

Income Annuities: Market Opportunities & Product Trends

Atlanta Actuarial Club

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Overview of presentation

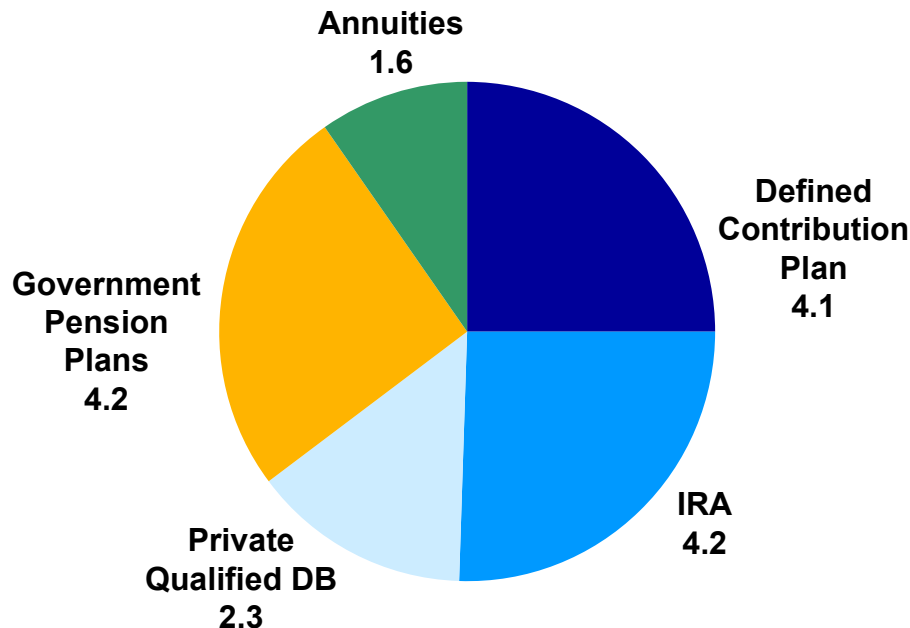
- Sizing the retirement market
- Product offerings
 - Overview
 - GMWB
- Future outlook

Sizing the Retirement Market

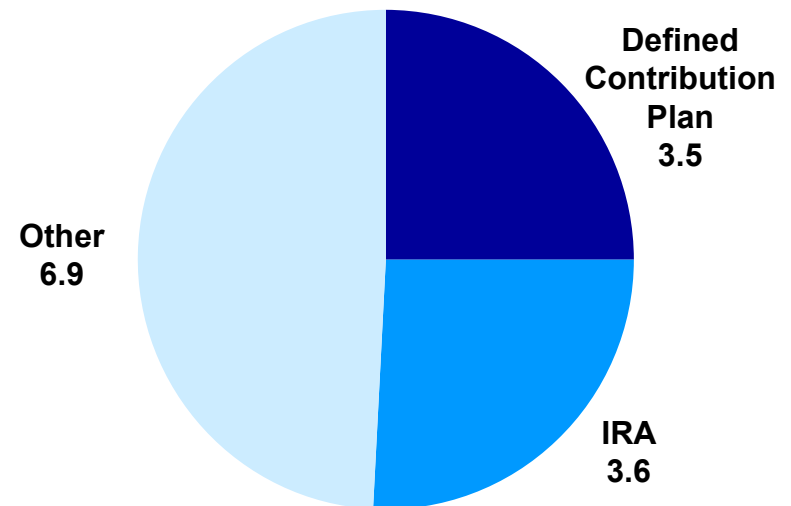
Total assets in the retirement market are significant, although have declined 15% since 2006

Total Assets in Retirement Market

As of 12/31/06
Total = \$16.4 Trillion



As of 12/31/08
Total = \$14.0 Trillion



- In addition, individual investors held approximately \$9 trillion in assets as of 12/31/05 (mutual funds, private client, annuities, hedge funds, etc.) outside of retirement plans
- Rollovers from Private Qualified DC plans are estimated at roughly \$300 billion per year

