



# Annuity Update – Income Products

## Southwest Actuaries Club Meeting

**Kendrick Lombardo, FSA, MAAA**

June 2015

# Agenda

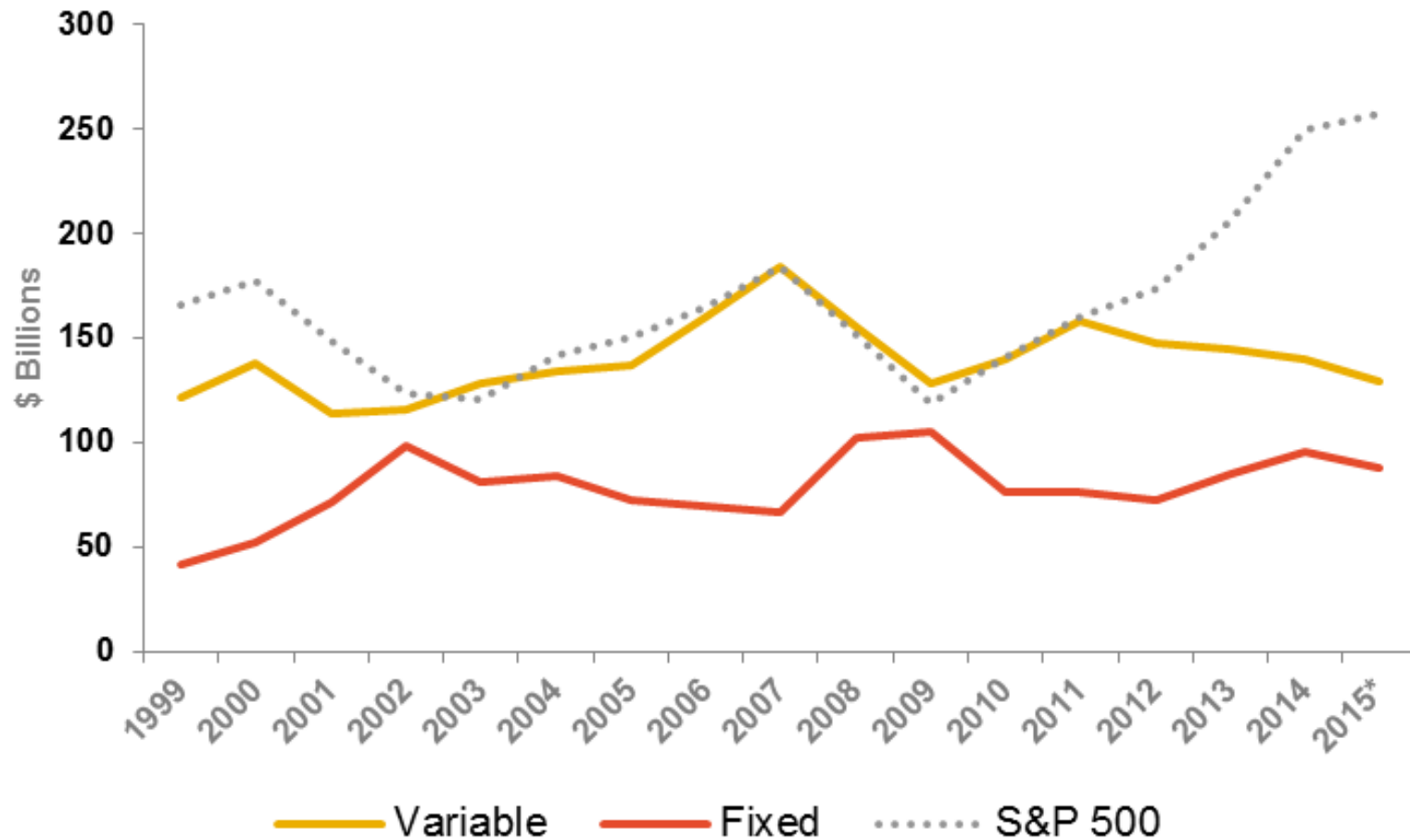
## Annuity Sales Trends

## Income Products (SPIA/DIA)



# Annuity