



2024 LIFE
INSURANCE
& ANNUITY
CONFERENCE

**Powering
Growth**

Exercising Your Options: Trends in Annuity Product and Policyholder Behavior





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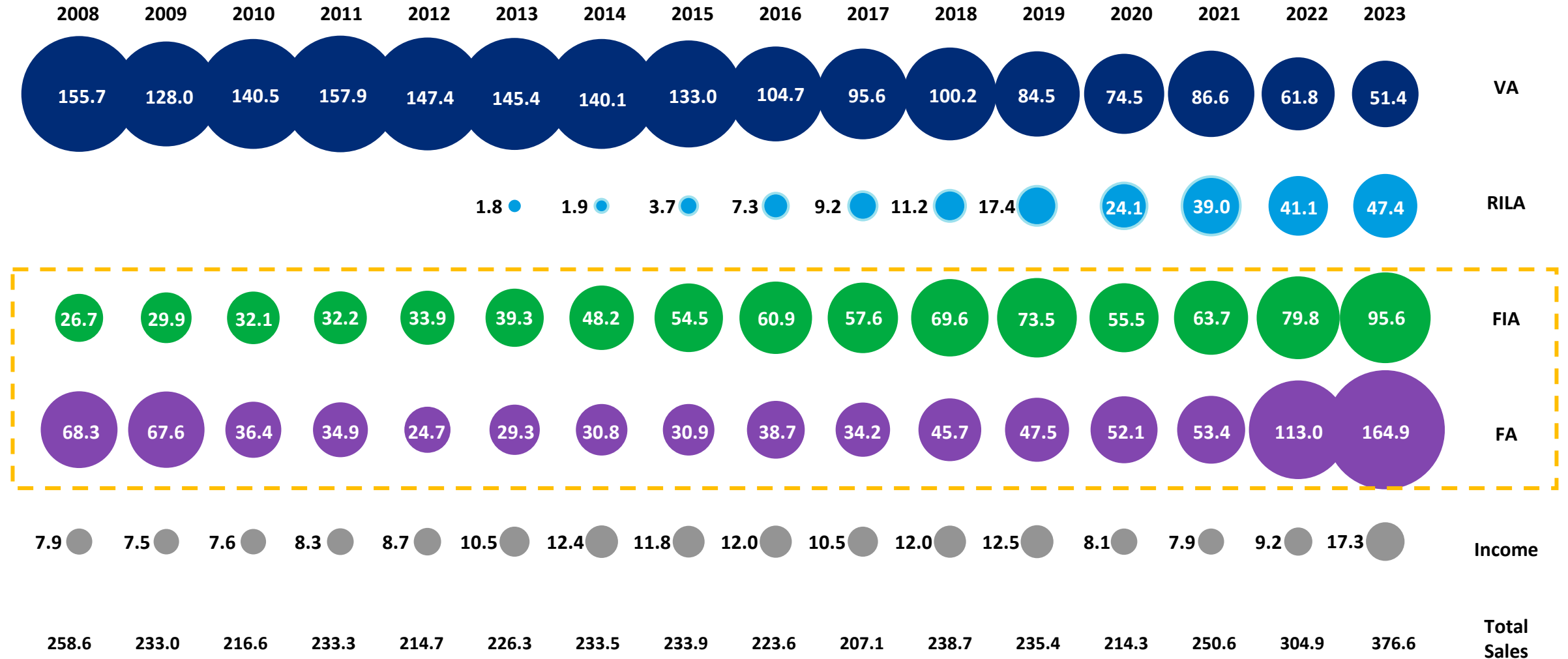
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Senior Experience Studies Actuary

Society of Actuaries



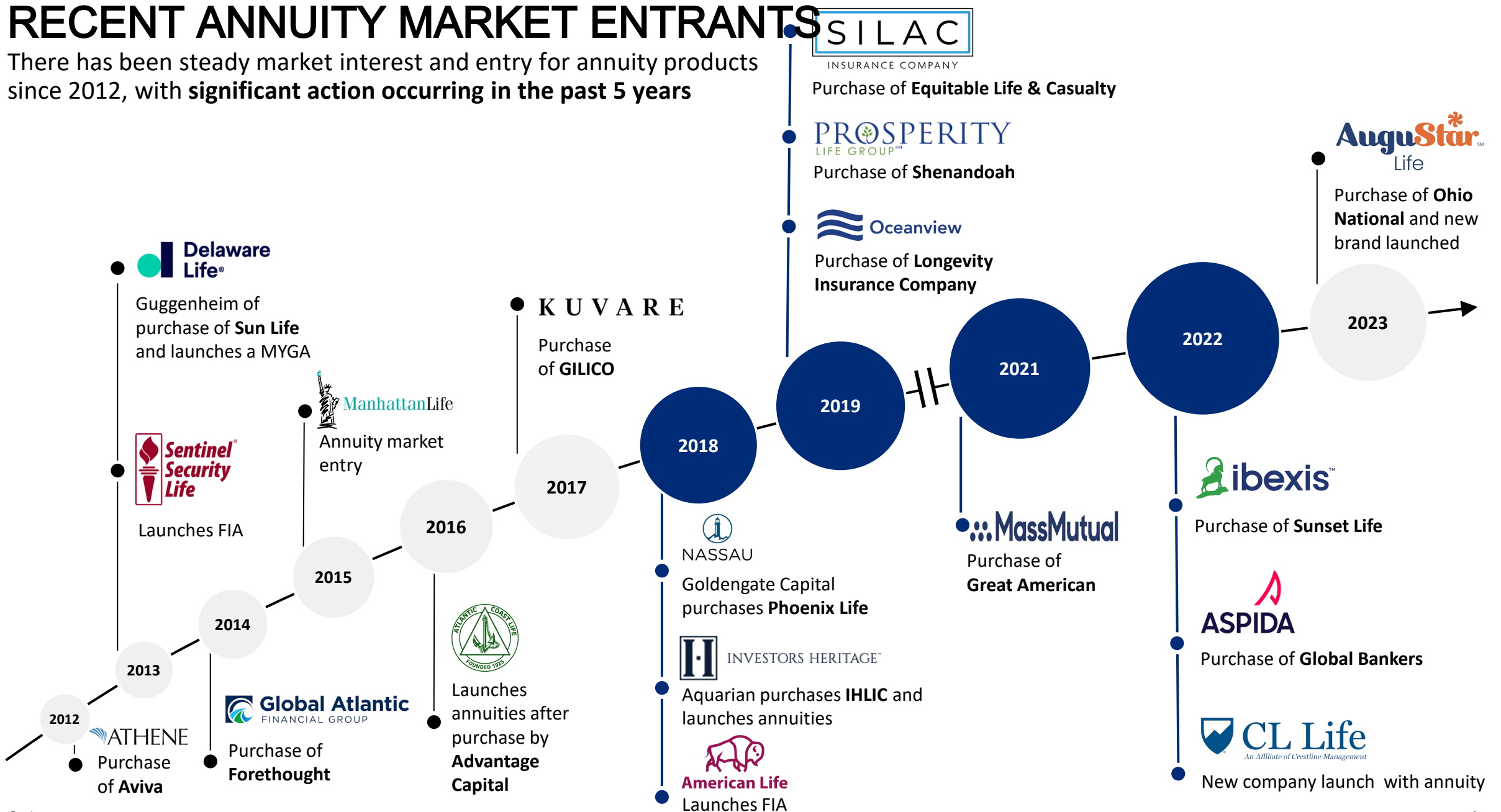
ANNUITY SALES




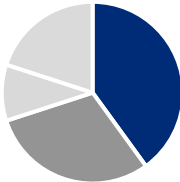





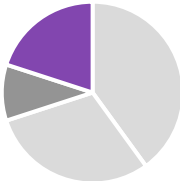
FIA and FA sales have been growing faster than other annuity products and grew significantly in 2023

RECENT ANNUITY MARKET ENTRANTS

There has been steady market interest and entry for annuity products since 2012, with **significant action occurring in the past 5 years**



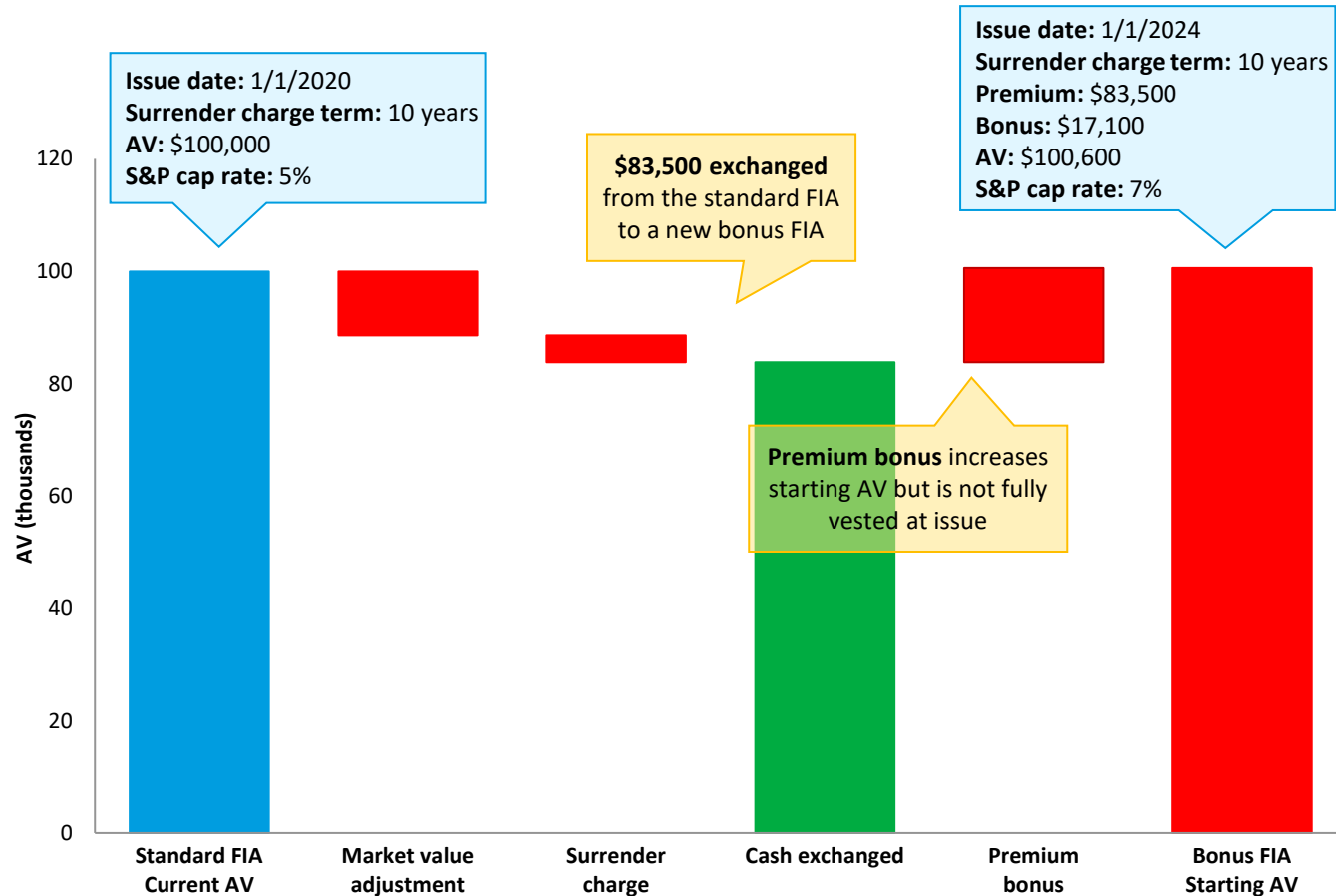
FIAPRODUCT TYPES

Product	Market share	Value proposition	Risks
1a  Accumulation (non-GLWB)		<ul style="list-style-type: none"> Limited exposure to equity growth with no risk of loss 	<ul style="list-style-type: none"> Disintermediation Lapse
1b  Exchange accumulation (non-GLWB)		<ul style="list-style-type: none"> Guaranteed upfront bonus simplifies suitability for exchanges 	<ul style="list-style-type: none"> Disintermediation Lapse (higher)
2a  Growth oriented income (GLWB)		<ul style="list-style-type: none"> Lower guarantees combined with higher “potential” income due to income linked to equity growth Commonly “no fee” designs allowing for more flexibility 	<ul style="list-style-type: none"> Rider utilization and lapse (lapse supported product) Reinvestment
2b  Guaranteed income (GLWB)		<ul style="list-style-type: none"> Guaranteed lifetime income with more flexibility than SPIA or DIA products Typically lower fee and higher guarantee than traditional VA GLWB products 	<ul style="list-style-type: none"> Rider utilization and lapse (lapse supported product) Reinvestment

Exchange accumulation products have accounted for approximately 50% of sales in 2023

EXCHANGE ACCUMULATION PROTECTION

Bonus FIA designs allow for exchanges to pass suitability requirements



Attribution step	Description
Market value adjustment	<p>Most exchanges are on FIA business sold 2019 – 2021 which have lower than current market cap rates, attributed to the low-rate environment</p> <p>Inforce business has a large negative MVA adjustment due to the rapid increase in interest rates</p>
Surrender charges	<p>Surrender charges further decrease the cash that is exchanged into the bonus FIA product</p>
Premium bonus	<p>Premium bonuses help cover the MVA and SC when transferring funds to a new product</p> <p>Exchanges may result in an increase in cap rate with a similar, or sometimes greater, starting AV</p>

