offered 	 <ul style="list-style-type: none"> Full downside risk absent of guarantees
Fees	 <ul style="list-style-type: none"> No fees assessed 	 <ul style="list-style-type: none"> Some include M&E fees 	 <ul style="list-style-type: none"> M&E and fund fees standard
Asset allocation	 <ul style="list-style-type: none"> Many offer various index accounts Restrictions on transfers 	 <ul style="list-style-type: none"> Many offer various index accounts Some offer VA flexibility 	 <ul style="list-style-type: none"> Asset allocation varies by product and customer risk profile
Income options	 <ul style="list-style-type: none"> GLWB offered Annuitization benefits 	 <ul style="list-style-type: none"> Annuitization benefits only 	 <ul style="list-style-type: none"> GLWB offered Annuitization benefits

 **Worse**
 **Better**

FIAs are typically sold to risk-averse customer who still want a higher return than a fixed investment and many times compete with certificates of deposit

Fixed indexed annuity sales trends (2001-2017)

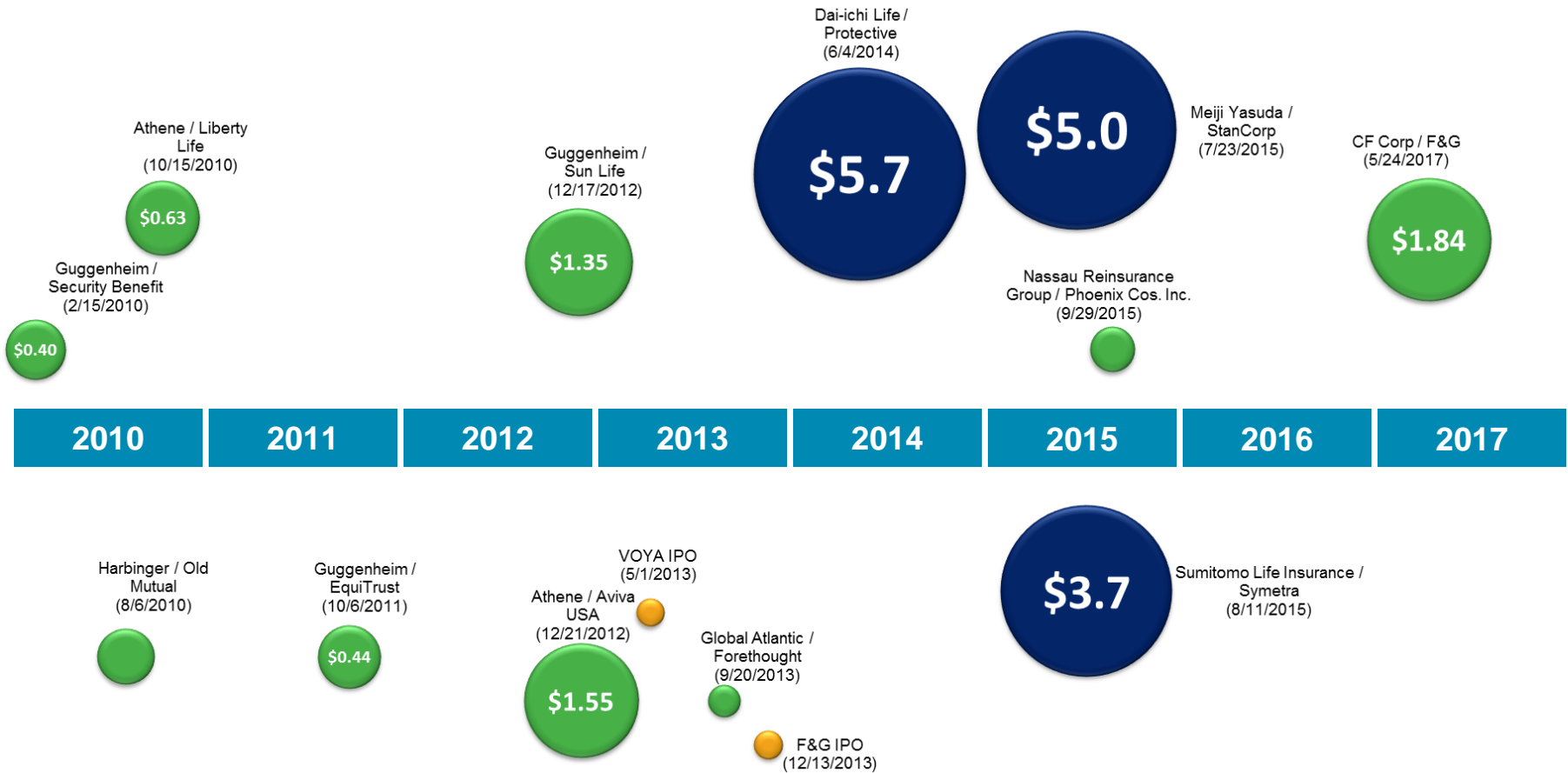
2017 FIA sales are on track to drop 5% vs 2016 based on Q2 2017 sales



Source: Wink's Sales & Market Report
¹Q2 2017 sales were multiplied by two to get a 2017 annualized result

Recent acquisitions reshaped the FIA market

Acquirer/Seller (date)