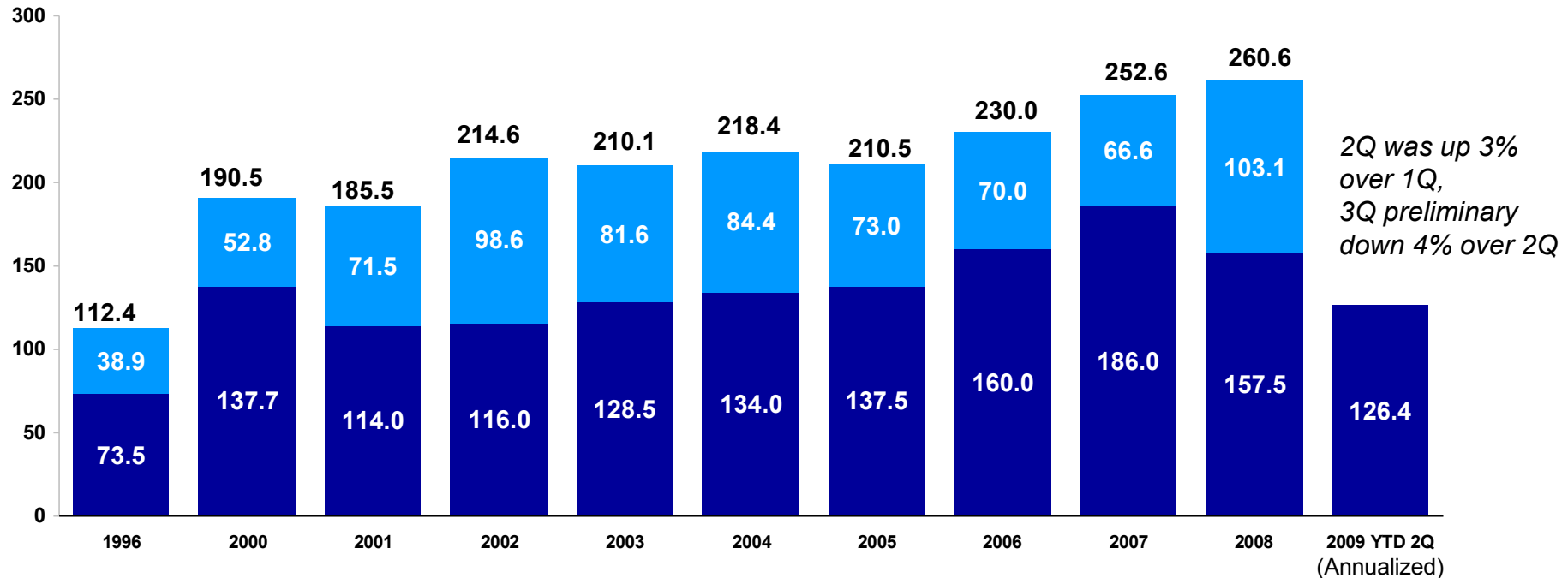
Source: Investment Company Institute (ICI), Cerulli. Annuities include all fixed and variable annuity reserves, less annuities held by IRAs, 403(b), 457 and private pension funds.

After several years of strong growth, variable annuity sales dropped significantly in 2008; however, now appears to have stabilized

Mix of U.S. Annuity Gross Sales

	1996-2000	2000-2001	2001-2005	2005-2007	2007-2008	Overall
CAGR VA =	17.0%	(17.2)%	4.8%	16.0%	(15.3)%	8.8%
CAGR FA =	7.9	35.4	.5	(7.8)	54.8	4.3
CAGR Total =	14.1	(2.6)	3.2	8.3	3.2	7.3

Annuity Sales (\$billion)