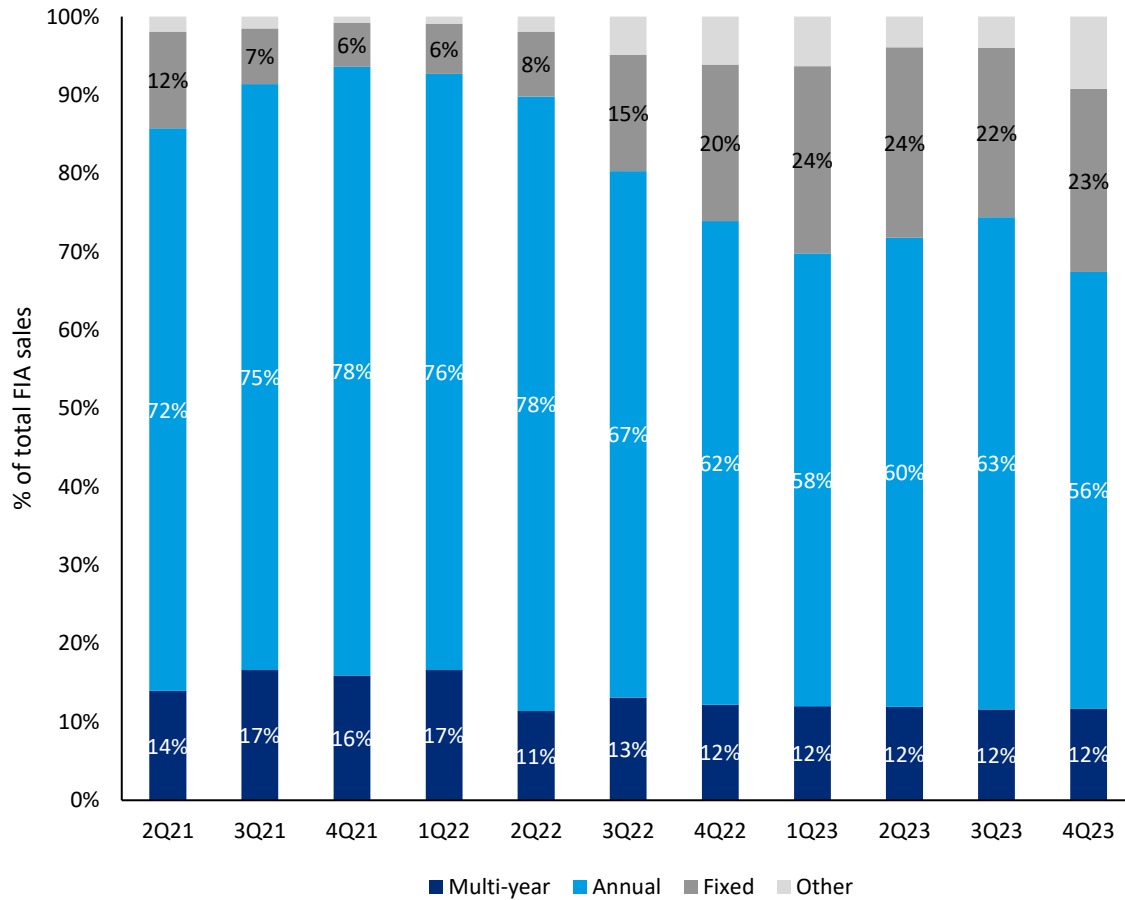
Premium bonus makes the policyholder whole and can increase cap rates, although the surrender charge schedule is reset

FIA INDEX ACCOUNT ELECTION

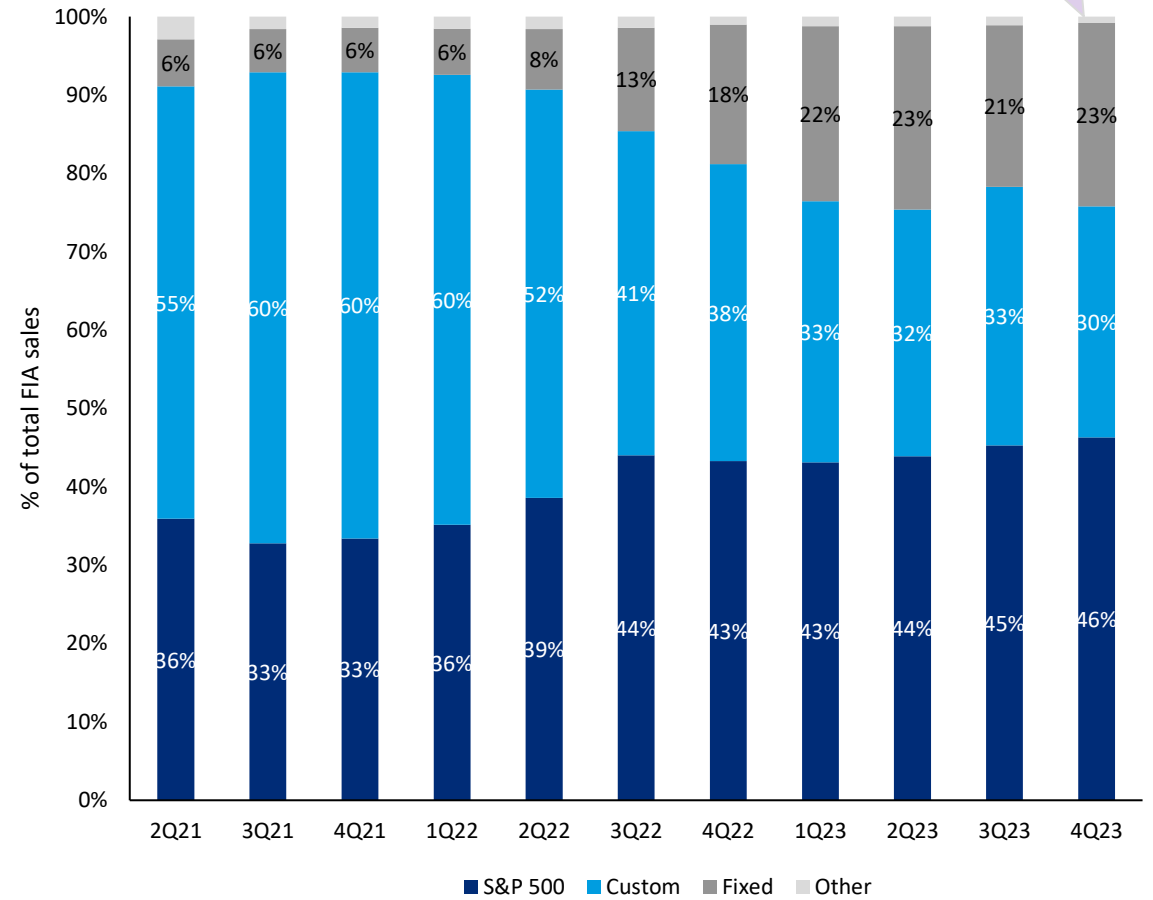
Decrease in multi-year terms with increased allocation to fixed and one year terms

Decreased allocation to custom indices with higher allocation to S&P 500 and fixed account

Index term



Index



Sales are moving more toward S&P from custom indices, and “initial year” allocation is showing an increase to the fixed account

Source: Wink Sales & Market Report

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FIXED ANNUITY EXPERIENCE STUDY BACKGROUND SUMMARY

	Measure	Metrics
01	Exposure amount and period	Covering study years 2006 – 2022 Over \$2TN of exposure AV
02	Credibility	Over 2MM lapses with significant credibility under various cuts of experience
03	Company contributors	15 companies – ranging from small to large with 7 of the top 10 selling MYGA carriers in 2023
04	Decrements studied	Lapse, partial withdrawal and mortality

Oliver Wyman's experience studies provide for a large credible data set to assist in development of lapse assumptions

KEY DRIVERS OF FA AND FIA LAPSES

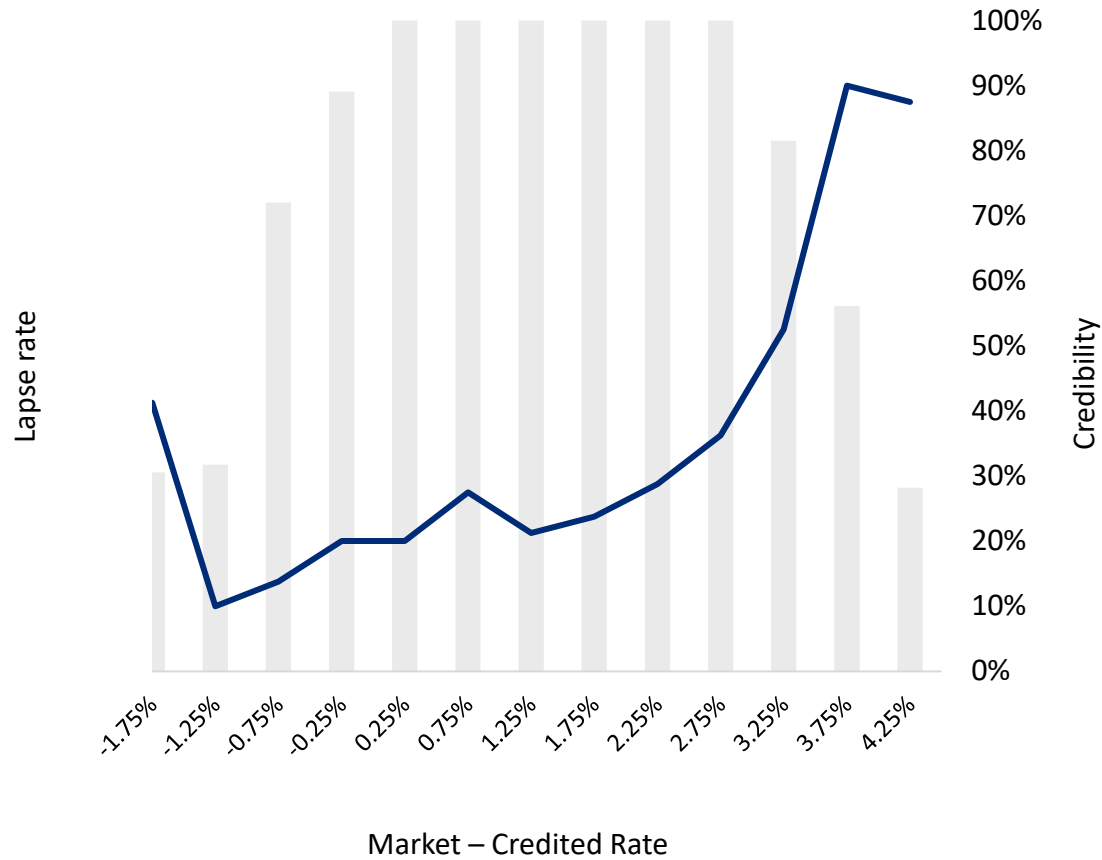
Driver	Details
01 Market credit rates	<ul style="list-style-type: none">• Dynamic behavior increases significantly as interest rates further outpace current crediting rates• Presence of an MVA can mitigate this impact
02 Surrender charge period	<ul style="list-style-type: none">• Shorter surrender charge periods tend to have higher shock lapse rates (i.e., the memory effect)
03 MGIR	<ul style="list-style-type: none">• Higher guarantees limit lapse rates as it takes larger interest rate increases to make the credited “uncompetitive”
04 Policy size	<ul style="list-style-type: none">• Selling a larger policy size gives agents a larger commission, incentivizing them to encourage larger policies to lapse and re-purchase first• Larger policy sizes are typically owned by wealthier people, who tend to be more proactive in searching for higher returns
05 Distribution channel	<ul style="list-style-type: none">• Shock lapse behavior is consistent across all distribution, after adjusting for other factors (e.g., surrender charge period, policy size)
06 Attained age / duration	<ul style="list-style-type: none">• 60-80 year-olds are the most active policyholders, both lapsing the most and showing the most interest rate sensitivity• People younger than 60 often have longer time horizon to stay with policies• People older than 80 are less likely to be on top of the market and to be willing to purchase a new policy

Lapse behavior is typically driven by several factors with interest rates being a key driver followed MGIR and policy size

MARKET RATE

5-year MYGA with low GMIR and no MVA (no renewal window)

In surrender charge period



Shock lapse



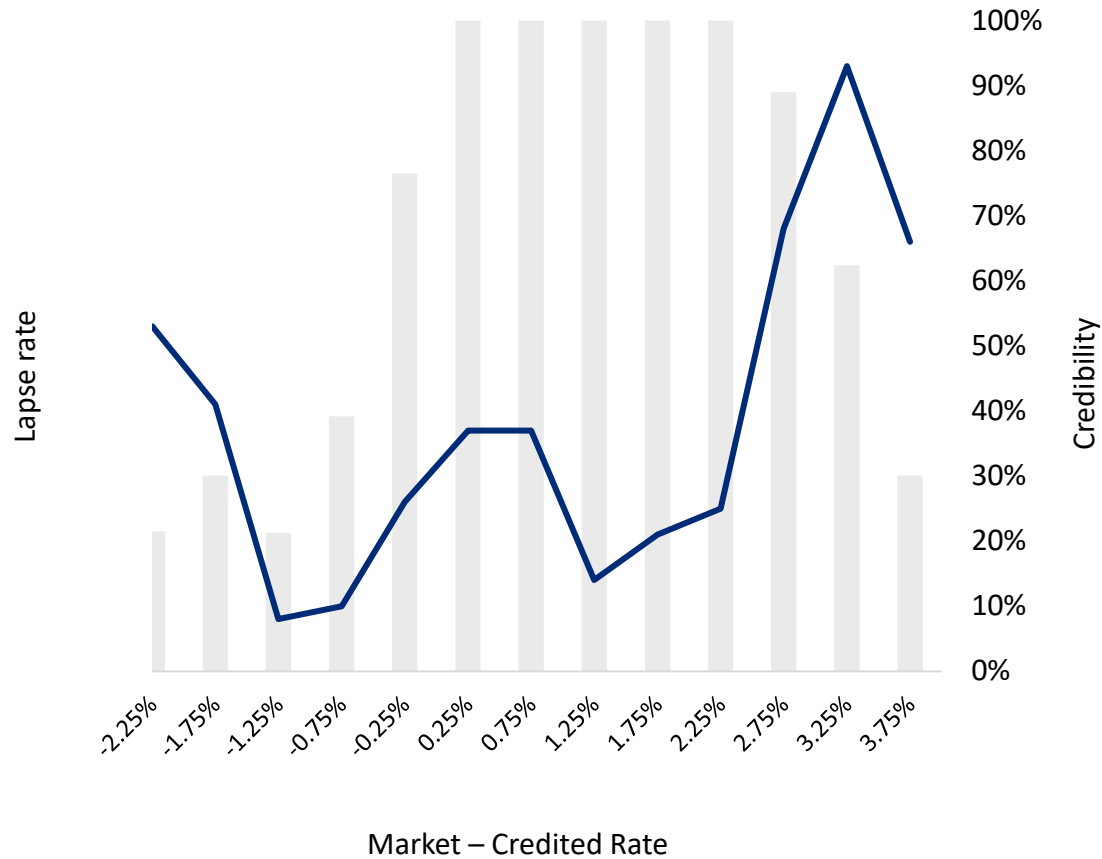
High interest rates can cause dramatic increases in lapse rates