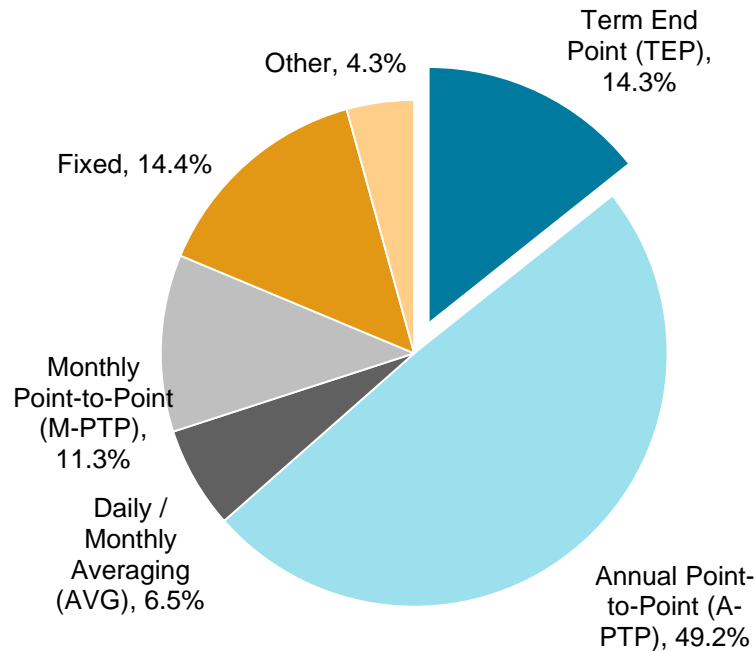


Transaction type: ■ IPO ■ Japanese insurers ■ Alternative buyers

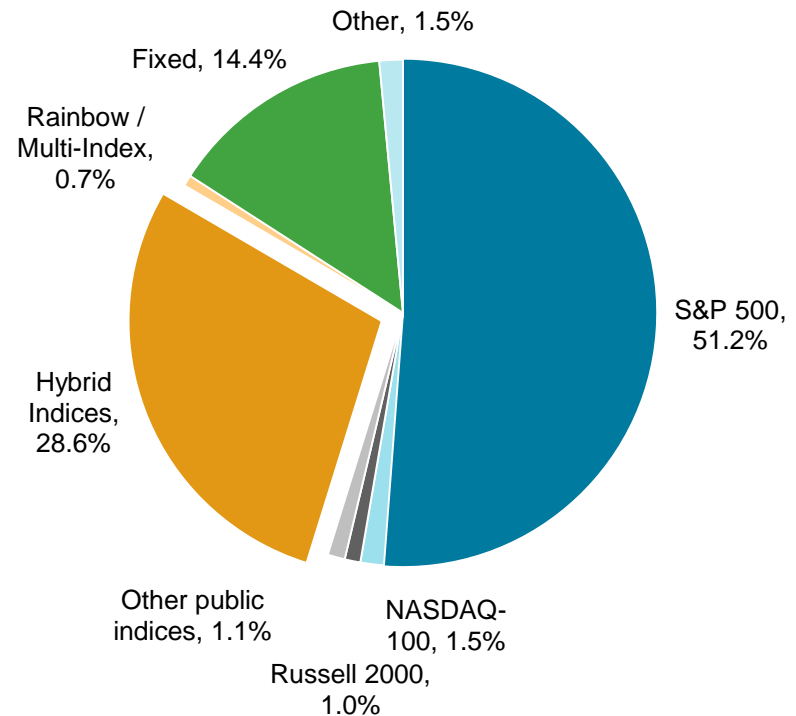
Crediting methods and indices

Term end point and hybrid indices continue to be strong in the FIA market

Crediting methods (Q2 YTD 2017)



Indices (Q2 YTD 2017)

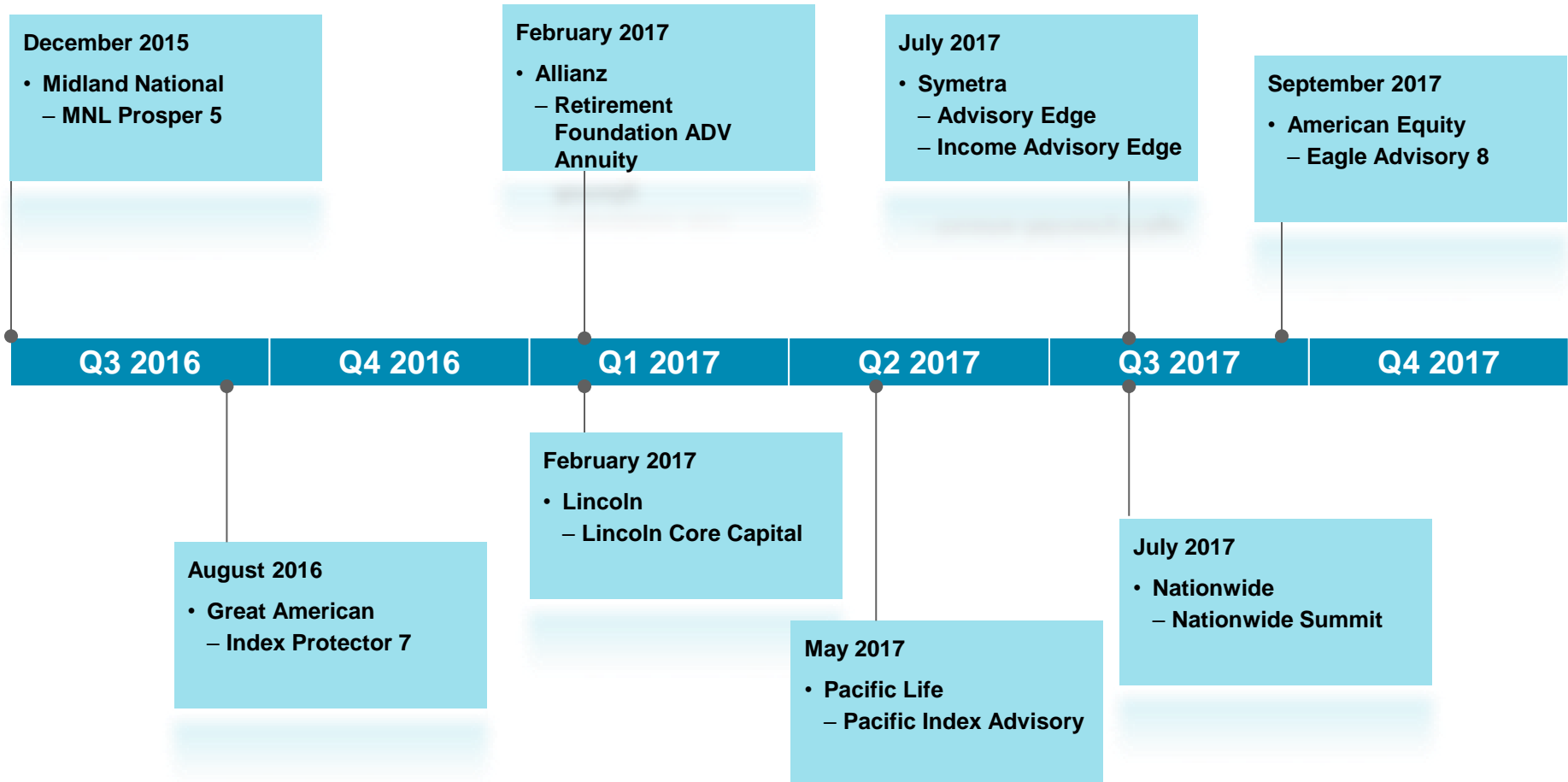


Annual point-to-point crediting method and S&P 500 index are still the most common, but “hybrid” and proprietary indices (e.g., target volatility and dynamic rebalancing indices) are gaining significant traction

Source: Wink's Sales & Market Report

Fee-based FIA product launches

Half of FIA writers have or plan to introduce a fee-based FIA in 2017, according to LIMRA



Benefits of fee-based FIAs

The removal of compensation from the product allows for benefits to the customer and insurance company



Higher customer value



- The customer will likely receive a higher cap rate
- The surrender charges will likely be lower or eliminated



Less strain to insurer



- The company will not be paying an upfront commission, resulting in less strain to the insurance company