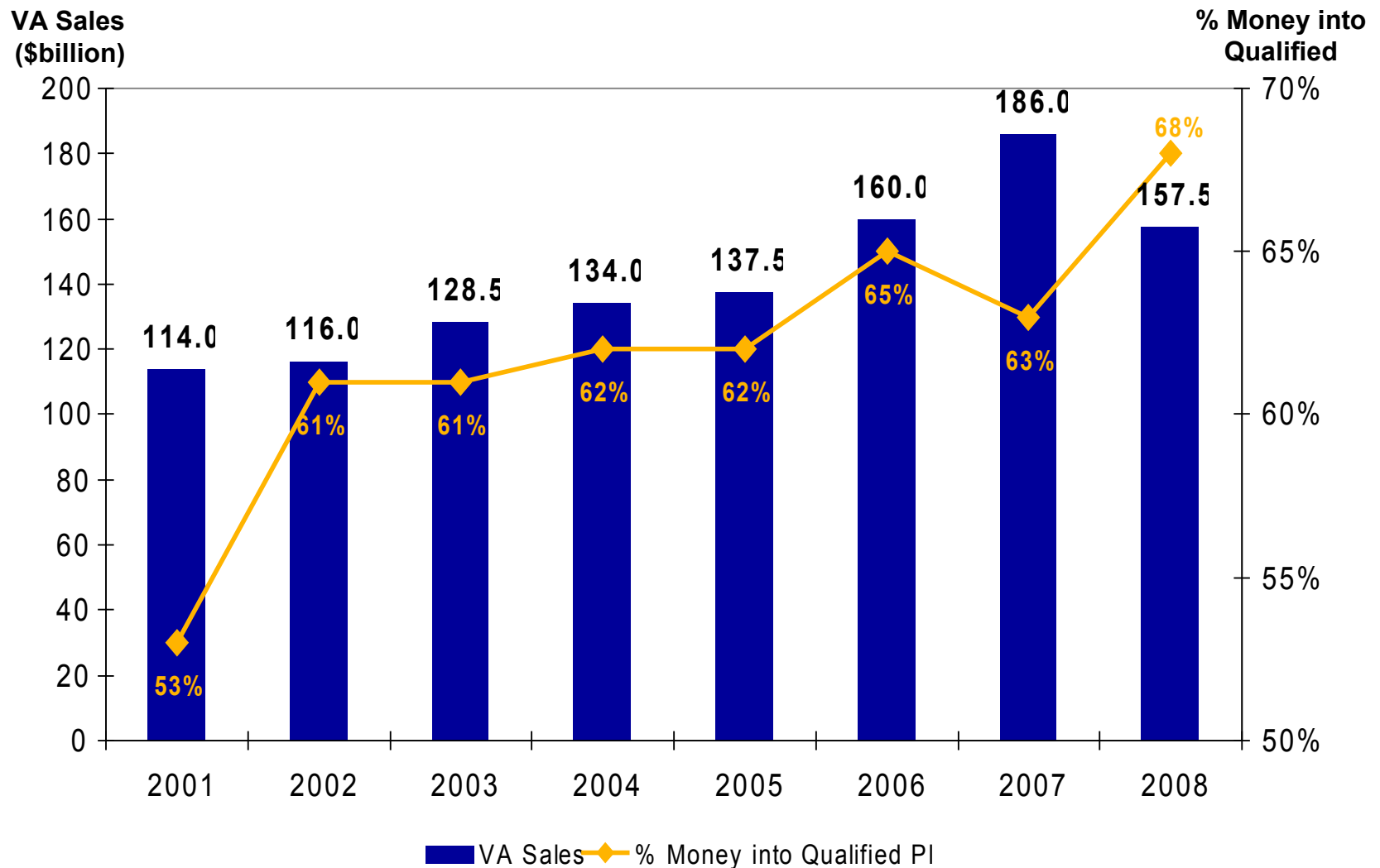


■ Variable annuity sales ■ Fixed and equity indexed annuity sales¹

¹ Includes immediate annuity sales (approximately \$6 billion)

Source: Variable sales from Tillinghast VALUE Survey ("VALUE"), includes all non-pension variable annuity premiums (first-year and renewal, separate account and fixed account). Fixed sales from LIMRA, includes deferred and immediate annuities, EIAs, and MVA (excludes structured settlements).

An increasing portion of VA sales are coming from qualified plans



Source: Tillinghast VALUE

Much has been written about consumers' lack of preparation for retirement

- Traditional retirement income sources drying up
- Over reliance on Social Security
- Not saving enough
- Lifespans increasing
- Traditional method of withdrawing $x\%$ of assets annually leaves consumers exposed to the risk of running out of money

Workers have lost confidence that they have enough money for retirement

- Question: How confident are you that you have enough money to live comfortably throughout your retirement years?