1. Credibility is defined as $\min(1, \sqrt{n/1082})$

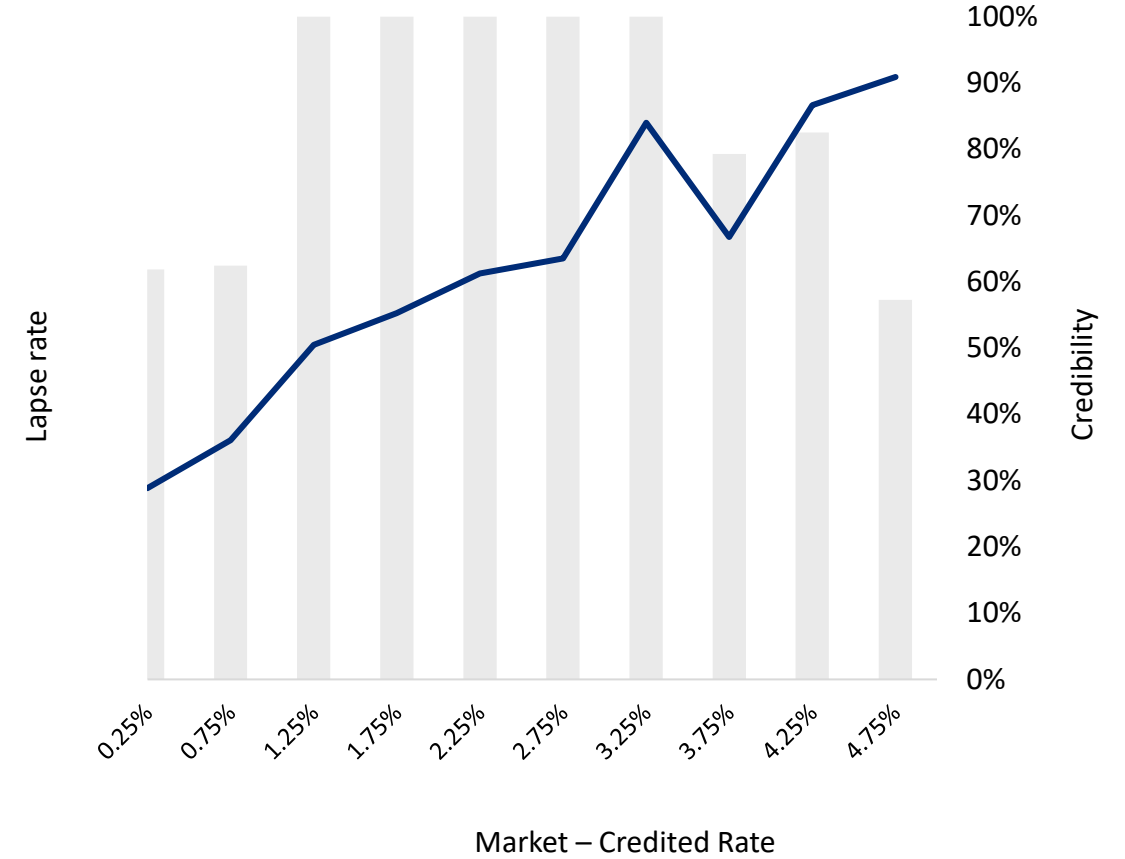
MARKET RATE (1/3)

5-year MYGA with low GMIR and MVA (no renewal window)

In surrender charge period



Shock lapse



In surrender charge period, MVA disincentivizes lapses, but once the SNFL floor is hit, lapses increase similar to policies w/o MVA

1. Credibility is defined as $\min(1, \sqrt{n/1082})$

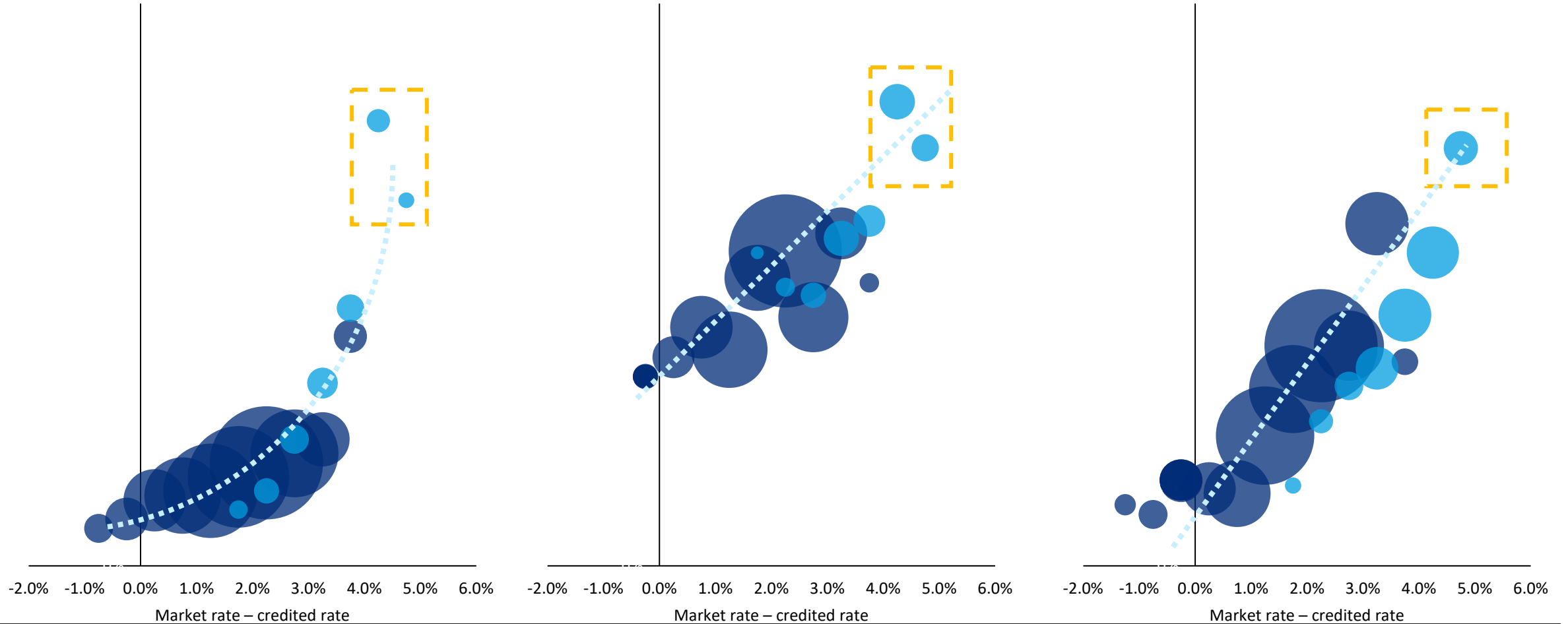
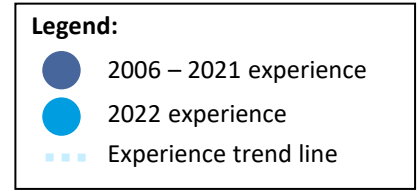
MARKET RATE (2/3)

FA less than 3% GMIR; Bubble size based on lapse count

In surrender charge period

Shock

Ultimate

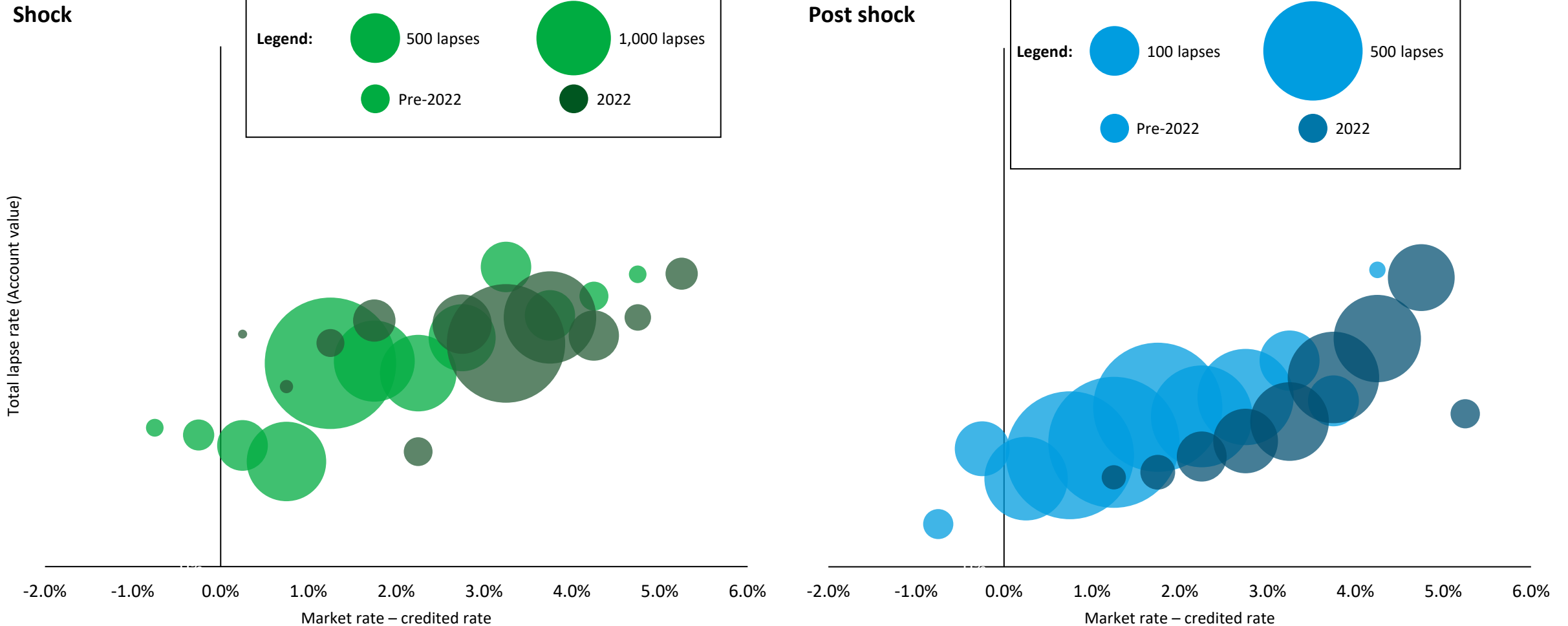


2022 provided some additional datapoints for dynamic lapse experience which aligns with the prior experience / trend line

1. Market rate = 7 year UST + BBB Bank of America spread index
Source 2023 Oliver Wyman FA experience study
© Oliver Wyman

MARKET RATE (3/3)

FIA lapse rate by market rate¹ less credited rate and bubble size based on lapse count



2022 experience revalidated previous experience (prior to 2022) and provides enhanced credibility to shock and post shock lapse

1. Market rate = 7 year UST + BBB Bank of America spread index
 Source 2023 Oliver Wyman FIA experience study
 © Oliver Wyman