Market opportunity

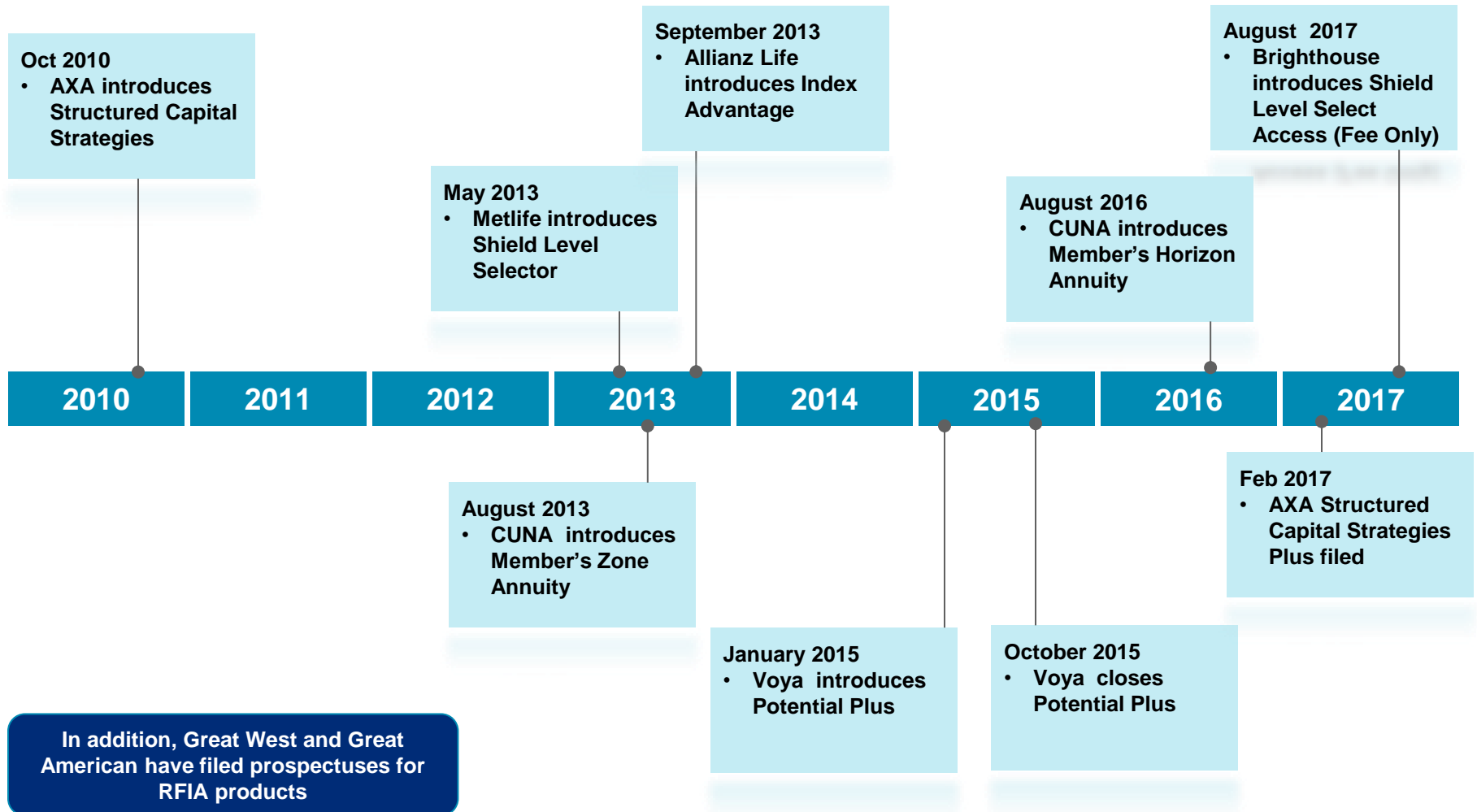


- Agents that only sell fee-based may be willing to look at FIA as a choice for their customers
- The uncertainty around the DOL fiduciary rule may increase demand for these products

Questions remain as to how fee based FIAs will be made available to the middle market

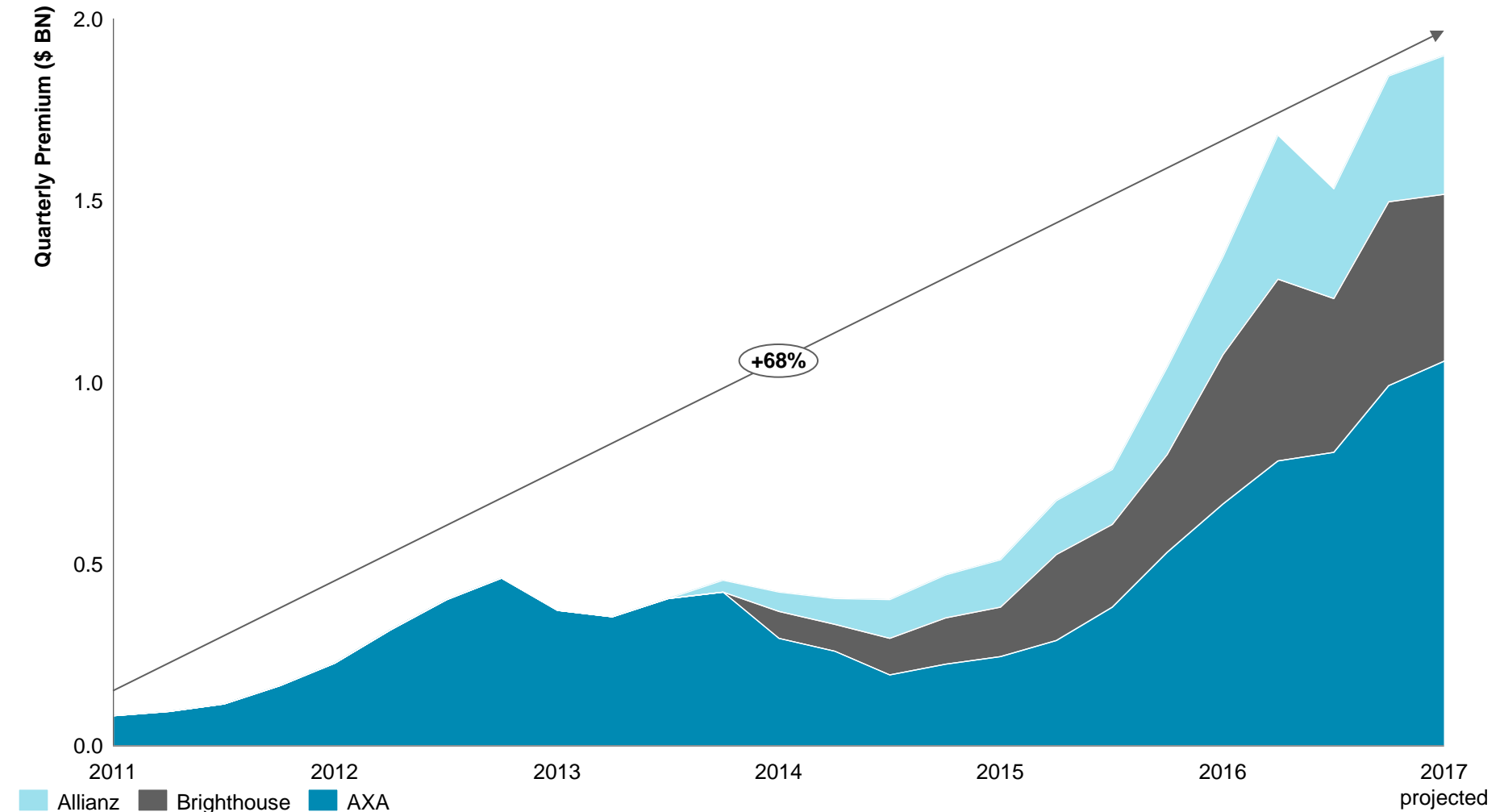
Registered fixed index annuity product launches