Results from Retirement Confidence Survey

Year	Workers Feel:			
	Very Confident	Somewhat Confident	Not Too Confident	Not at All Confident Total
2007	27%	43%	19%	10%
2009	13%	41%	22%	22%

Source: Employee Benefit Research Institute

Insurers' products — meeting retirement income current needs

- Immediate Annuities → Roughly \$6 billion of annual sales; translates to \$500 million of annual income for one year of sales
- Annuitizations → Roughly \$10 billion of annual annuitizations, translates to \$800 million of annual income for one year of sales
- Living Benefits → Perhaps \$90 billion of annual VA sales (estimated at roughly 70% of total market); translates to \$4.5 billion of annual income for one year of sales
- Partial Withdrawals → Perhaps \$50 billion of annual withdrawals (estimated at 3% of total annuity assets)

Source: LIMRA, Towers Perrin analysis

Product Offerings

Product offerings

	VA GMWB	Immediate Annuities/Annuitization		Longevity Insurance	Mutual Funds with Immediate Annuity
		Fixed	Variable		
Brief Description	VA contract with withdrawal rider	Lump sum buys series of payments starting now	Lump sum buys certain # of units	Lump sum buys series of payments starting in future	Mutual fund plus immediate annuity
Equity Market Participation/Exposure	Yes	No	Yes	No	Yes, on part
Guarantees	Abundant	Yes	Generally no, expensive	Yes	Some
Fees	Highest	Lowest	Higher	Lower	Moderate
Longevity Protection	Yes with lifetime rider	Yes	Yes	Yes	Yes, on part
Level of Initial Payment ¹	\$5,000	\$7,980	\$6,830 ²	Very high	\$5,200 ³
Complexity	High	Low	High	High	Moderately low
Liquidity	Full	Generally no, a few products offer		Available on some through rider	Only on MF

¹ Male, age 65, \$100,000 payment, annuity with life + 10 year certain

² 3.5% AIR

³ Mix of 70% MF (with 4% withdrawal) and 30% IA

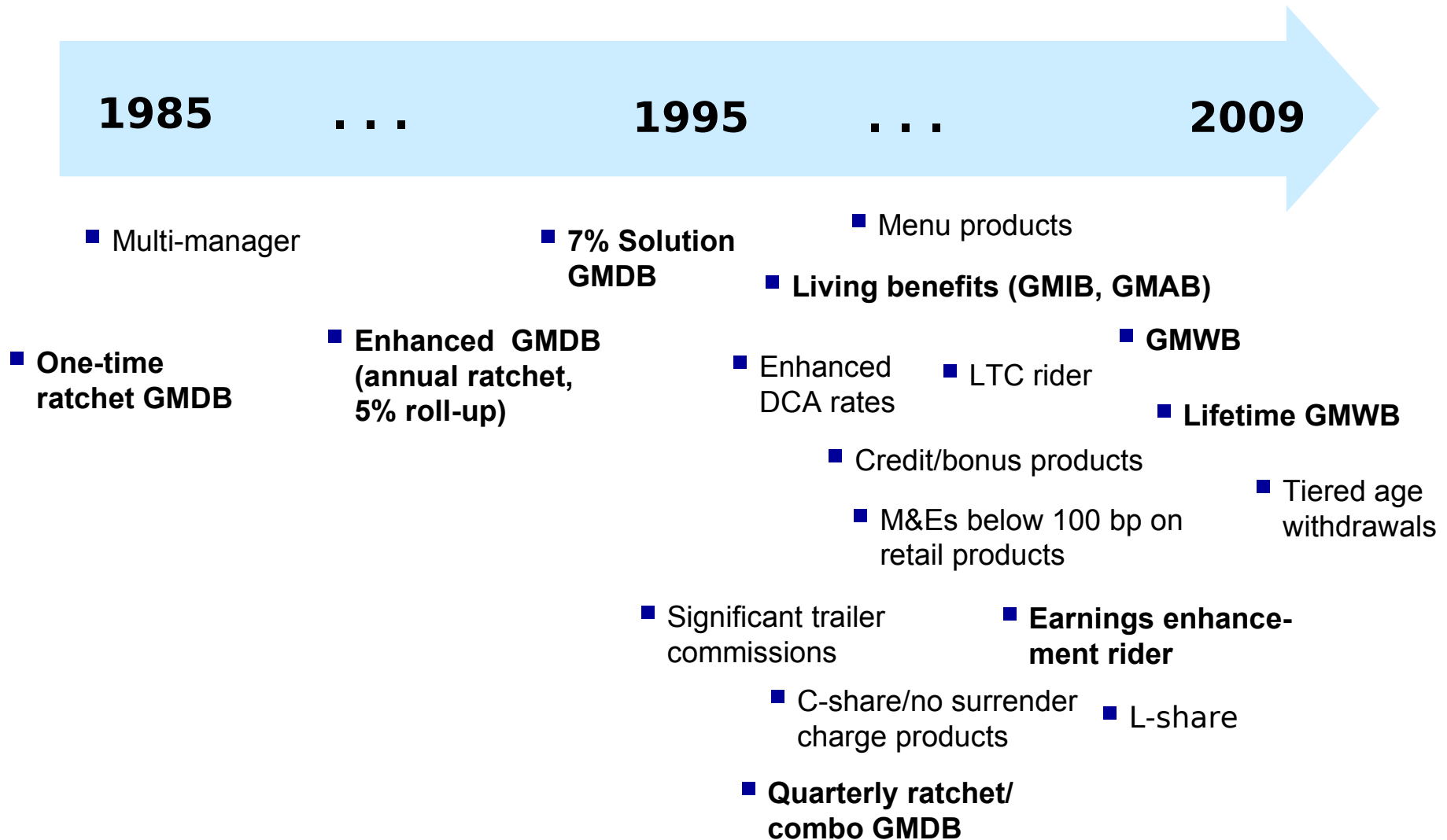
Most VA players offer a fairly broad product line