Sales Trends

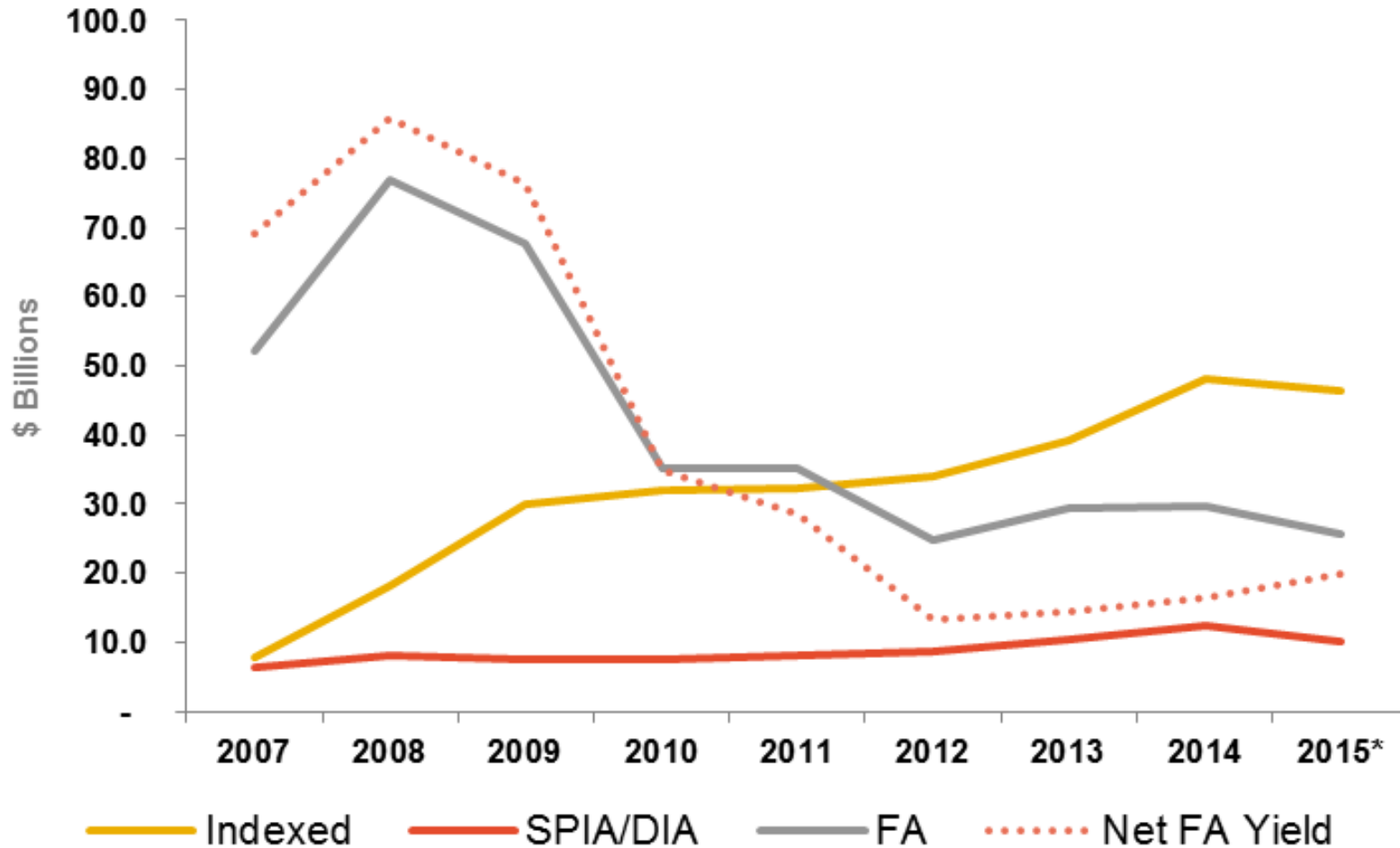
# Annuity Sales Trends (1999-2015)



\* Annualized based on Q1

Sources: *AnnuitySpecs.com's Indexed Sales & Market Report*, 1Q2015, Towers Watson VALUE Survey, LIMRA Secure Retirement