Product launches are accelerating recently with top competitors launching version 2.0 of their products



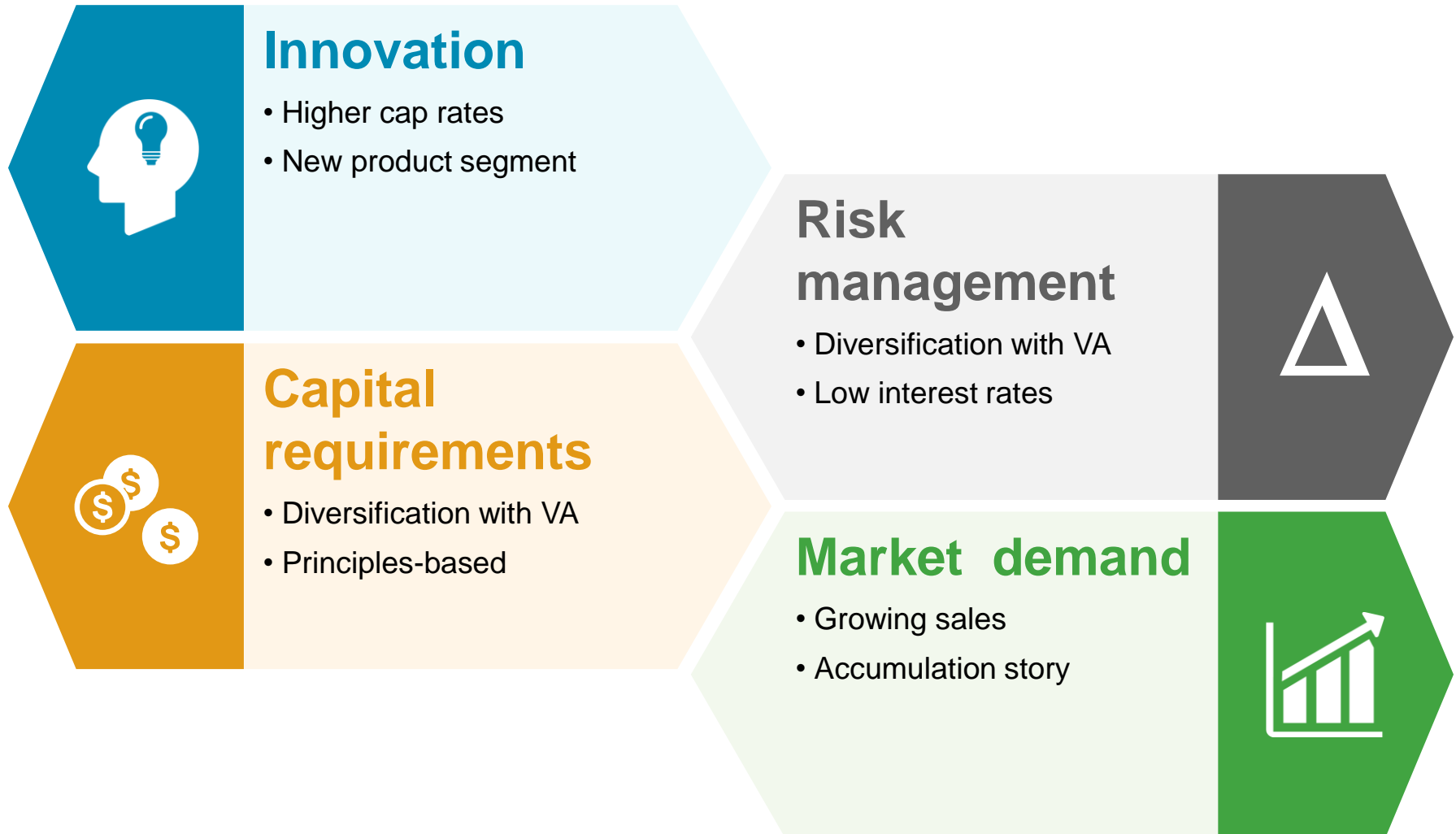
Quarterly RFIA sales (2011Q3 – 2017Q1)

Annualized RFIA sales are approaching \$8BN



Source: Morningstar

Motivations for introducing RFIsAs



Risks and profitability drivers for RFIs and base FIAs

The interest rate market is the main driver of risk and profitability for RFIs and base FIAs

1



Crediting rate spread risk

- Risk that pricing spread is not achieved
- Lower reinvestment yields / inforce management / guarantees

2



Disintermediation

- Risk of ALM mismatches in rising rate environment, magnified by dynamic lapses

3



Policyholder behavior

- Risk of higher / lower lapses when option budget is uncompetitive / competitive

4



Equity risk

- Most carriers effectively over-hedge and benefit from option payoffs in excess of the option budget