Feature	Basic (B-Share)	No SC (C-Share)	Bonus	L-Share
Market Focus	Core product, reps who want heaped commission	Clients who want liquidity, reps who have moved to fee-based environment	Clients with existing SC	Becoming product of choice
Product Asset Charges <ul style="list-style-type: none"> ■ Base ■ Enhanced GMDB ■ Other 	<ul style="list-style-type: none"> ■ 120-140 bps ■ 10-35 bps ■ 30+ bps 	<ul style="list-style-type: none"> ■ 135-165 bps ■ 10-35 bps ■ 30+ bps 	<ul style="list-style-type: none"> ■ 140-165 bps ■ 10-35 bps ■ 30+ bps 	<ul style="list-style-type: none"> ■ 145-170 bps ■ 10-35 bps ■ 30+ bps
Surrender Charge <ul style="list-style-type: none"> ■ Initial ■ Length 	<ul style="list-style-type: none"> ■ 6-8% ■ 6-7 years 	None	<ul style="list-style-type: none"> ■ 8% ■ 8-9 years 	<ul style="list-style-type: none"> ■ 4% ■ 3-4 years
Free-out	Max: 10% of premium or earnings	Unlimited	Max: 10% of premium or earnings	Max: 10% of premium or earnings
Bonus	None	None	3-5% of premium	None
Basic GMDB ¹	Return of premium (possibly 7 year ratchet)	Same	Same	Same
GDC	6-7% ²	2% + 100bp yrs 2+	5-6%	4-5% + 100 bps yrs 5+
Fixed Account	Available	Virtually all companies have withdrawn	Available	May be limited to a portion of new deposits

¹ Enhanced GMDB offered via rider

² Other options available, involving trailer. For B-share, typical options may be 7% heaped, 6% + 20 bps trailer in all years, 5% + 25 bps years 1-7, 100 bps thereafter.

Over time, companies added a variety of special features, often in nature of guarantees, to help differentiate their product



There are three standard types of VA living benefit guarantees

Type	Nature of Guarantee	Typical Waiting Period	Typical Guarantee	Typical Annual Charge
Guaranteed Minimum Accumulation Benefit (GMAB)	Guaranteed lump sum	10 years	Return of premium at year 10	50-100 bp
Guaranteed Minimum Income Benefit (GMIB)	Guaranteed income at annuitization	10 years	5% roll-up (i.e., premiums accumulated at 5% per annum). May also have annual ratchet. Income based on guaranteed purchase rates, not current.	75-120 bp
Guaranteed Minimum Withdrawal Benefit (GMWB)	Guaranteed amounts via partial withdrawals	None	Lifetime payments of 4-6% of benefit base. Guarantees of 5-6% roll-up plus annual ratchet.	75-125 bp