# Fixed Annuity Sales Trends (2007-2015)



\* Annualized based on Q1

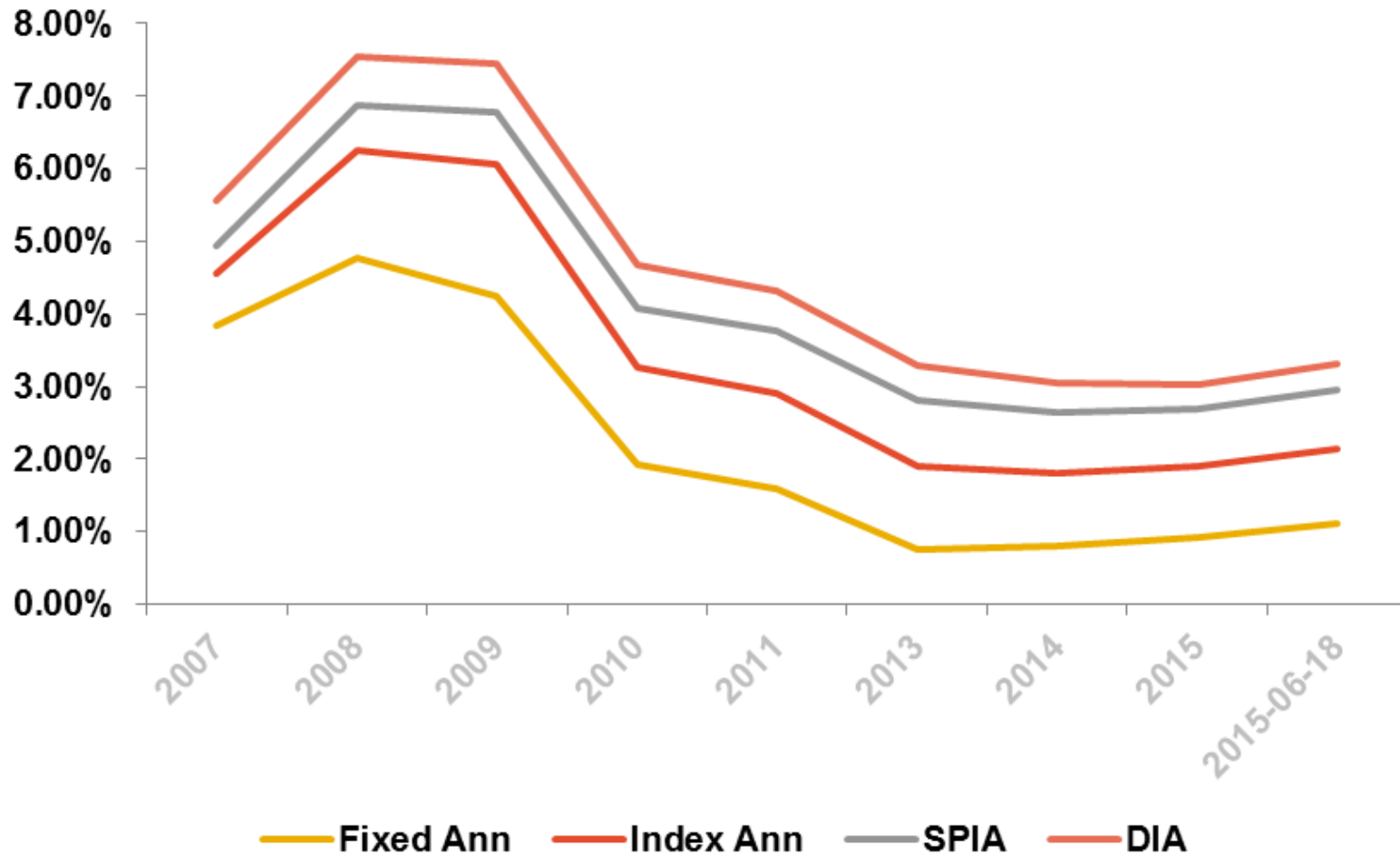
Sources: *AnnuitySpecs.com's Indexed Sales & Market Report*, 1Q2015, Towers Watson VALUE Survey, LIMRA Secure Retirement, Federal Reserve Bank of St. Louis (BofA Merrill Lynch US Corporate Yields and CMT data) and Towers Watson estimates

# Fixed Annuity Pricing Efficiency

	Investment Yield		Pricing Spread		
	Duration	Liquidity	Distribution	Reserves	Capital
Fixed	-	--	-	+	--
Indexed	+	+	=	-	+
SPIA	++	++	+	+	+
DIA	++	++	+	++	+