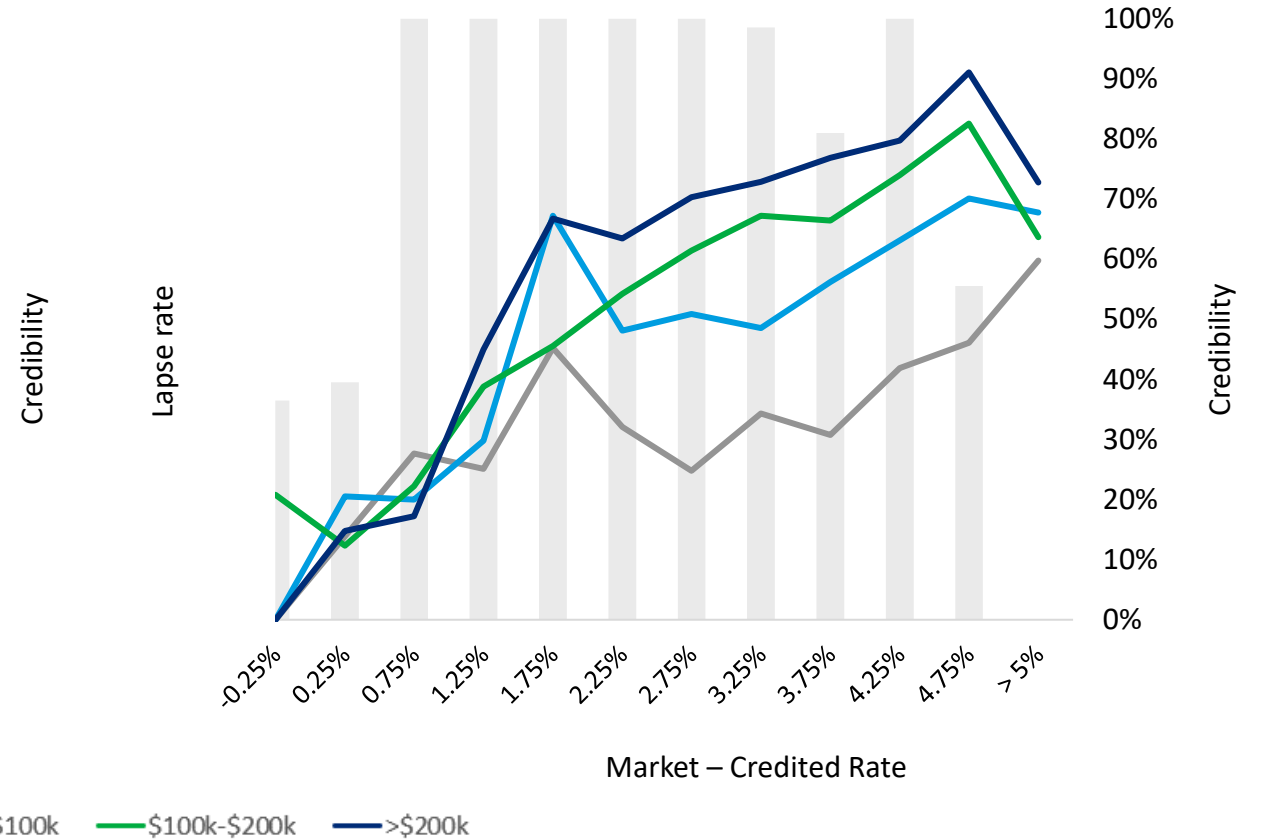
POLICY SIZE

5-year MYGA with low GMIR and no MVA

In surrender charge period



Shock lapse



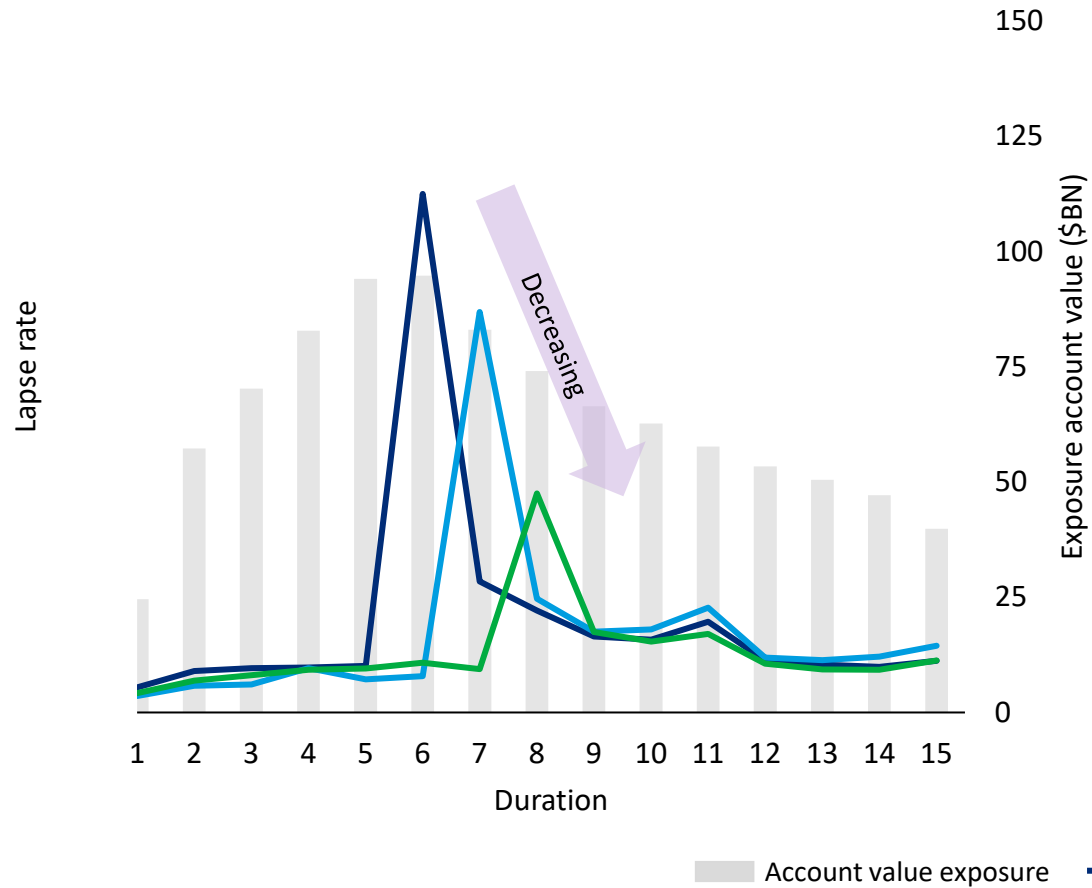
As interest rates keep rising, we see differentiated shock lapse behavior with larger policy sizes lapsing more frequently

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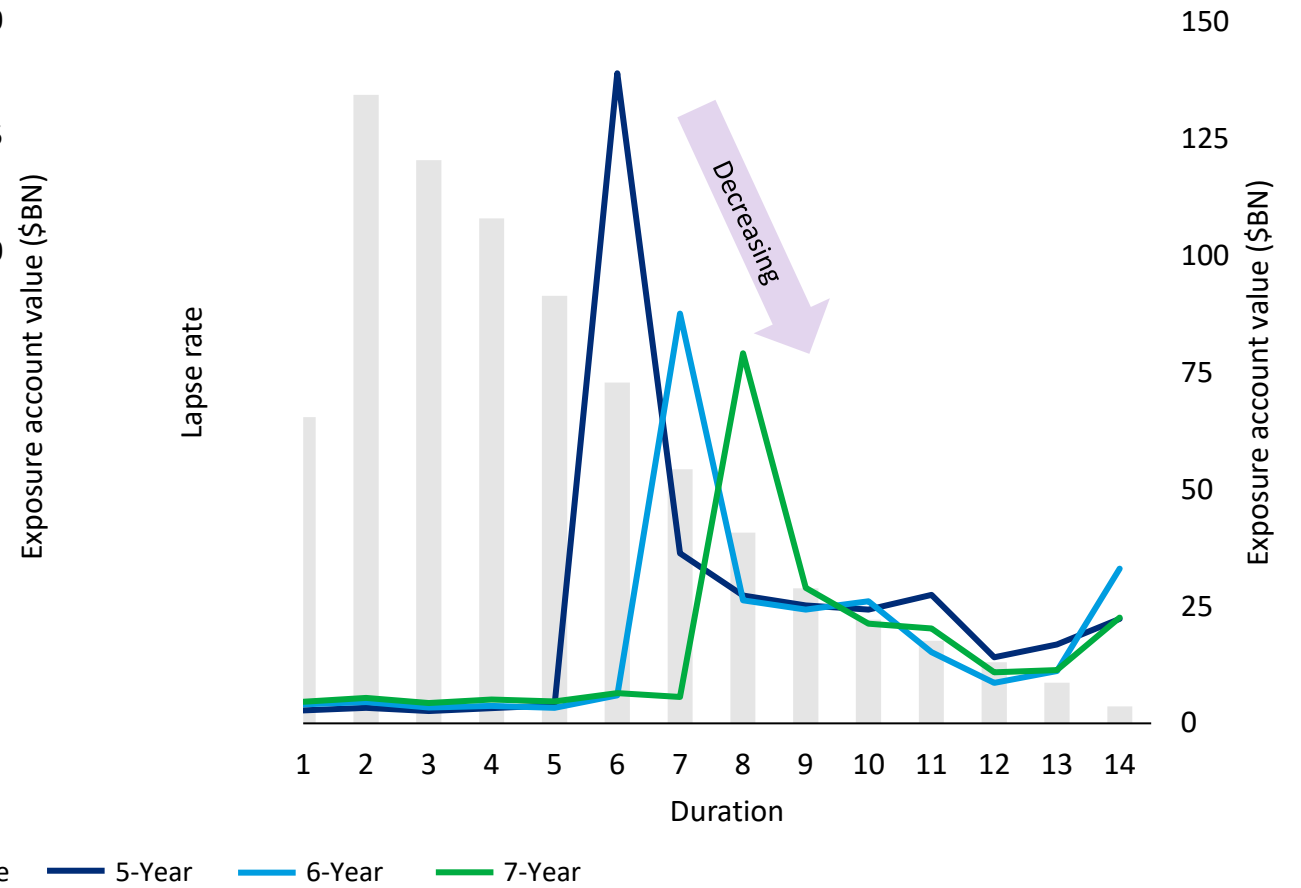
LAPSE RATE BY SURRENDER CHARGE PERIOD

Split by pre-2009 (~high GMIR) and 2009+ (~low GMIR) issues

Pre-2009 issues



2009+ issues

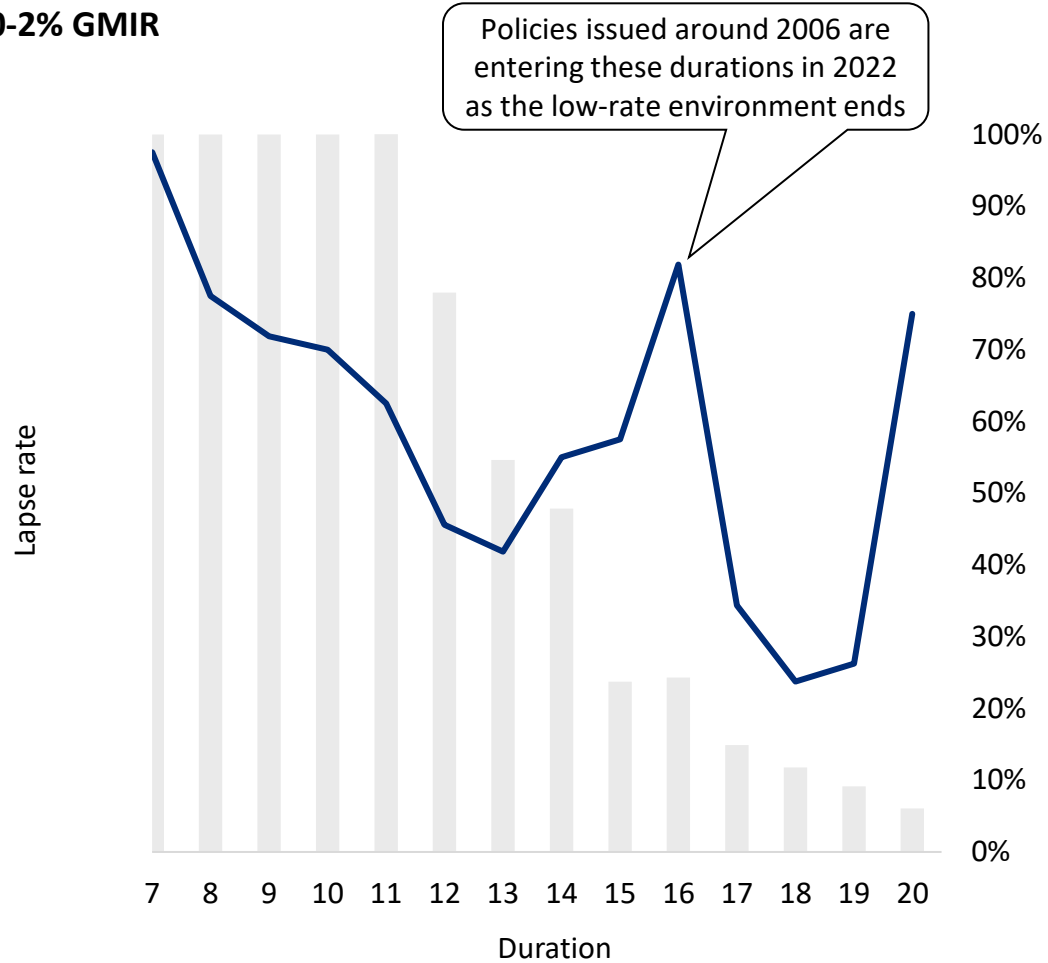


Shock lapse rates decrease as the length of the surrender charge period increases for both pre-2009 issues and 2009+ issues

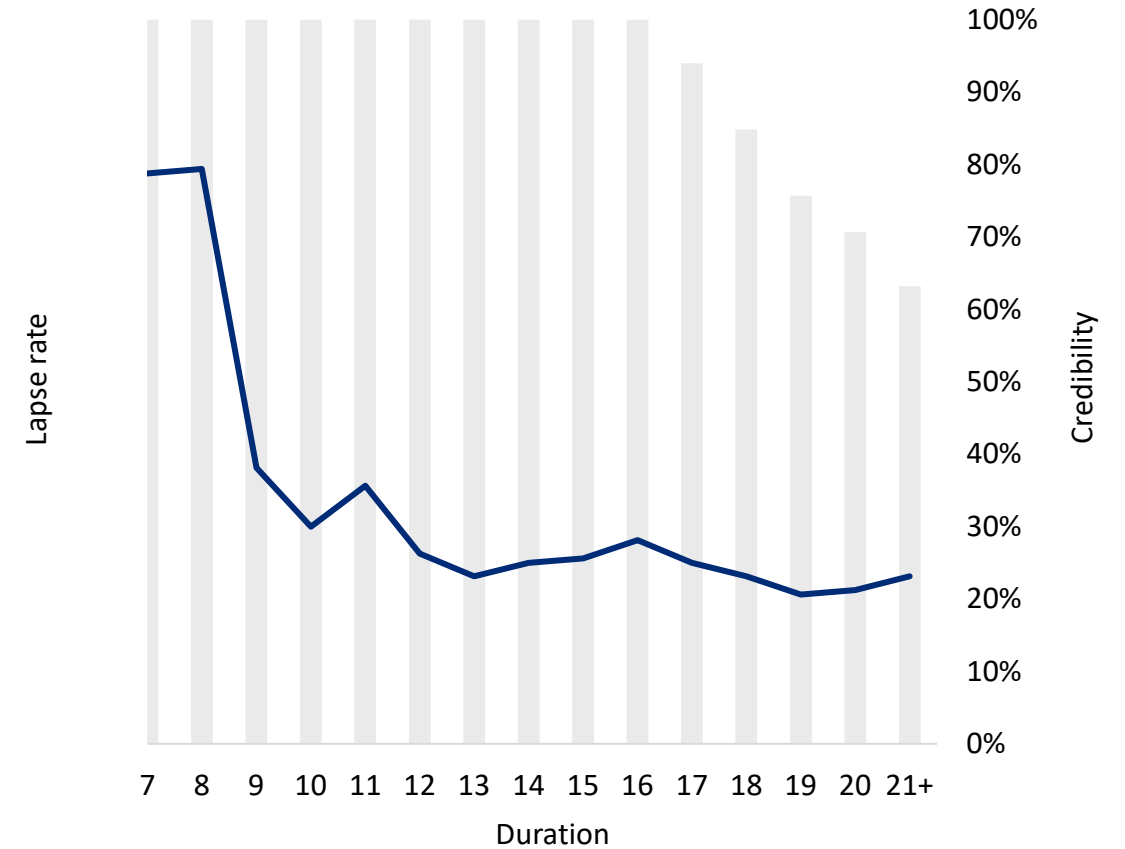
GUARANTEE LEVEL AND DURATION

Post surrender charge period

0-2% GMIR



3%+ GMIR



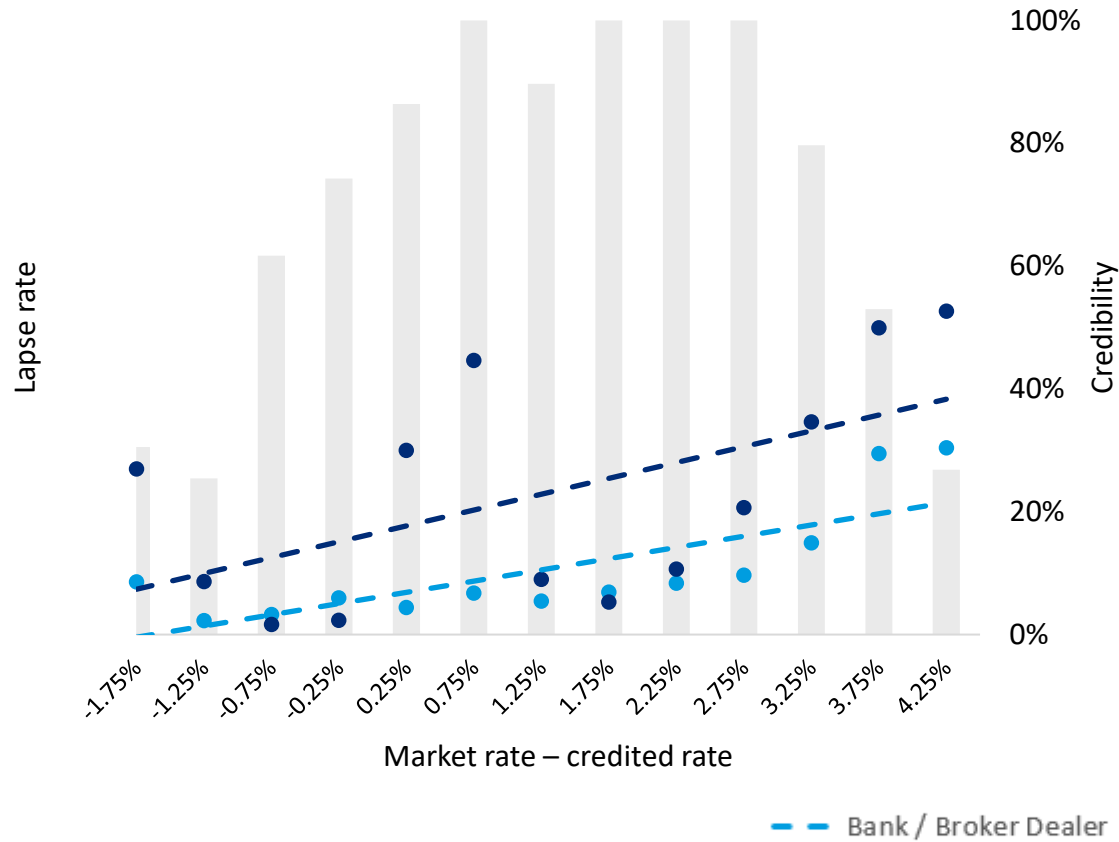
Policies that persist past the SCP, in particular high GMIR, are likely owned by passive policyholders