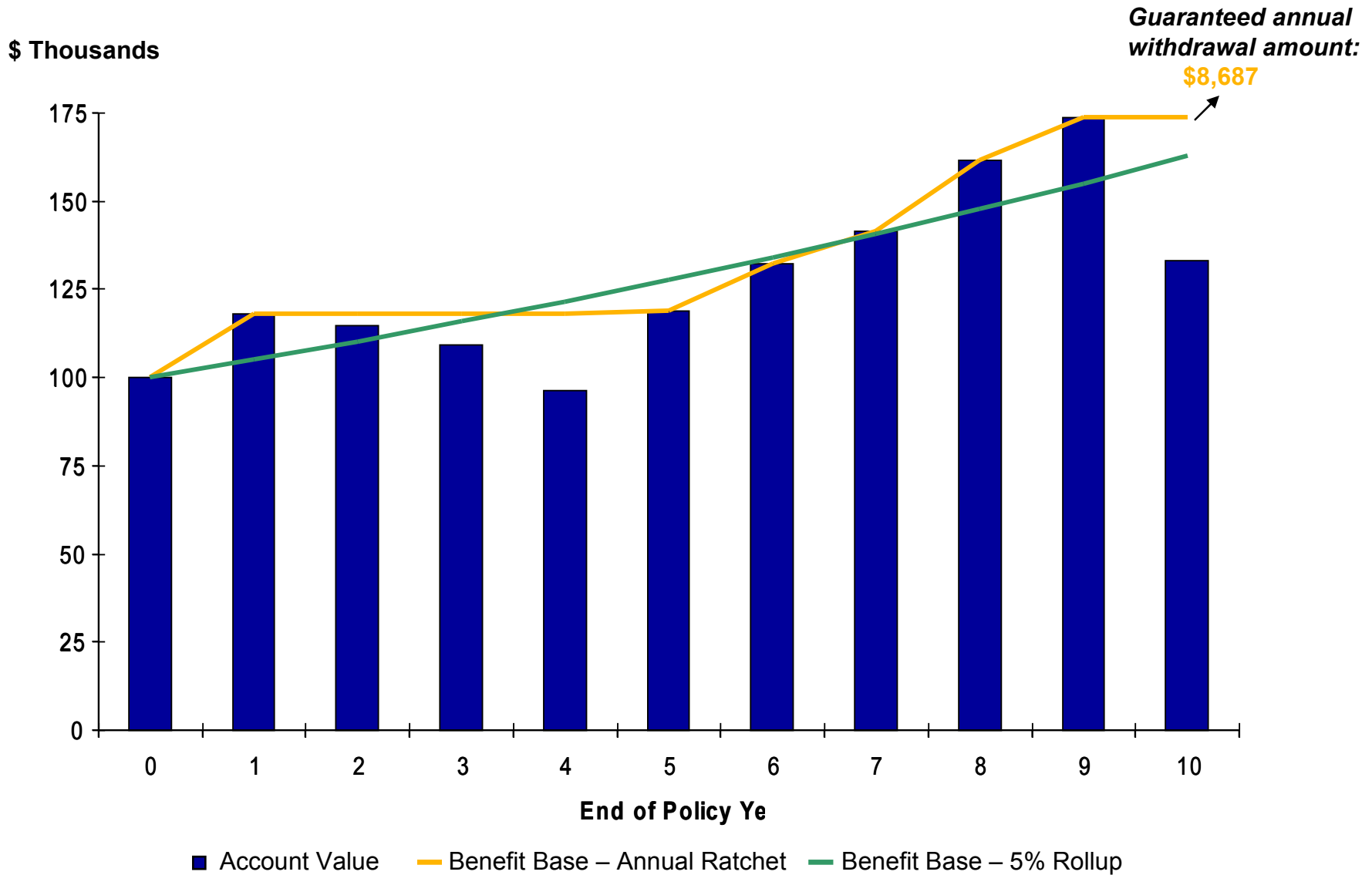
Note: Virtually all products now require some element of asset allocation