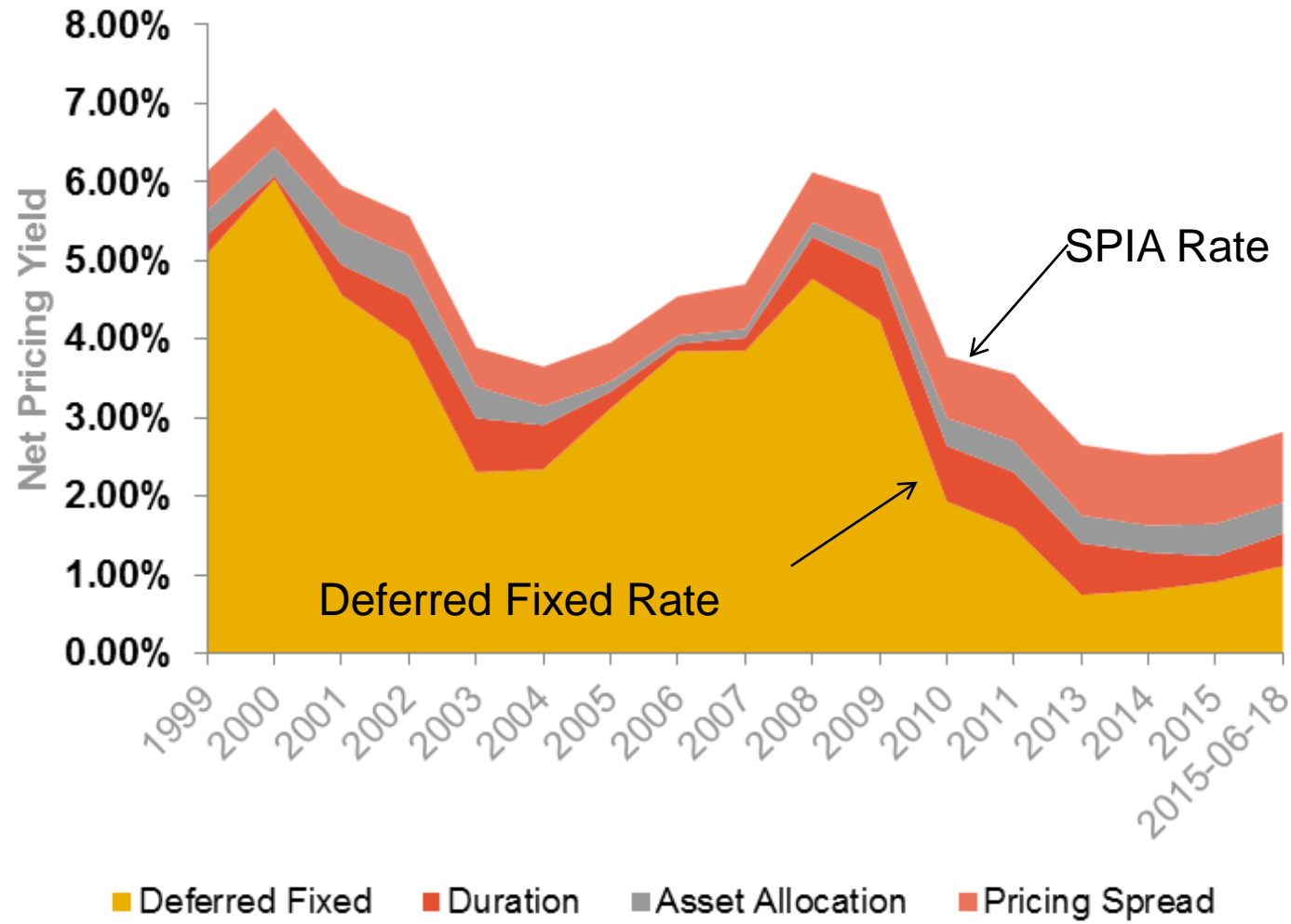
- Affordable Rate = Investment Yield – Pricing Spread
  - Investment yields impacts by duration and liquidity needs as well as company risk tolerances
  - Pricing spreads impacted by distribution expenses, excess/low reserves, capital needs and return targets

# Fixed Annuity Affordable Rates (2007-2015)



Sources: Federal Reserve Bank of St. Louis (BofA Merrill Lynch US Corporate Yields and CMT data) and Towers Watson estimates

# Fixed Annuity(FA) vs. SPIA Affordable Rates



Sources: Federal Reserve Bank of St. Louis (BofA Merrill Lynch US Corporate Yields and CMT data) and Towers Watson estimates