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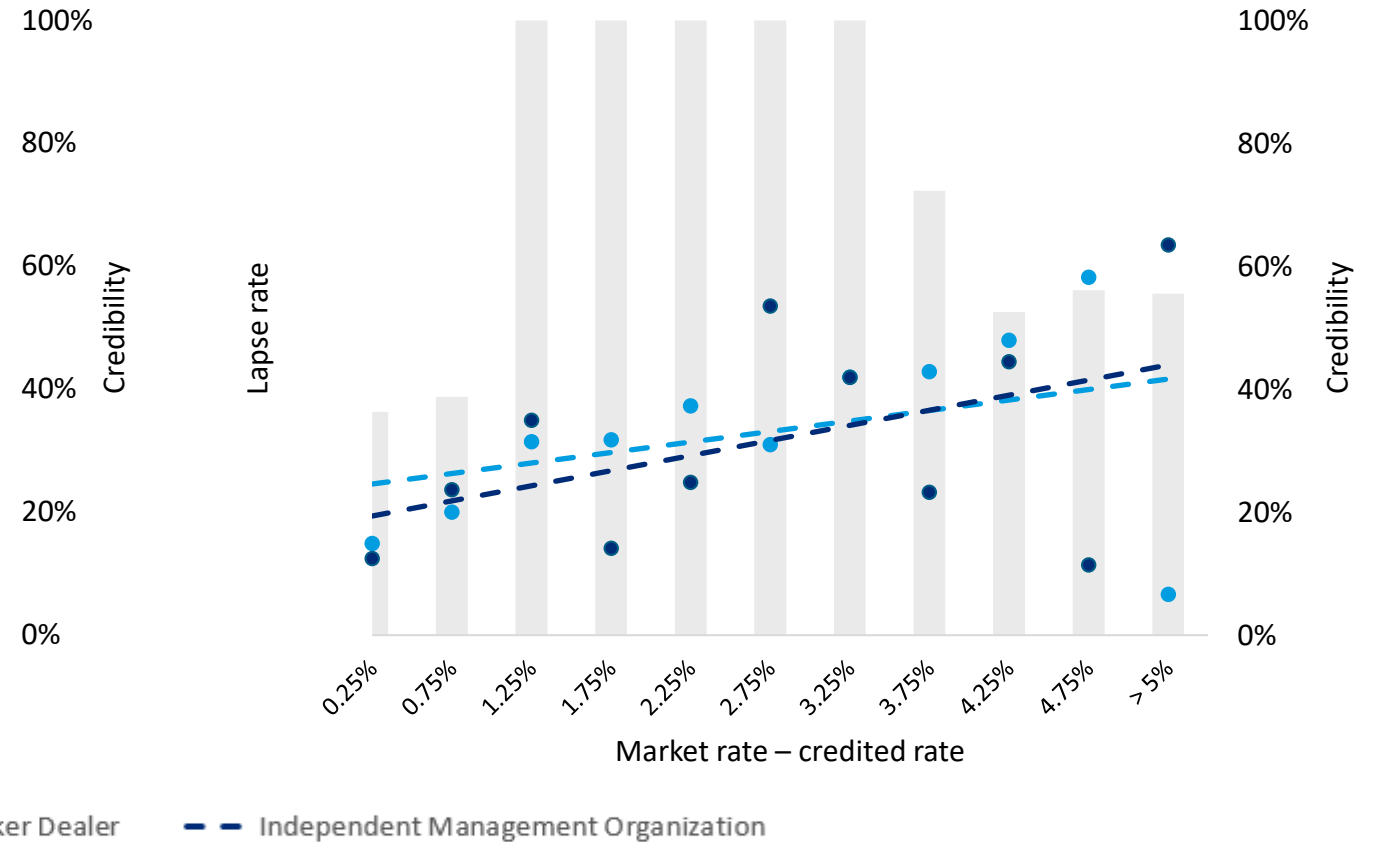
DISTRIBUTION CHANNEL

5-year MYGA with low GMIR and no MVA

In surrender charge period



Shock lapse



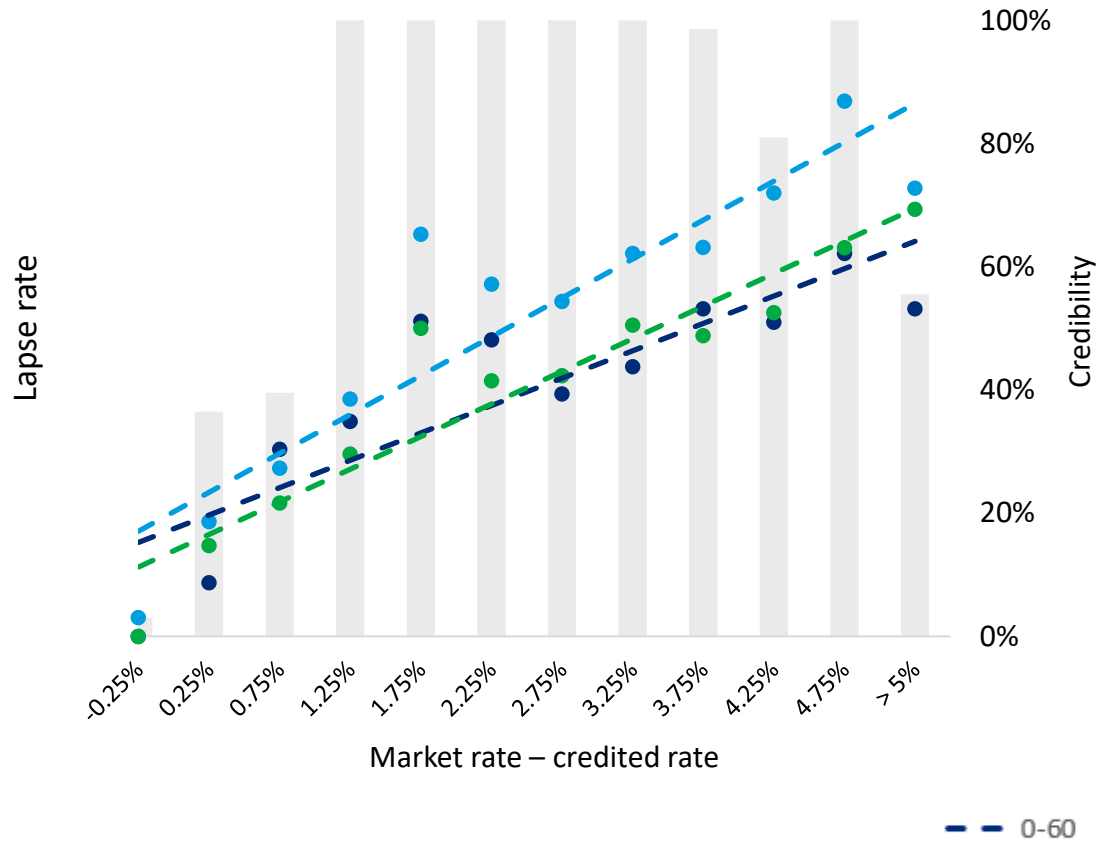
Despite shock lapse behavior being consistent across distribution channels, IMO's have seen higher lapses while within the SC period

1. Credibility is defined as $\min(1, \sqrt{n/1082})$

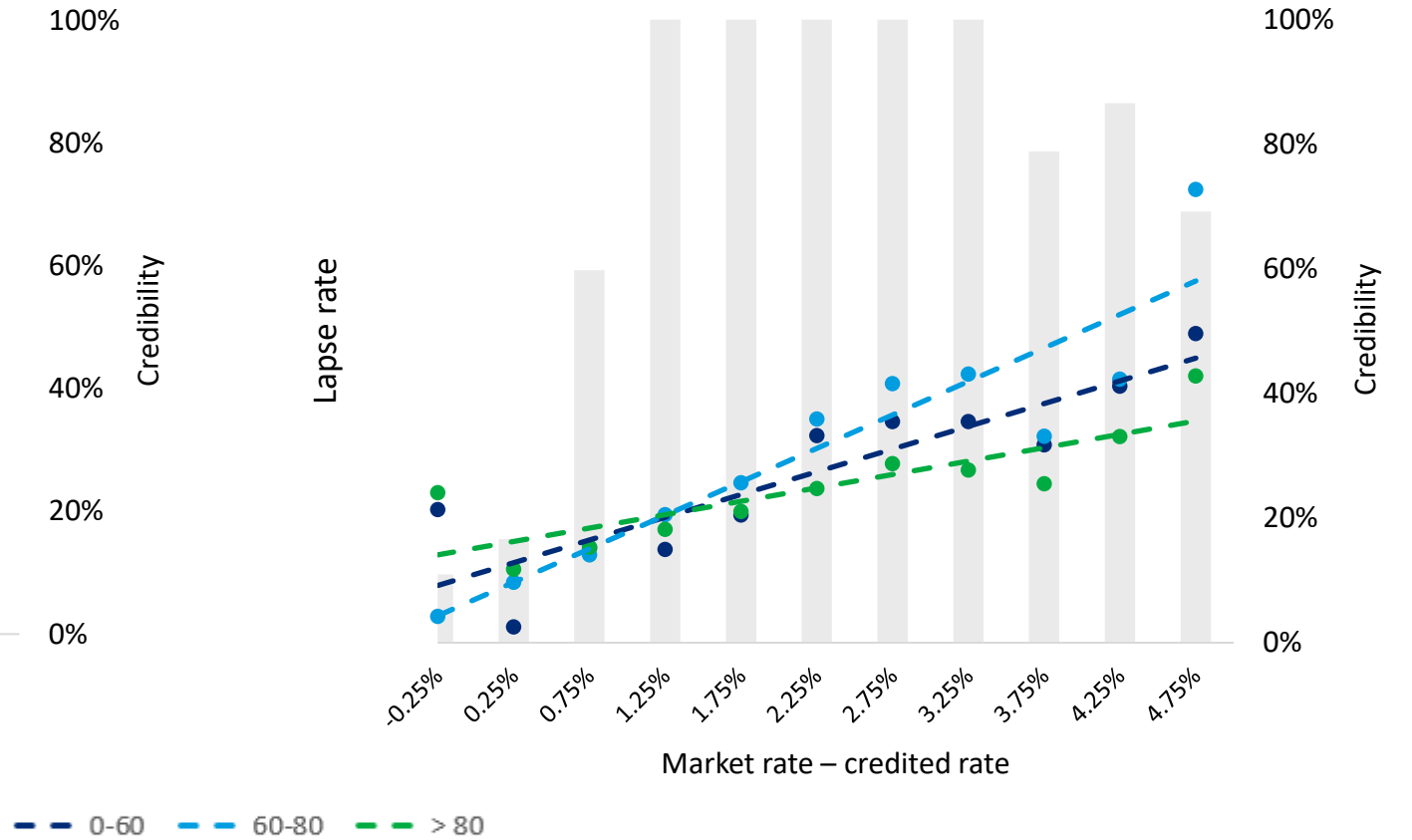
ATTAINED AGE

5-year MYGA with low GMIR and no MVA

Shock lapse



Post surrender charge period



Ages 60-80 are simultaneously most sensitive to interest rate movements and most likely to lapse

1. Credibility is defined as $\min(1, \sqrt{n/1082})$

BMAREFORMIMPACTS CAPITAL MANAGEMENT, LIQUIDITY / ALM STRATEGY GOVERNANCE

What is happening?

- The Bermuda Monetary Authority (“BMA”) released a second consultation paper on July 28, 2023 proposing meaningful enhancements to the current solvency regime
- Proposed reform aims to strengthen Economic Balance Sheet (“EBS”) solvency metrics, rules to determine available capital, and supervisory requirements
- Proposed reforms to go live March 31, 2024 (applicable quarterly for Class D and E, and **annually for Class C**)
- Grandfathering and transitional period for certain elements already captured in reform
- BMA published communication for industry feedback and made few adjustments to the proposed reforms

Outlook

- Clarification on implementation of proposed reforms to be published by BMA
- Changes to the operating model in terms of staffing needs, required expertise, modeling requirements are expected
- Proposed changes, higher regulatory fees combined with the increased operational effort will impact smaller companies greater

How it impacts the Bermuda industry?