5



Accounting mismatches

- Disconnects between AG33/FAS 133 and asset accounting

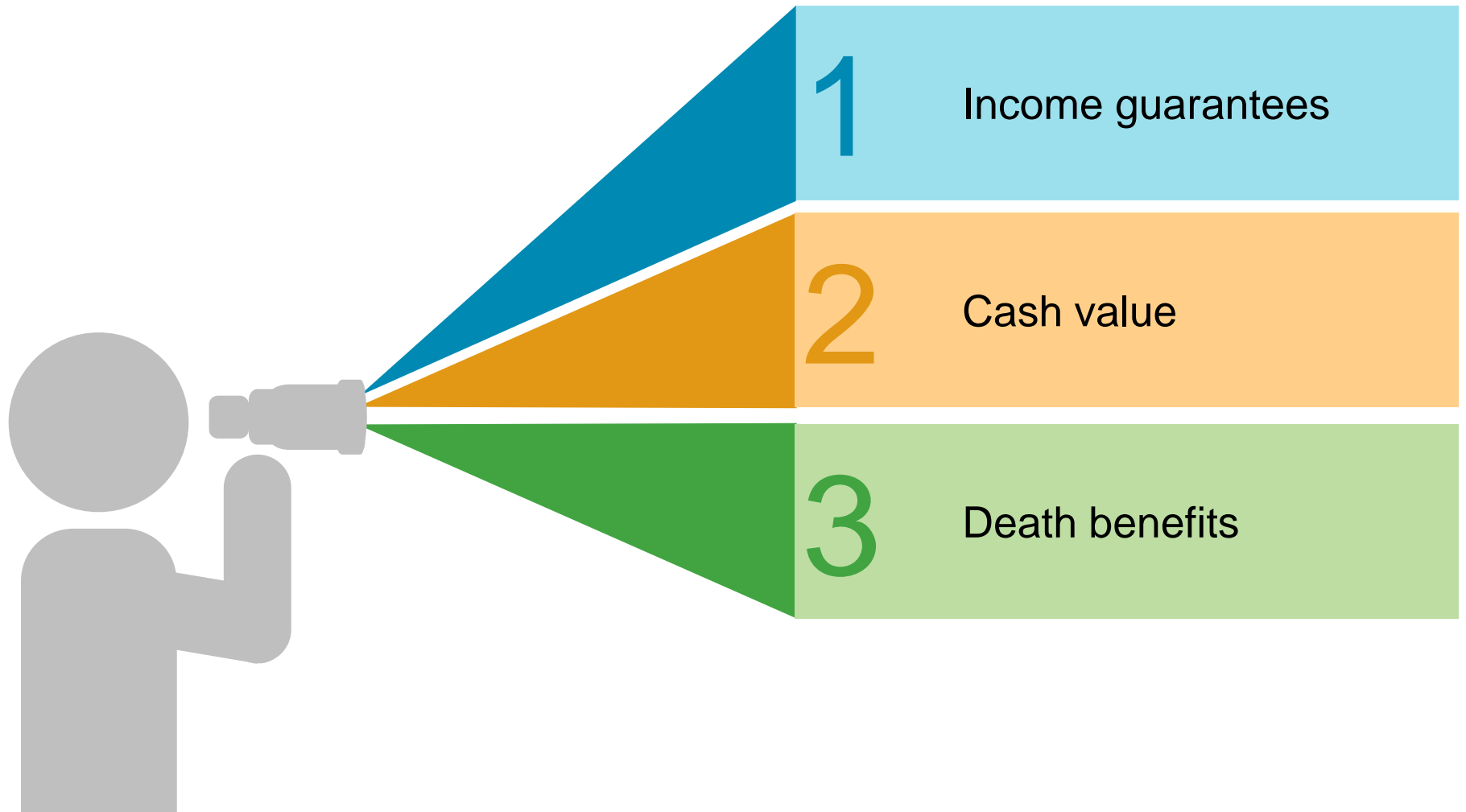
Customer options for guaranteed income

Three major types of products exist in the market to guarantee income for life

		Income annuities	FIA GLWB	VA GLWB
Product characteristics	Income	<ul style="list-style-type: none"> Guaranteed income Various payout structures available Gender specific rates 	<ul style="list-style-type: none"> Guaranteed income Single and joint life options Unisex rates 	<ul style="list-style-type: none"> Guaranteed income Single and joint life options Unisex rates
	Cash value	<ul style="list-style-type: none"> Cash value options limited 	<ul style="list-style-type: none"> GMSV (Guaranteed minimum surrender value) Modest upside potential 	<ul style="list-style-type: none"> Full participation in market returns less fees Subject to downside risk
	Death benefits	<ul style="list-style-type: none"> Various death benefit options or no death benefit 	<ul style="list-style-type: none"> Account value returned on death GMSV guaranteed upon death 	<ul style="list-style-type: none"> Account value returned on death Most VA GLWB have no guaranteed death benefits GMDB typically available
Typical pricing regime	Methodology	<ul style="list-style-type: none"> Real world pricing 	<ul style="list-style-type: none"> Real world pricing 	<ul style="list-style-type: none"> Risk neutral pricing

Benefits for the three types of products

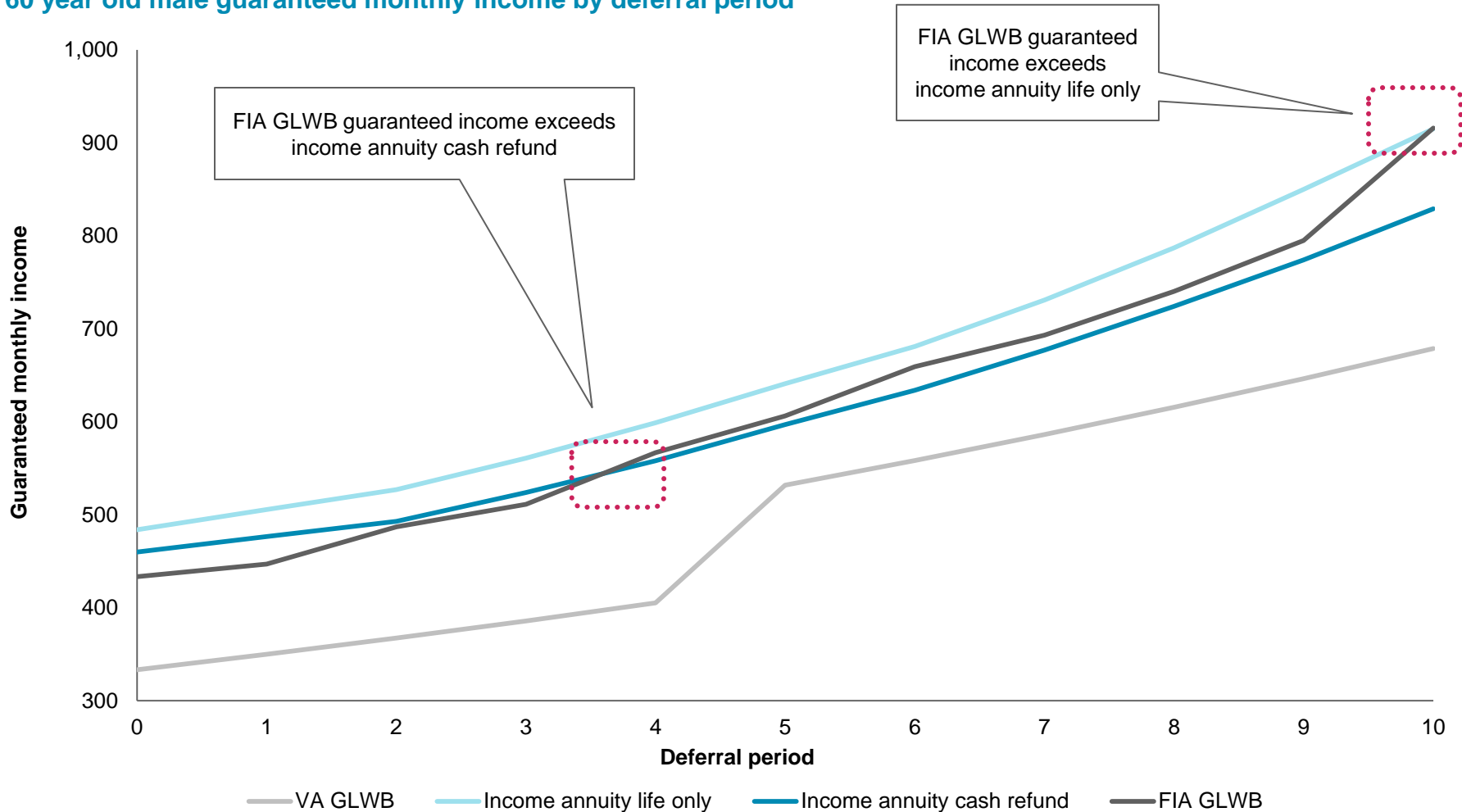
The benefits offered by the three products significantly differ