# Top Fixed Annuity Companies (2014)

Company	Fixed	Indexed	Total	Rank 2011	Rank 2014	
Allianz Life	0.1	12.7	12.8	2	1	↑
New York Life	7.6	0.0	7.6	3	2	↑
AIG Companies	5.0	4.2	6.2	1	3	↓
Security Benefit Life	0.5	4.2	4.7	3	4	↓
American Equity Investment Life	0.0	0.5	4.2	4	5	↓
Forethought Annuity	3.3	3.1	3.7	n/a	6	↑
Great American	1.4	1.6	3.6	7	7	→
Symetra Financial	2.7	0.0	3.1	11	8	↑
MetLife	1.7	0.8	2.7	8	9	↓
Pacific Life	0.7	1.8	2.6	13	10	↑
<b>Top 10</b>	<b>22.8</b>	<b>28.3</b>	<b>51.1</b>	<b>n/a</b>	<b>n/a</b>	
Others	24.7	19.9	44.6	n/a	n/a	
<b>Total</b>	<b>47.5</b>	<b>48.2</b>	<b>95.7</b>	<b>n/a</b>	<b>n/a</b>	

Sources: LIMRA Secure Retirement

# Annuity Sales Trends (2013-2014)

Product	1H 2013	2H 2013	1H 2014	2H 2014
VA Separate	58.4	57.3 →	55.3 →	57.0 →
VA Fixed	14.9	14.7 →	15.1 →	12.7 ↓
<b>Total Variable</b>	<b>73.3</b>	<b>72.0 →</b>	<b>70.4 →</b>	<b>69.7 →</b>
Book Value	8.2	14.2 ↑	11.2 ↓	9.9 ↓
Market Value	2.9	4.0 ↑	4.6 ↑	4.0 ↓
Indexed	17.2	22.1 ↑	24.3 ↑	23.9 →
DIA	0.9	1.3 ↑	1.3 →	1.4 →
SPIA	3.6	4.7 ↑	5.1 ↑	4.6 →
Struct. Settlement	2.5	3.3 ↑	2.6 ↓	2.8 →
<b>Total Fixed</b>	<b>35.3</b>	<b>49.5</b>	<b>49.1</b>	<b>46.6</b>



# Income Products (SPIA/DIA)

# SPIA Trends

- Several companies refreshing their product pricing
  - Mortality and investment focus
  - Refresh pricing models, but few have expanded to full ALM models
- Profit margins can be very thin from low statutory reserves
- Mortality viewpoints can differ substantially by company
  - Base mortality
  - Mortality selection
  - Mortality improvement
- Investment yield assumptions
  - Quality level, private securities, mortgages and alternative assets usually driving differences by company
- Larger size cases permitted without home office approval (1m - > 3m)
- New reserve table in 2015 - 2012 IAR vs. Annuity 2000

# Common DIA Product Features

- Single or flexible premium
- Single or joint life; continuation %
- Guaranteed payments
  - Return of Premium (ROP) or period certain
- Wide range of ages/deferrals
  - Purchase from Age 18 to 70+
  - Deferral from 1+ to 30 years+/Age 70½ qualified
- Change of deferral period
  - Based on commutation rate and mortality table (reserve considerations)
- Some with limited liquidity
  - Acceleration of payments (some or all)
- Increasing income options
  - Fixed percentage per year (1%, 2%, 3% or 4%)
  - Dividend based (Northwestern Mutual)

# DIA Product Flexibility – MetLife Income Builder

- Flexible Income Feature
  - 10 year window (5 years before and after original start date)
  - Split income into two streams, each with their own start date
  
- Cash Out Option
  - Elect at issue, to allow exercise later
  - Before income payment start
  - Surrender charge in the first 7 years
  
- Increasing Income
  - Fixed - 2%, 3% or 4%
  - Must be 59 ½ at time payment begin

# Regulatory - DIAs in 401ks and Similar Plans

## **7/1/14 – Treasury/IRS amended the RMD rules for in plan DIAs**

- Payments do not have to begin by age 70 ½ to comply with qualified RMD rules
- Lessor of 25% of their account or \$125,000 (indexed to inflation)
- Allow Return of Premium (ROP) death benefit
- Maximum age 85 for payments to begin
- Can't be variable or indexed, fixed only

## **10/24/14 – Treasury/IRS clarifies rules for DIAs**

- Can be a default option
- Can be used with Target Date Funds
- Plan can limit availability by age and not be considered discriminatory



# Summary



# Summary

## Sales Trends

- Variable annuity sales have broken away from their market trend
- Fixed annuity sales have dropped with the slide in interest rates
- FIAs, SPIAs and DIAs have grown despite the level of rates, stealing some VA income based sales
- Market has broadened out to some smaller players, with some larger players pulling back

## SPIA/DIA

- Some innovative features added, adding to liquidity and flexibility
- Several companies have refreshed or added products
- New potential growth within DC plans given Treasury/IRS ruling