Capital management

- Higher total asset requirement post-reform
- Introduction of prudency margins on both the assets and liabilities will change the profile of projected earnings



Liquidity and ALM

- Requirement to pass prescribed stress tests to qualify for the use of preferred reserving methodology (scenario-based approach)
- Impact on investment choices and management of the asset liability profile



Governance

- Increased Board and senior management oversight
- Increased disclosures, additional internal controls, and external reviews of models and results now required



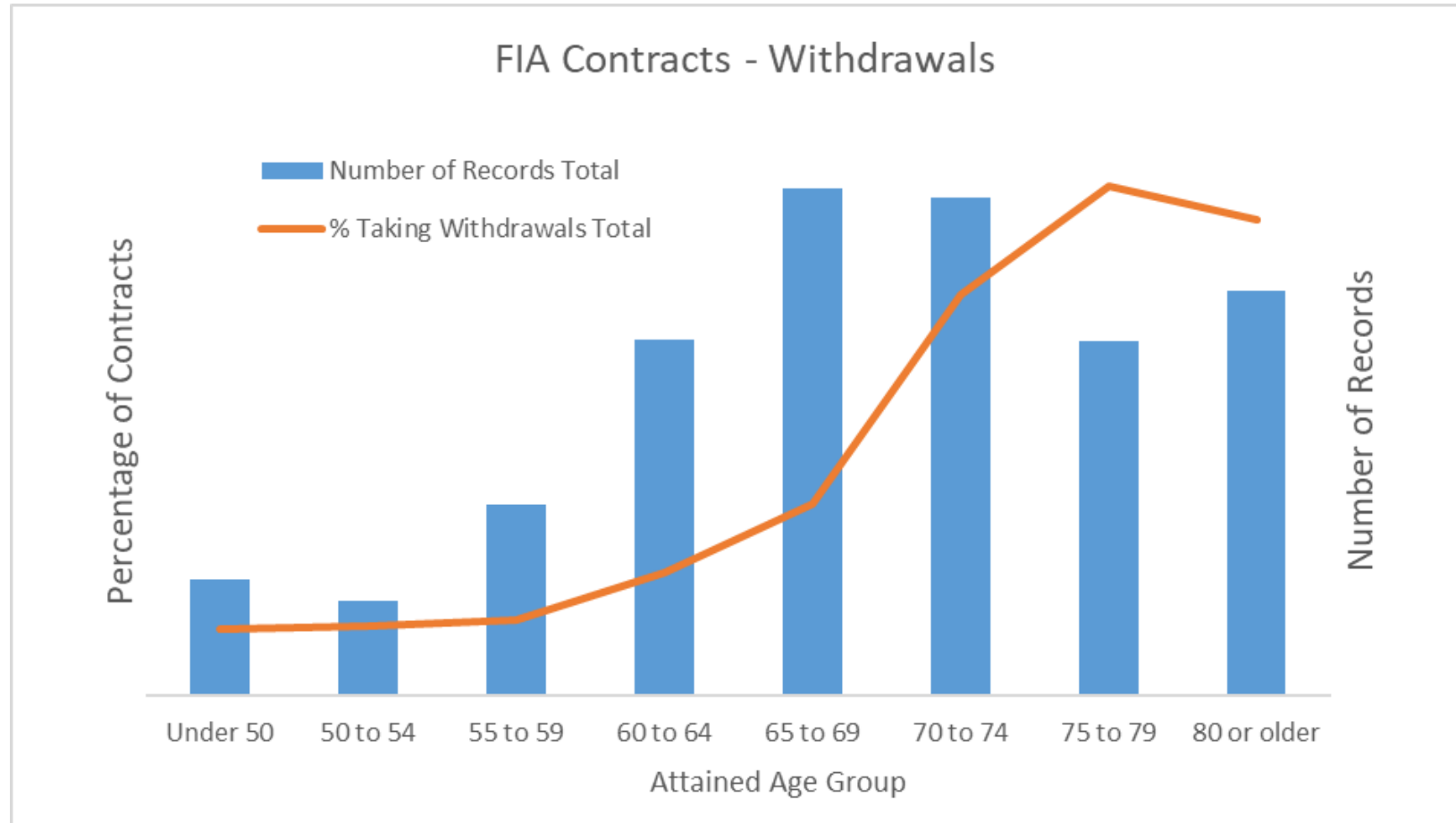
Business strategy

- Additional considerations on strategy and new business pricing such as specific product features, risk type, and investment strategies
- Consideration of partial internal capital models in order to minimize impact of BMA reform
- Higher needs for dedicated staff

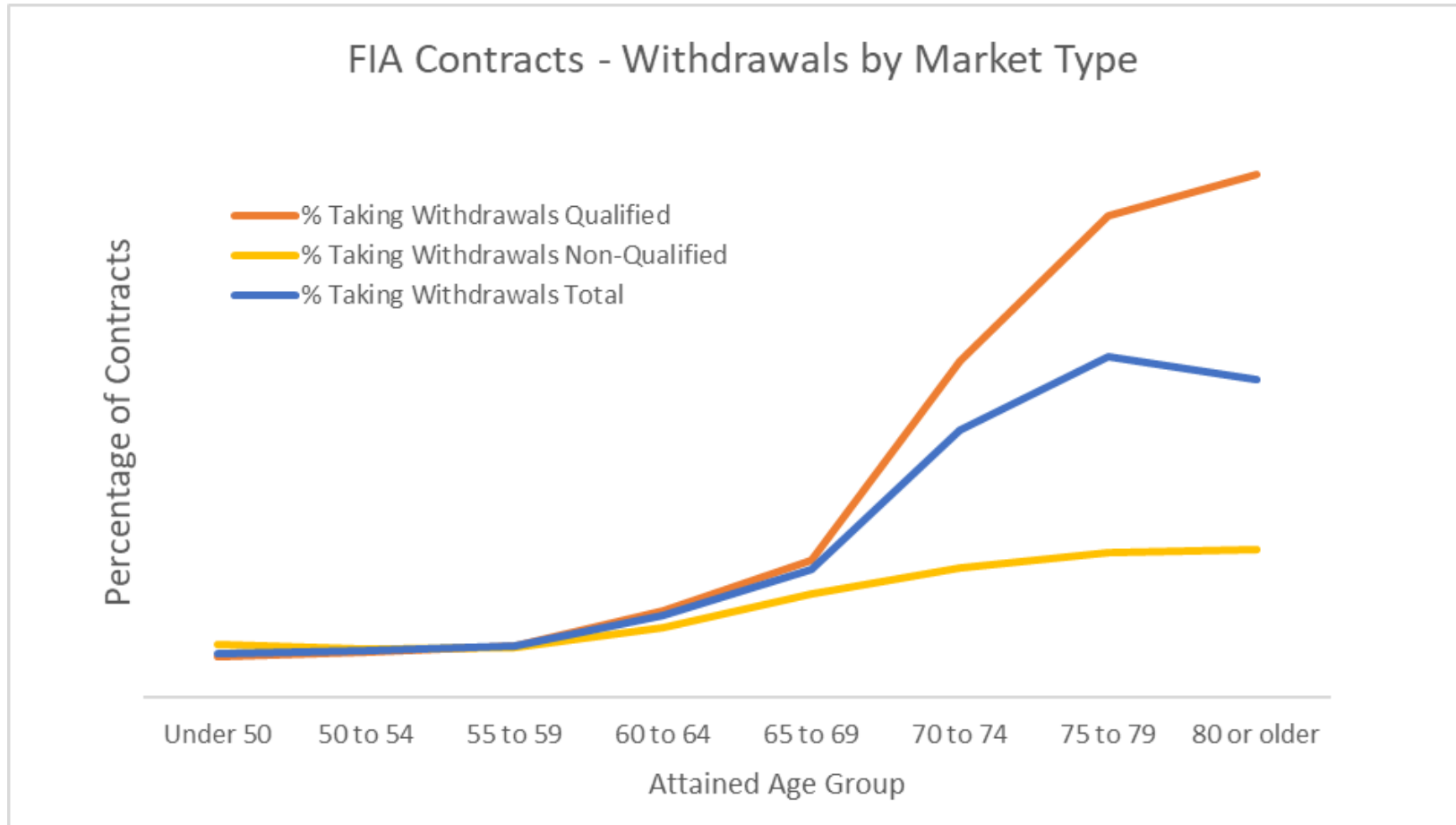
Recent SOA/LIMRA Policyholder Behavior Studies

- Fixed Indexed Annuities
 - 2019-2020 experience
 - 20 companies, 195,000 surrenders, \$13.7B in withdrawals
 - <https://www.soa.org/resources/experience-studies/2023/19-20-fia/>
- Variables Annuities
 - 2019-2021 experience
 - 15 companies, 500,000 surrenders, \$41B in withdrawals
 - <https://www.soa.org/resources/experience-studies/2023/19-21-va/>
- VM-21 and VM-22 support

Fixed Indexed Annuities - Withdrawals



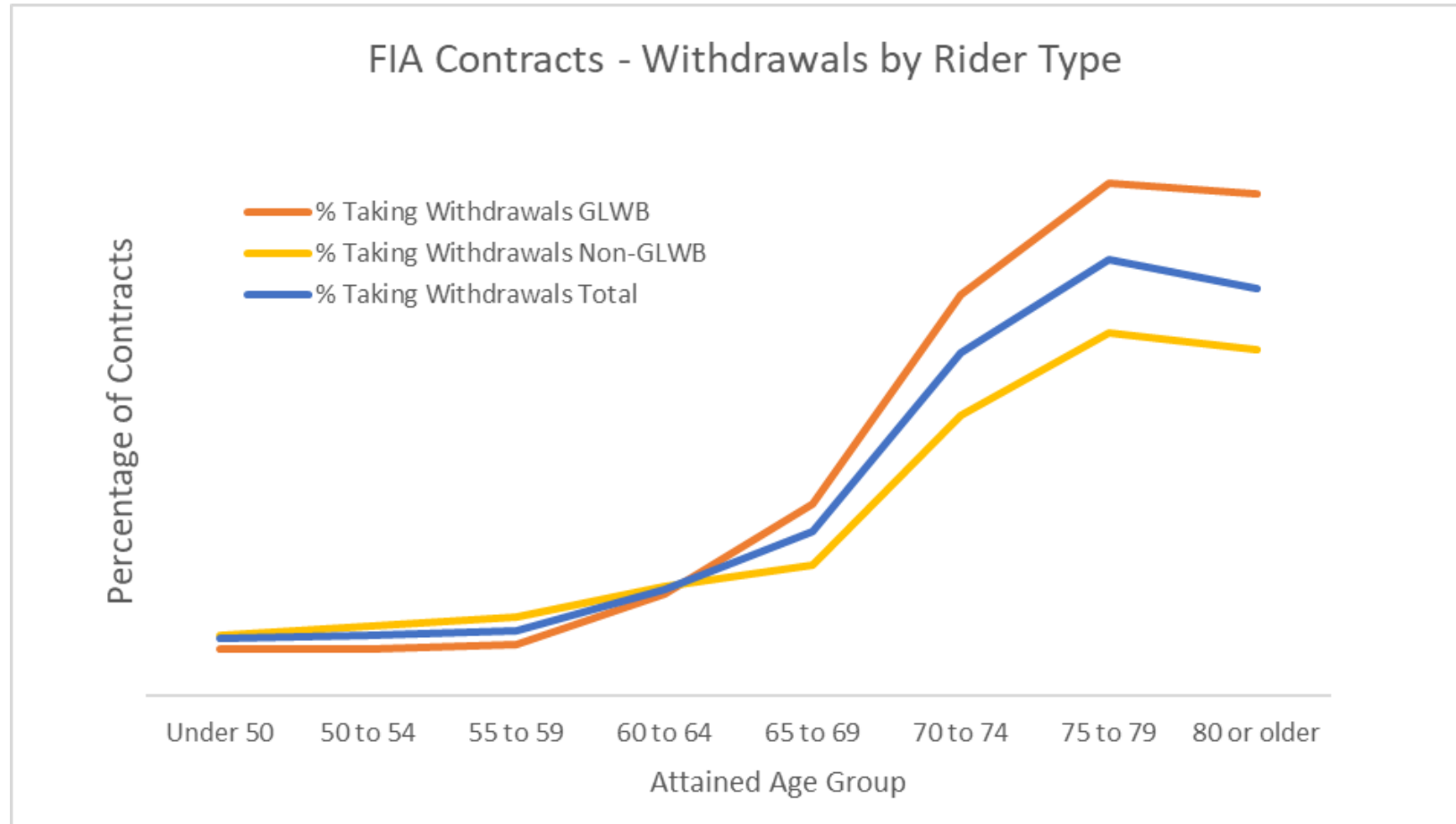
Fixed Indexed Annuities – Withdrawals by Market Type



Qualified experience includes contracts funded with pre-tax money and where Required Minimum Distributions begin at attained ages in the early 70's.