Guaranteed income rates by product and deferral

The longer the deferral period, the more competitive the FIA GLWB guaranteed income becomes

60 year old male guaranteed monthly income by deferral period



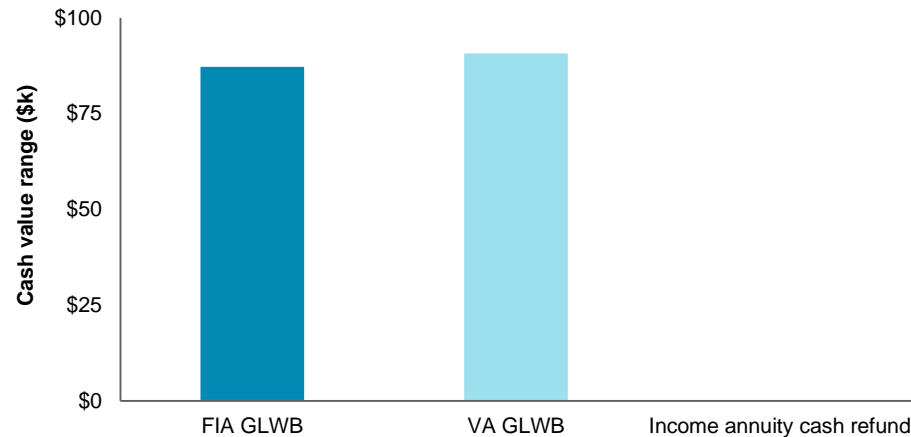
1. Income illustrated for a single premium of \$100k
 2. Rates based on common products in the marketplace
 © Oliver Wyman

Cash value by product for income starting immediately

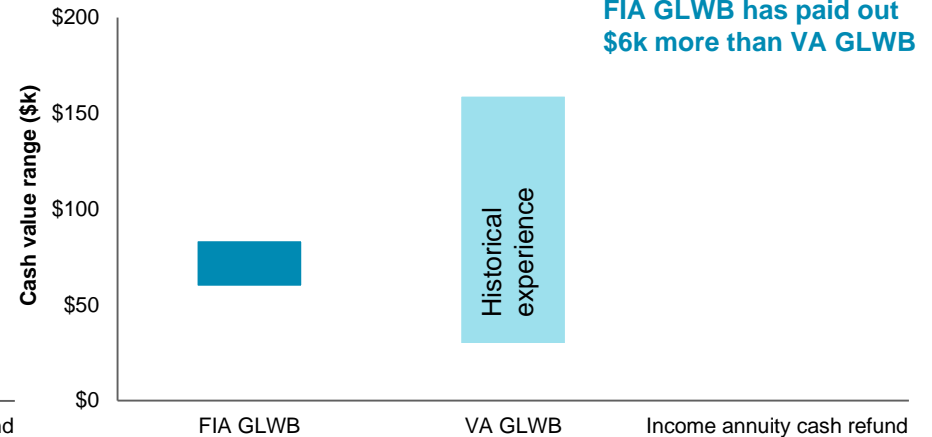
FIA products currently offer higher guaranteed cash value than comparable alternatives

60 year old male with income starting at issue

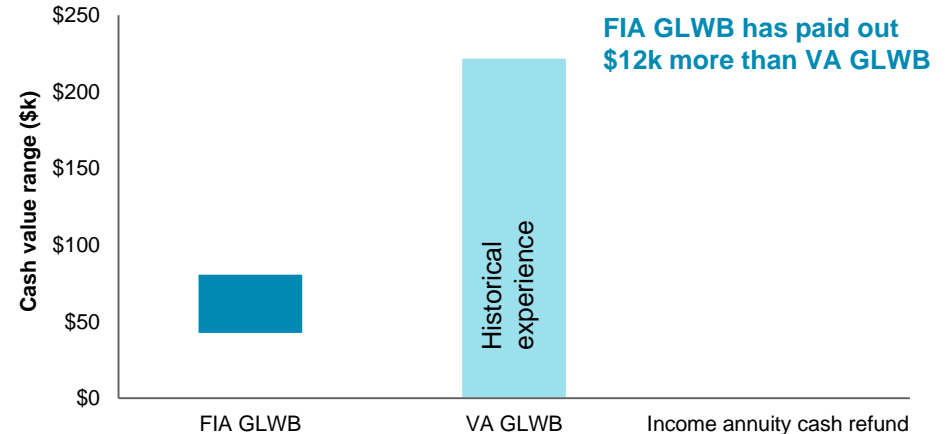
At issue



5 years from issue



10 years from issue



Product	Cash value commentary
Income annuity cash refund	No cash value offered, cash refund is only a death benefit
FIA GLWB	Narrow range of possible cash values, with guarantee
VA GLWB	Wide range of possible cash values

1. Income illustrated for a single premium of \$100k

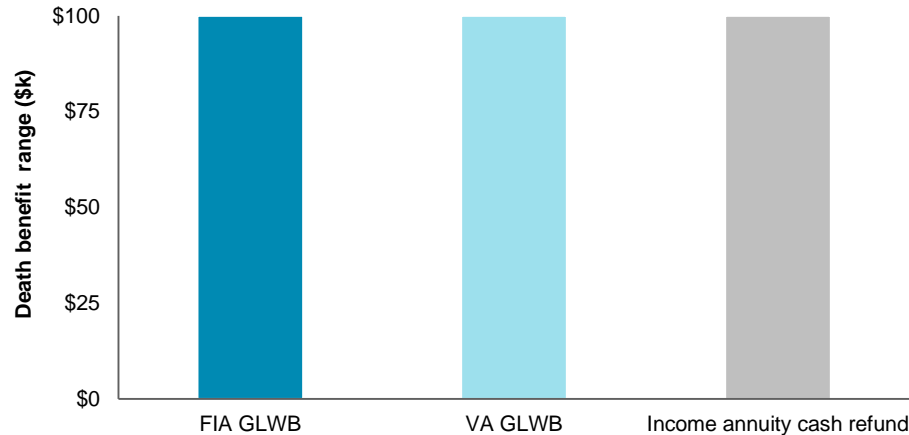
2. Range based on S&P returns from 1/1/87- 1/1/2017, using the best and worst results for the number of years of experience

