

Actuarial Implications of DOL Fiduciary Rule

Actuaries' Club of Hartford & Springfield – 2016 Annual Meeting

Hartford – May 19, 2016

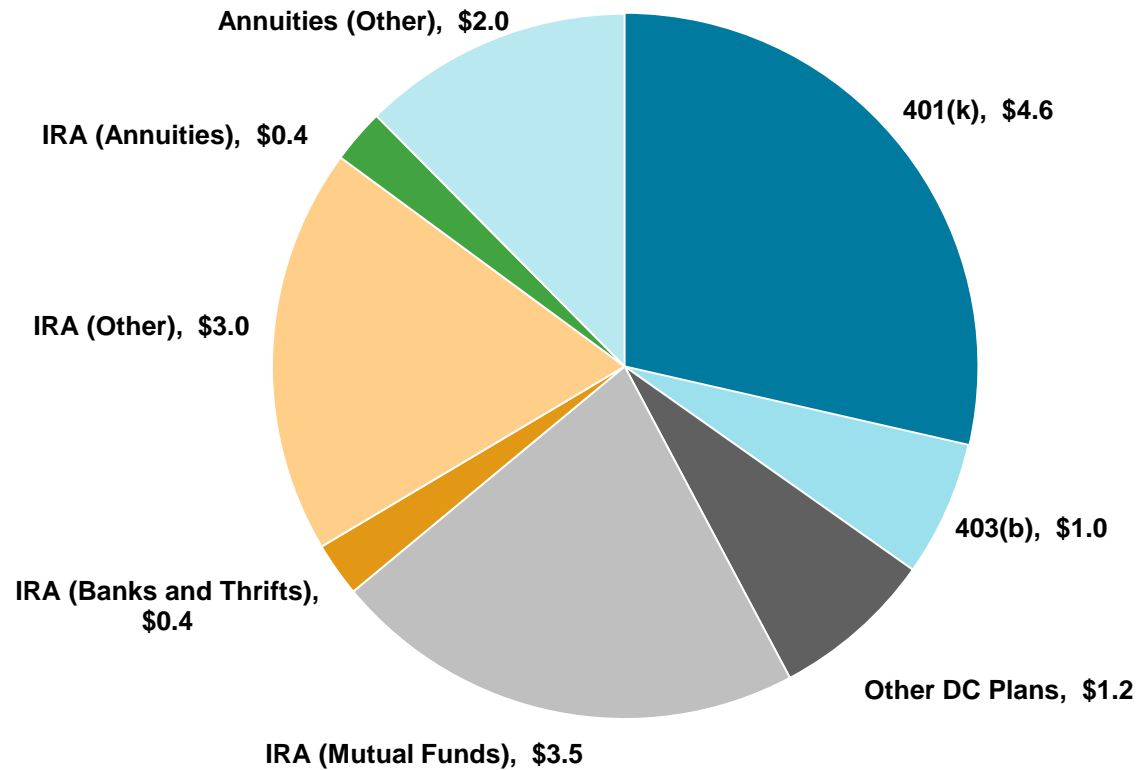
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Agenda

- I. Assets impacted
- II. Product implications
- III. Pricing implications
- IV. Inforce implications
- V. Conclusions
- VI. Opening questions and general Q&A

Assets impacted

Year-end 2014 US Retirement Assets (\$ Trillions)



Source: Investment Company Institute

Product implications (individual annuities)

	Variable and indexed annuities	Fixed annuities
Average size	<ul style="list-style-type: none"> • Increase in average sizes 	<ul style="list-style-type: none"> • Largely unchanged
Commissions	<ul style="list-style-type: none"> • Downward pressure on commissions for contracts sold under best interest contract (BIC) • Fee-based annuities with no commissions (fiduciary, no BIC) 	<ul style="list-style-type: none"> • Downward pressure on commissions
Surrender charges	<ul style="list-style-type: none"> • Pressure to reduce and decrease length of surrender charges 	<ul style="list-style-type: none"> • Pressure to reduce and decrease length of surrender charges
Fee drag / interest rate margin	<ul style="list-style-type: none"> • Reduced fee drag for variable annuities • Reduced interest rate margin on indexed annuities 	<ul style="list-style-type: none"> • Reduction in interest rate margin depends on relationship between commissions and surrender charges
Income guarantees	<ul style="list-style-type: none"> • GLWBs will be more difficult to offer if surrender charge protection is decreased • Favorable impact from lower fee drag 	<ul style="list-style-type: none"> • Some industry participants believe that fixed annuities with GLWB will become more prominent
Complexity	<ul style="list-style-type: none"> • Pressure to simplify designs (e.g., indexing features, GLWBs) 	<ul style="list-style-type: none"> • Pressure to simplify designs (MVAs?, prominent annuitization features)

Pricing implications

- 1 **Persistency**
- 2 **Other policyholder behavior**
- 3 **Demographics**
- 4 **Expenses**
- 5 **Pricing methodology**

Inforce implications

1 **Persistency**

2 **Other policyholder behavior**

3 **Inforce changes**

Conclusions

- 1 DOL Rule will have a profound impact on the retirement and annuity landscape**
- 2 It appears that the middle market will have reduced access to non-fixed annuities**
- 3 The “spirit” of the rule will matter**

Opening questions and general Q&A