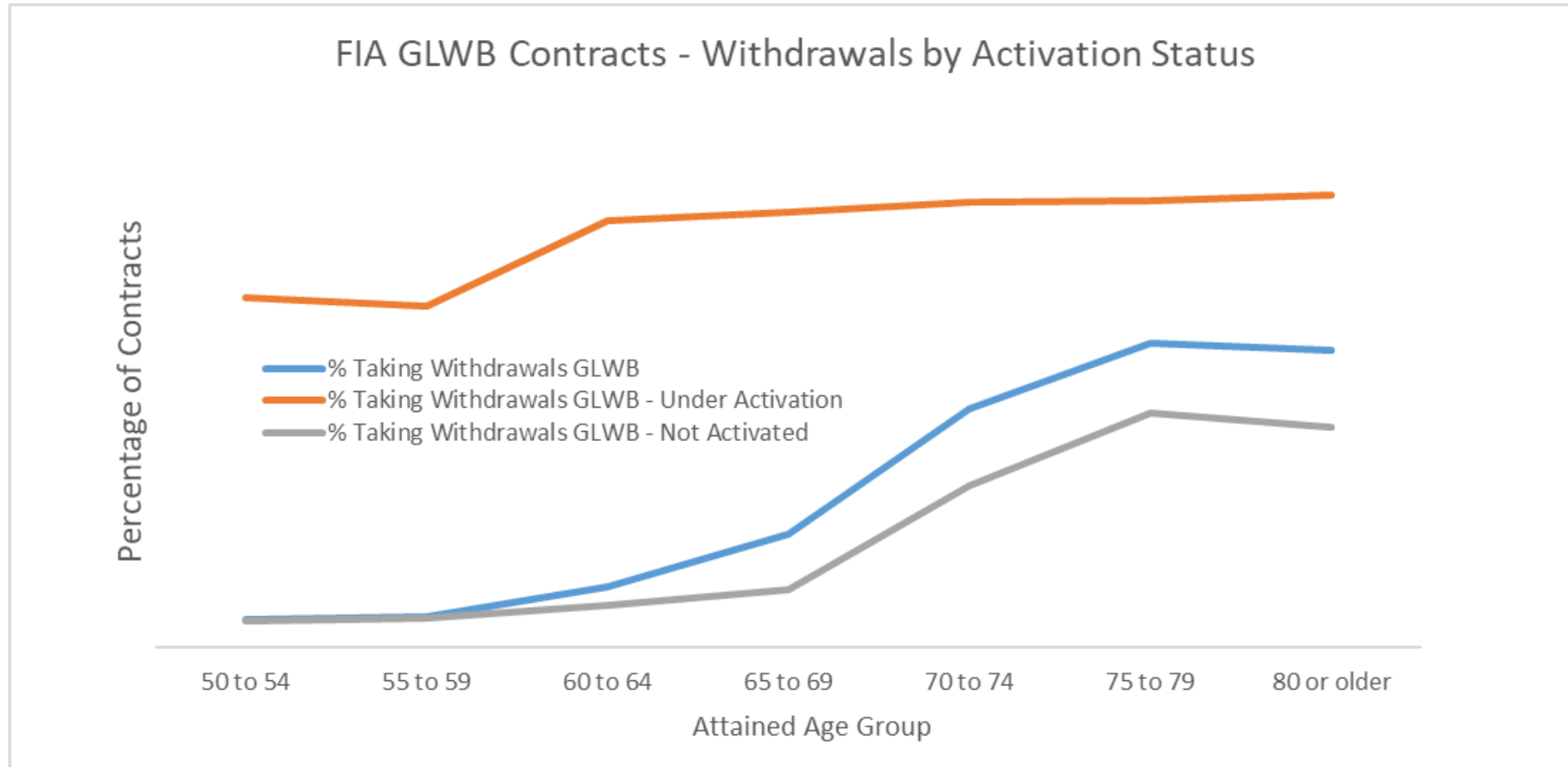


Fixed Indexed Annuities – Withdrawals by Rider Type



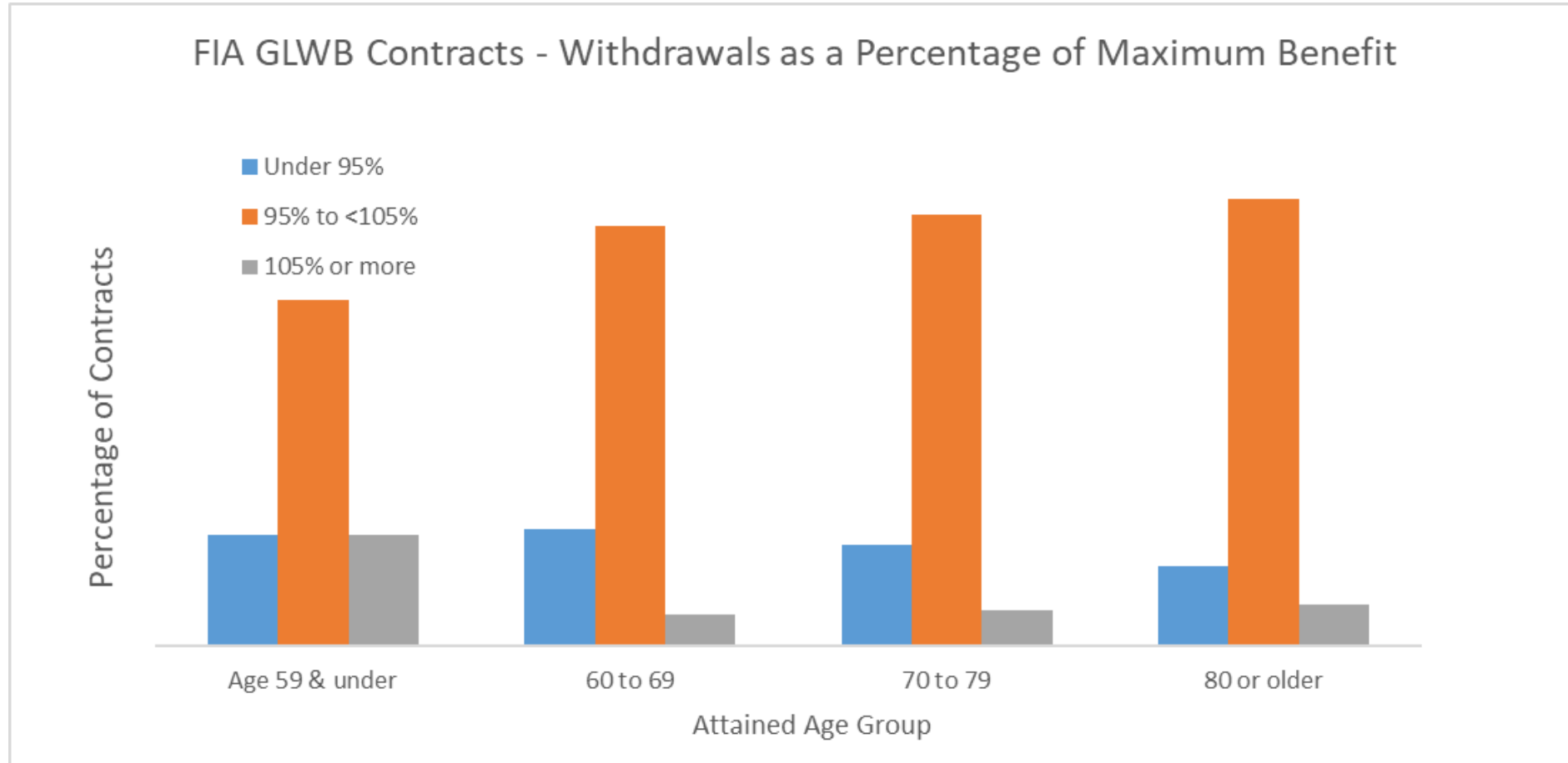
GLWB: Guaranteed Lifetime Withdrawal Benefit; this feature guarantees a minimum annual distribution amount for the life of the designated annuitant

Fixed Indexed Annuities – GLWB Withdrawals Activation Status

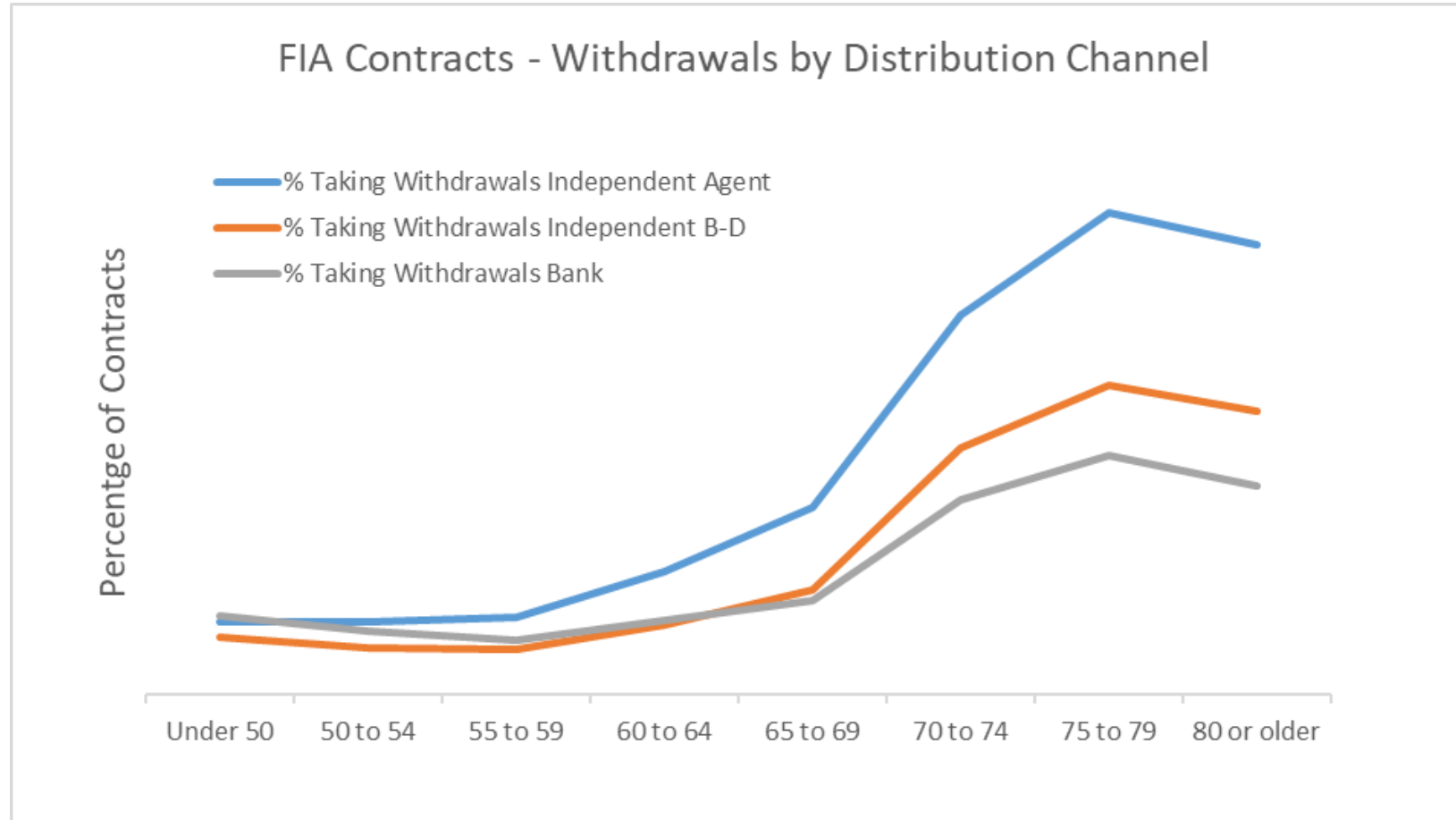


“Under Activation” refers to contracts that are taking withdrawals under the terms of the GLWB rider.