Death benefit by product for income starting immediately

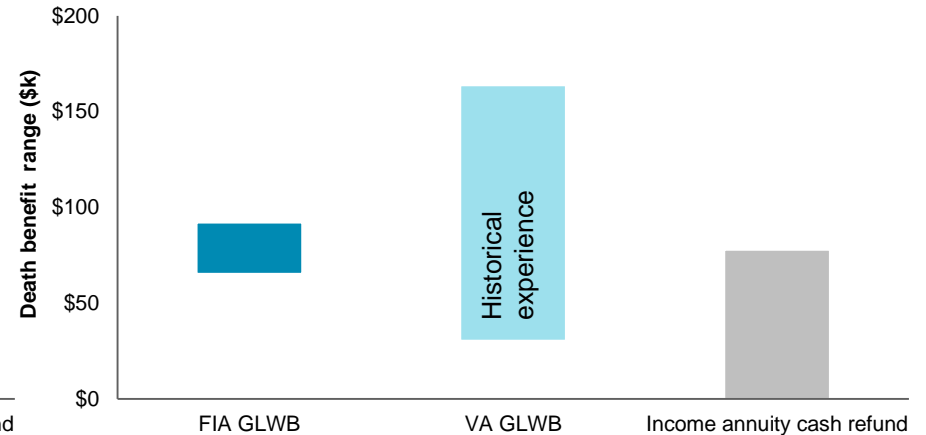
FIA products currently offer strong guaranteed death benefit, with modest upside potential

60 year old male with income starting at issue

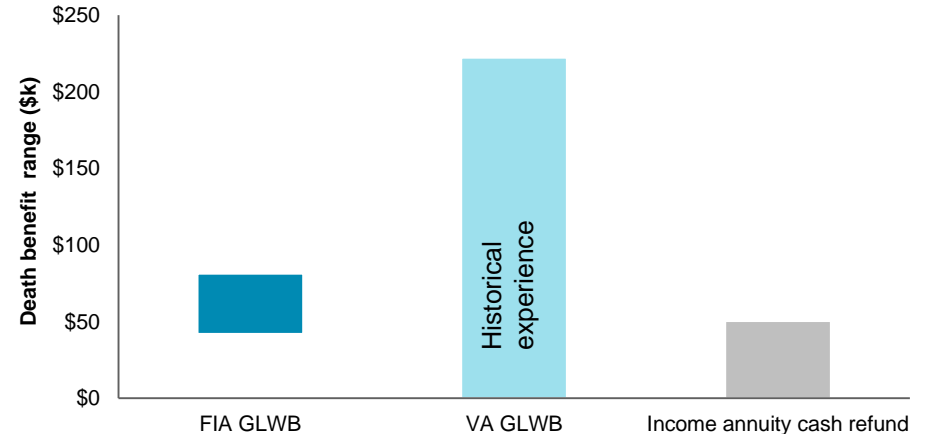
At issue



5 years from issue



10 years from issue



Product	Death benefits commentary
Income annuity cash refund	Death benefit slightly higher than FIA guarantees
FIA GLWB	Narrow range of possible death benefits, with guarantee
VA GLWB	Wide range of possible death benefits

1. Income illustrated for a single premium of \$100k

2. Range based on S&P returns from 1/1/87- 1/1/2017, using the best and worst results for the number of years of experience

Rankings of the three benefits

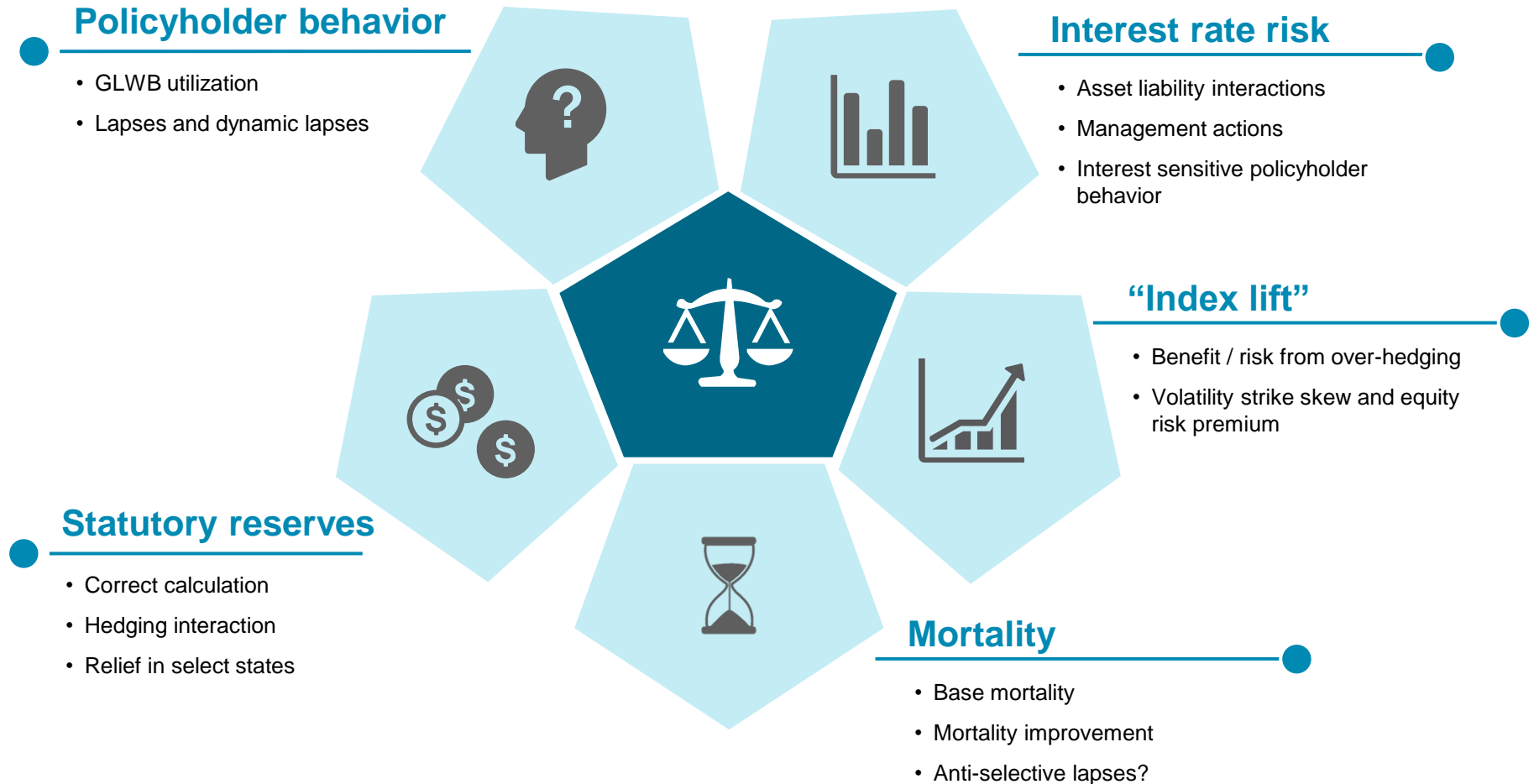
FIA GLWB offers the highest income in many cases with strong policyholder optionality when compared to income annuities and VA GLWB