Greatest attention recently has gone to GMWB

Profile of standard GMWB feature

- Contribute lump sum of money into VA contract
- Retains account value and cash value`
- Contract generates a benefit base off of which guaranteed payments are made
- Benefit base
 - Can accumulate with interest (often 5-6%) if no withdrawals
 - Can ratchet up to current account value
- Payments
 - Once started, guaranteed to receive x% of benefit base for life
 - X% is tiered by age
- Generally requires asset allocation

Illustration of standard GMWB feature



Feature wars have driven WB product design — snapshot of WB design features over time

	2006	2007	Early 2008	Current
Benefit Base				
— Roll-up ¹	5%	5%	Many @ 7%	6%
— Ratchet	3 year	Annual ²	Mix of annual/ more frequently	Annual
— Double Money	No	No	Added	Withdrawn
Age Based Payouts³				
— 5%	65	60	60	60/65
— 6%	NA	70	70	75
Cost(bp)	50	60	75	100
Degree of Asset Allocation Required	Minimal	Moderate	Moderate	Extensive

¹ Generally for 10 years

² Few with quarterly, at least one daily

³ For single life, lower for joint

Summary of key risks on WB

- Hedging costs and execution
- Policyholder behavior
 - Withdrawal utilization
 - Dynamic lapse
- Full surrender
- Mortality

Fixed immediate annuities (aka SPIAs) have been the mainstay product for retirement income planning

- Appeal of guarantees — payment amount, lifetime income
- Variants
 - Scheduled increases
 - Linked to inflation
- A few designs have attempted to deal with biggest complaint — lack of liquidity
- Other design elements
 - Varying payment amounts
 - Substandard risk class
- Attractiveness lessened somewhat by relatively low level of interest rates
- Variable immediate annuities have found little success

A product that has emerged in the retirement area in the last few years is longevity insurance

- Two variants
 - Offered on 401k plans to generate retirement income
 - Designed to protect retirement nest egg (retail market)
- Provides guaranteed lifetime income starting in 20 or 30 years
 - For example, a 55 year old female might pay \$100,000 to receive \$90,000 annually starting at age 85
- Key issue: base product offers no interim values (death benefit, cash surrender value)
 - Some contracts now beginning to provide for purchasing interim values as riders
- Companies who have offered this product include Met Life, Hartford Life, and New York Life

Continued . . .

A product that has emerged in the retirement area in the last few years is longevity insurance

- Enhancements in recent products
 - Pay premium over 10 years
 - Inflation adjustment
 - Interim cash values
 - Death benefit
- Sales results in retail product have been slow
 - Great concept but lack of liquidity is major barrier

Insurers are beginning to offer annuity products for 401k monies

- Goal is to either:
 - Retain 401k assets, or
 - Obtain rollover
- Products offered:
 - Retain 401k assets – as plan option typically by one provider
 - Obtain rollover – multiple providers offering individual products
- Variety of annuities can be offered
 - Pure immediate annuities (fixed or variable)
 - Deferred immediate annuities (i.e., longevity insurance)
 - Deferred VAs with living benefits
- Education is a key issue, both of plan sponsors and participants

There are advantages and disadvantages of offering annuities within the plan

Advantages

- Access to desirable annuity features
 - Inflation protection
 - Guarantees on equity market performance
 - Protection against longevity risk
 - Annual payments
- Dollar cost averaging available in the accumulation phase thereby reducing point-in-time rate risk

Disadvantages

- Exposes plan sponsor to fiduciary responsibility on choice of products and carrier
 - Greater focus with rating downgrades
- Portability issues
 - Can be offset by introducing comparable retail version, leave monies in plan
- Recordkeepers may not support or may not be supported when moved to new recordkeeper
- May incur investment restrictions
- May be limited to single, exclusive annuity product

Future Outlook

Future outlook

- Use of immediate annuities has been limited to date, due in part to concern over irrevocable nature of product
- Pretty clear that there are significant opportunities for insurers to offer products to meet consumer's retirement needs
 - Both in retail and 401k markets
 - These needs will grow over time
- Arguably, insurers already have the products that consumers need
 - Some ongoing product tweaks → innovations would be helpful
- Biggest need is likely education (both distributors and consumers) and access to user-friendly retirement income planning/ management tools
- Image of annuities could benefit by clarifying distinction between various types of annuities