	Income annuities	FIA GLWB	VA GLWB
Income	1 <ul style="list-style-type: none"> Life only income guarantees are very strong 	2 <ul style="list-style-type: none"> The income guarantee is very strong 	3 <ul style="list-style-type: none"> The income guarantee is weakest of the three options
Cash value (strong equity market)	3 <ul style="list-style-type: none"> Limited or no cash value 	2 <ul style="list-style-type: none"> Modest upside potential 	1 <ul style="list-style-type: none"> The cash value is invested in the market less fees
Cash value (weak equity market)	3 <ul style="list-style-type: none"> Limited or no cash value 	1 <ul style="list-style-type: none"> Minimum of GMSV 	2 <ul style="list-style-type: none"> The cash value is invested in the market less fees
Death benefits	2 <ul style="list-style-type: none"> Various death benefit guarantees can be purchased 	1 <ul style="list-style-type: none"> GMSV paid on death Modest upside potential 	3 <ul style="list-style-type: none"> The death benefit value is invested in the market less fees (assuming no GMDB rider)

Individual purchase decisions are based on each client's circumstances

Risks and profitability drivers for FIA GLWB

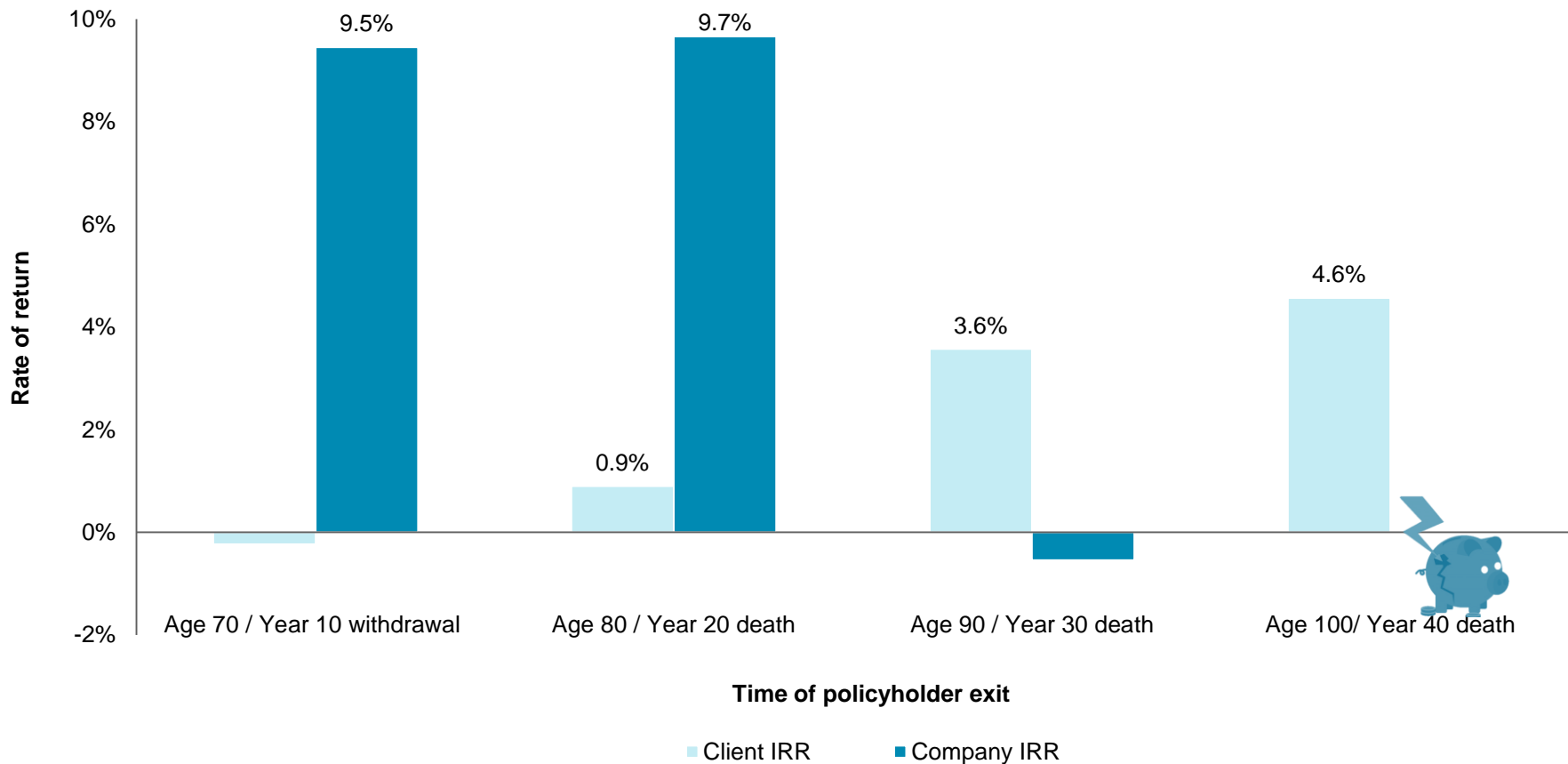
Policyholder behavior and interest rates are the two largest risks for FIA GLWB



Client and company IRR for an FIA with GLWB starting income immediately

The rate of return achieved by the client and the company is dependent upon the timing of withdrawal or death

60 year old male starting income at issue



1. Client IRR represents pre-tax return on invested cash flow (premium)
2. Company IRR represents the internal rate of return on after-tax distributable earnings

Key takeaways

- 1 FIAs have become more mainstream**
- 2 RFIAAs are less mature but growing rapidly**
- 3 FIA GLWBs offer strong income guarantees while preserving liquidity**
- 4 Carrier returns will be influenced by policyholder behavior and economic markets**

Questions