Fixed Indexed Annuities – GLWB Efficiency of Withdrawals

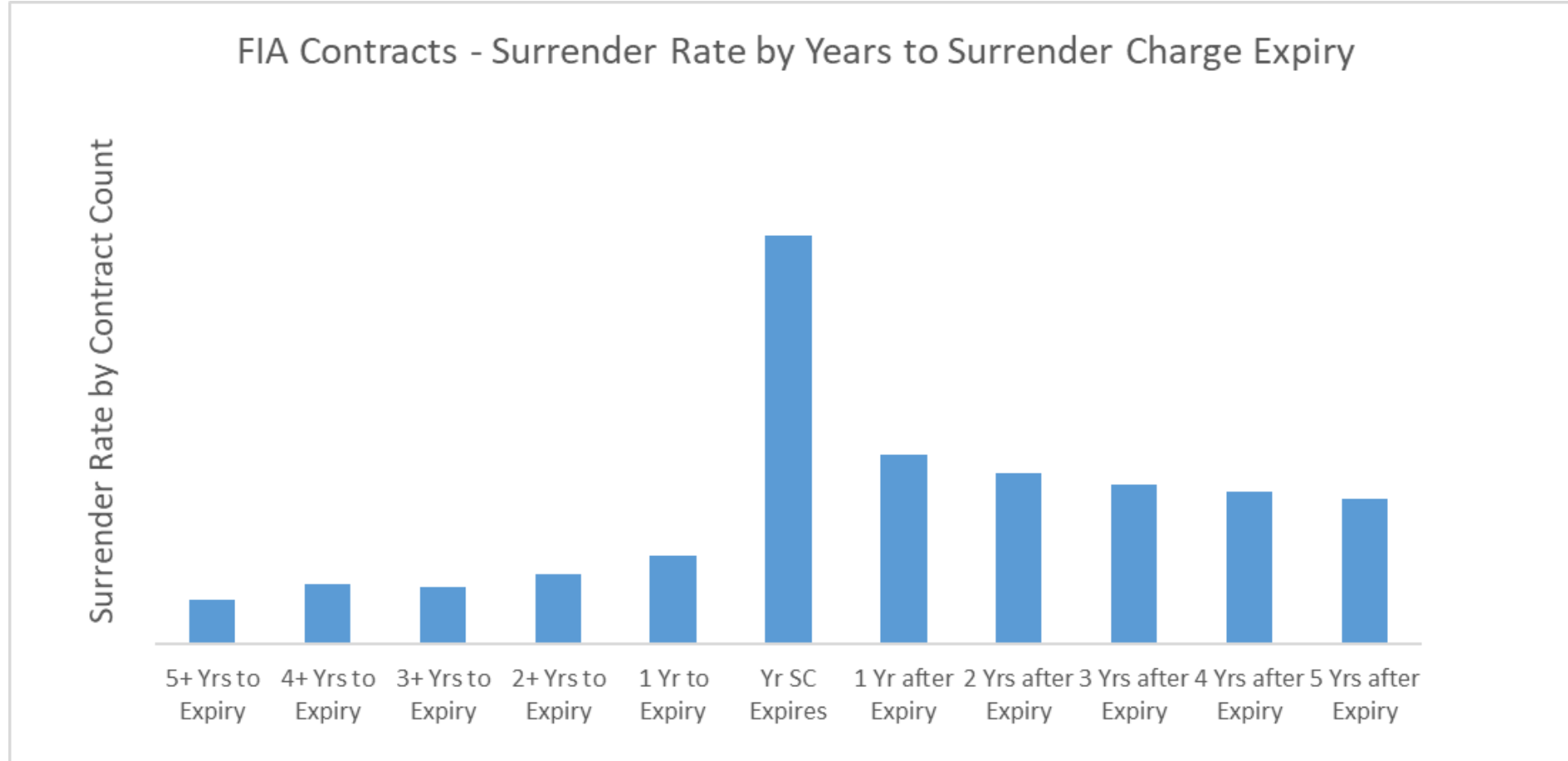


Fixed Indexed Annuities – Withdrawals by Distribution Channel

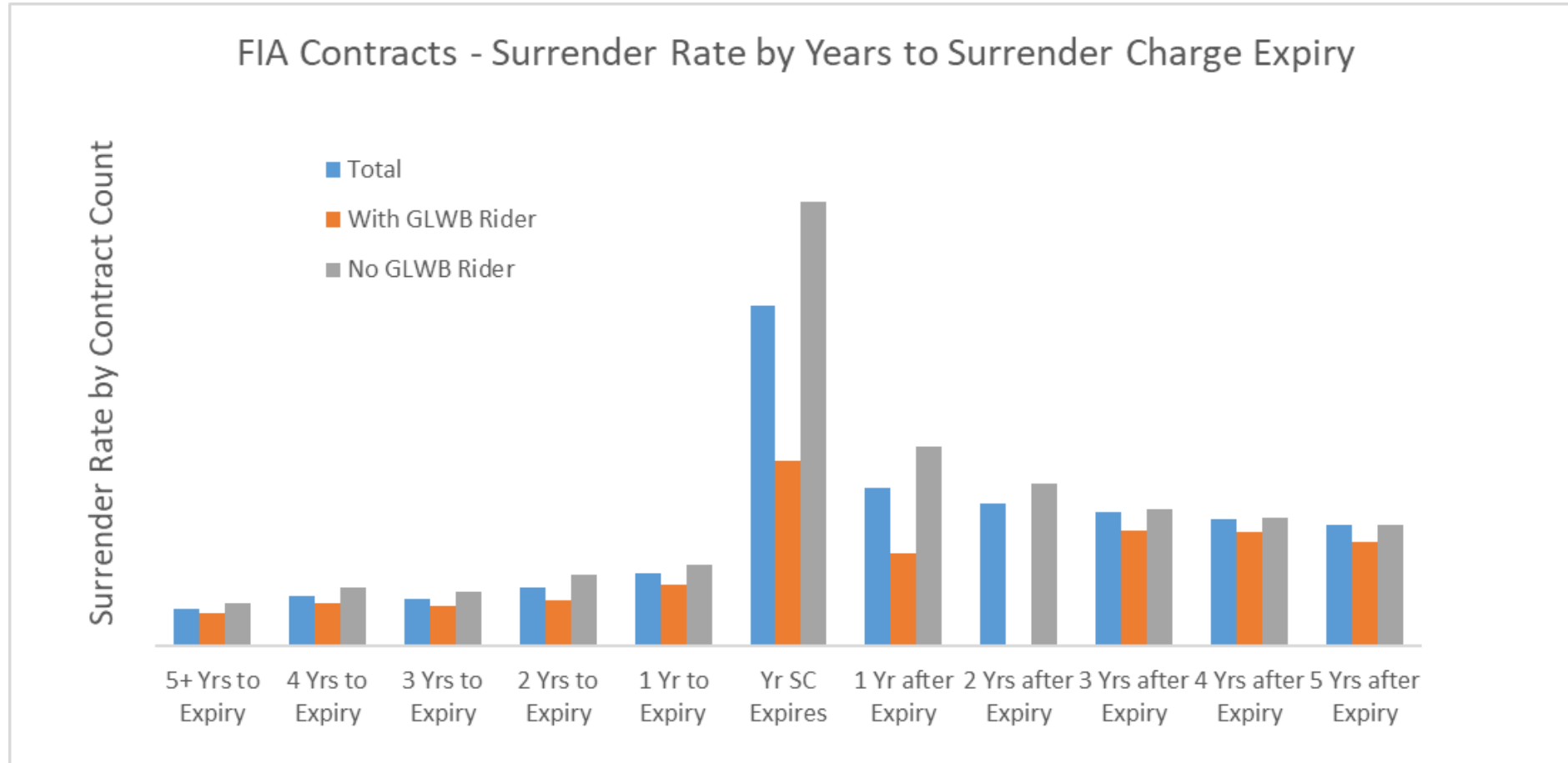


Distribution channel experience was also gathered for Career Agents, Full Service National Broker-Dealers, and Direct Response, but these channels did not have enough companies reporting to show detailed experience.

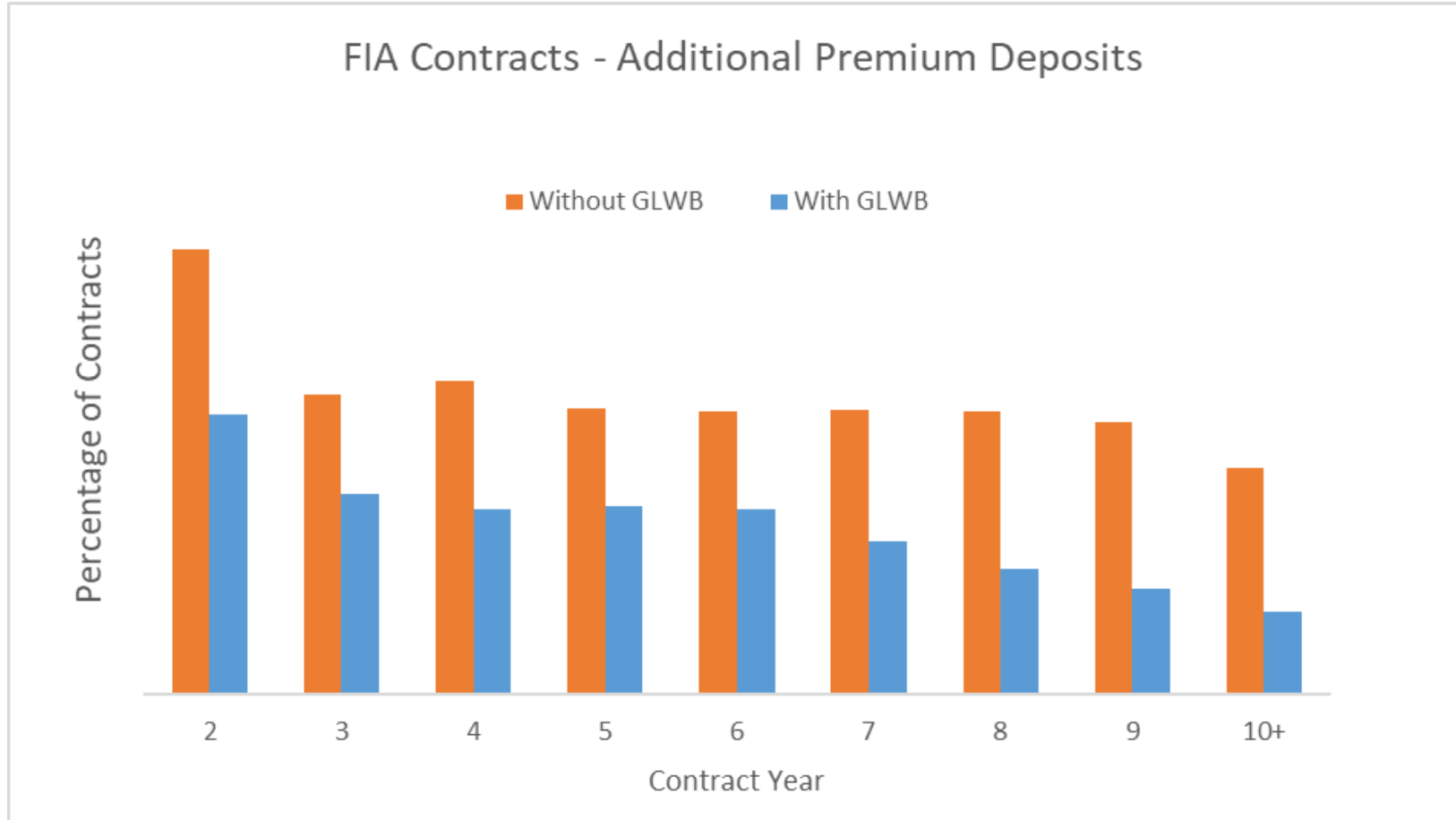
Fixed Indexed Annuities – Surrender Rates



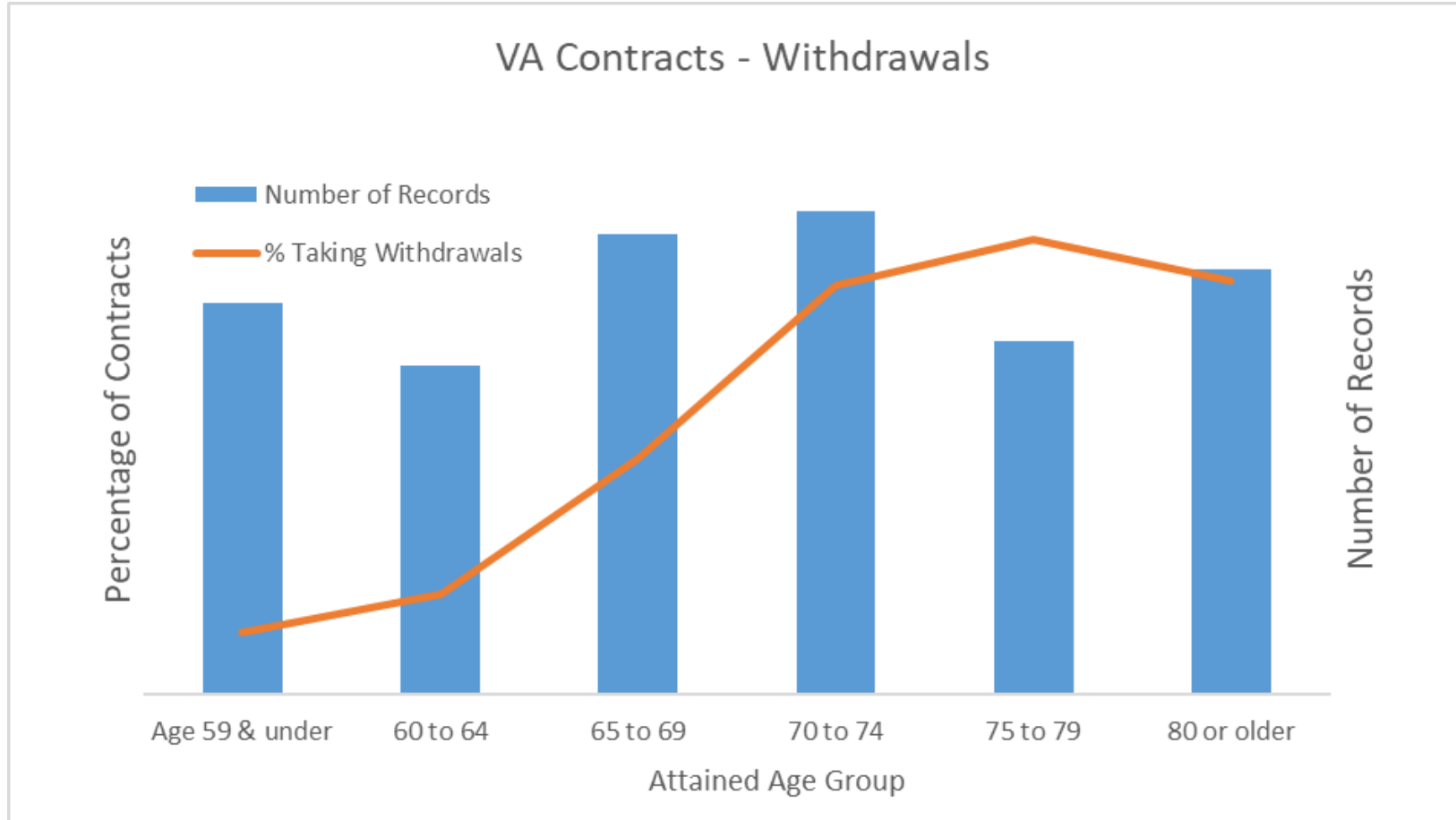
Fixed Indexed Annuities – Surrender Rates by Rider Type



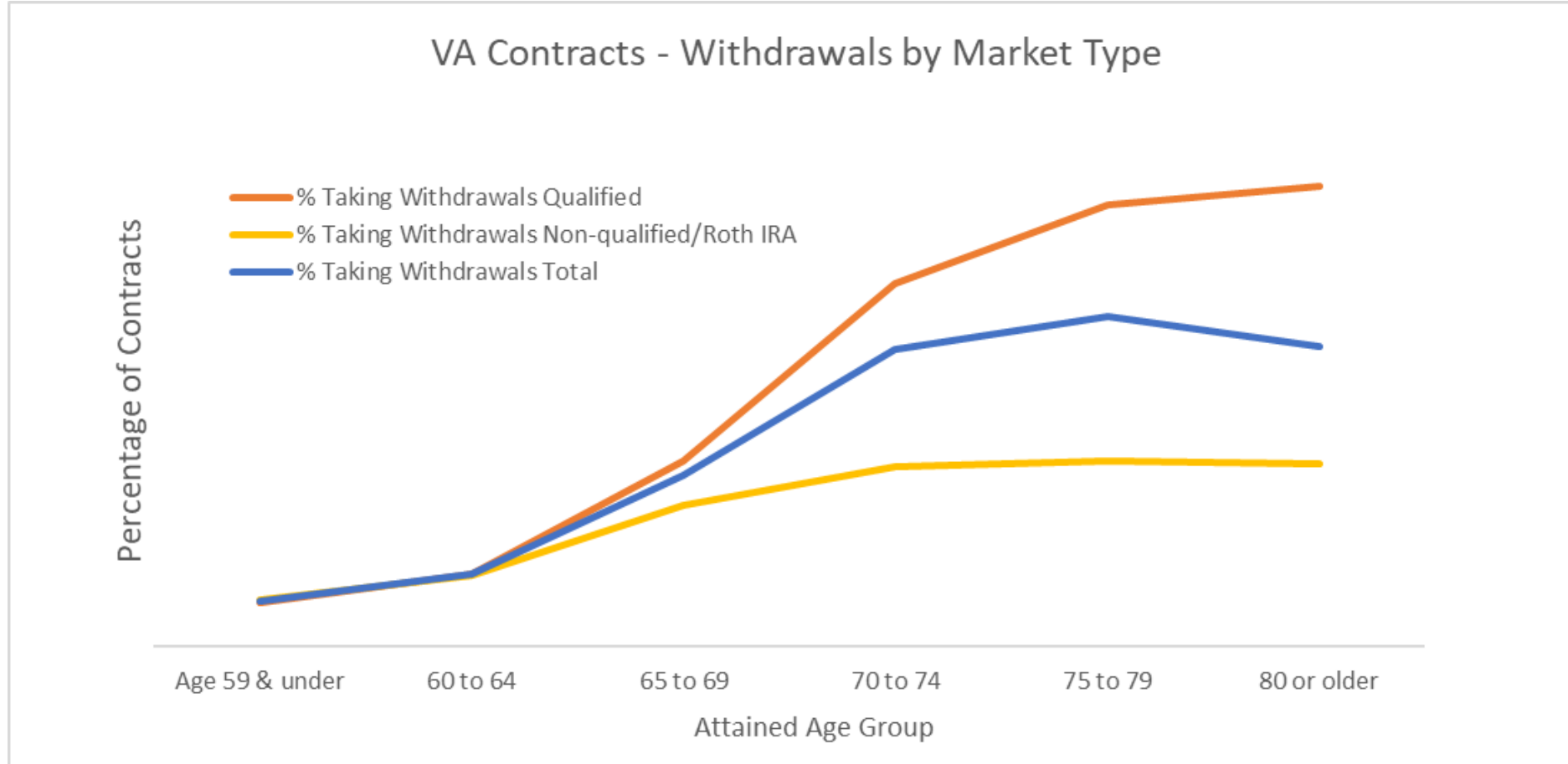
Fixed Indexed Annuities – Additional Premium Deposits



Variable Annuities – Withdrawals

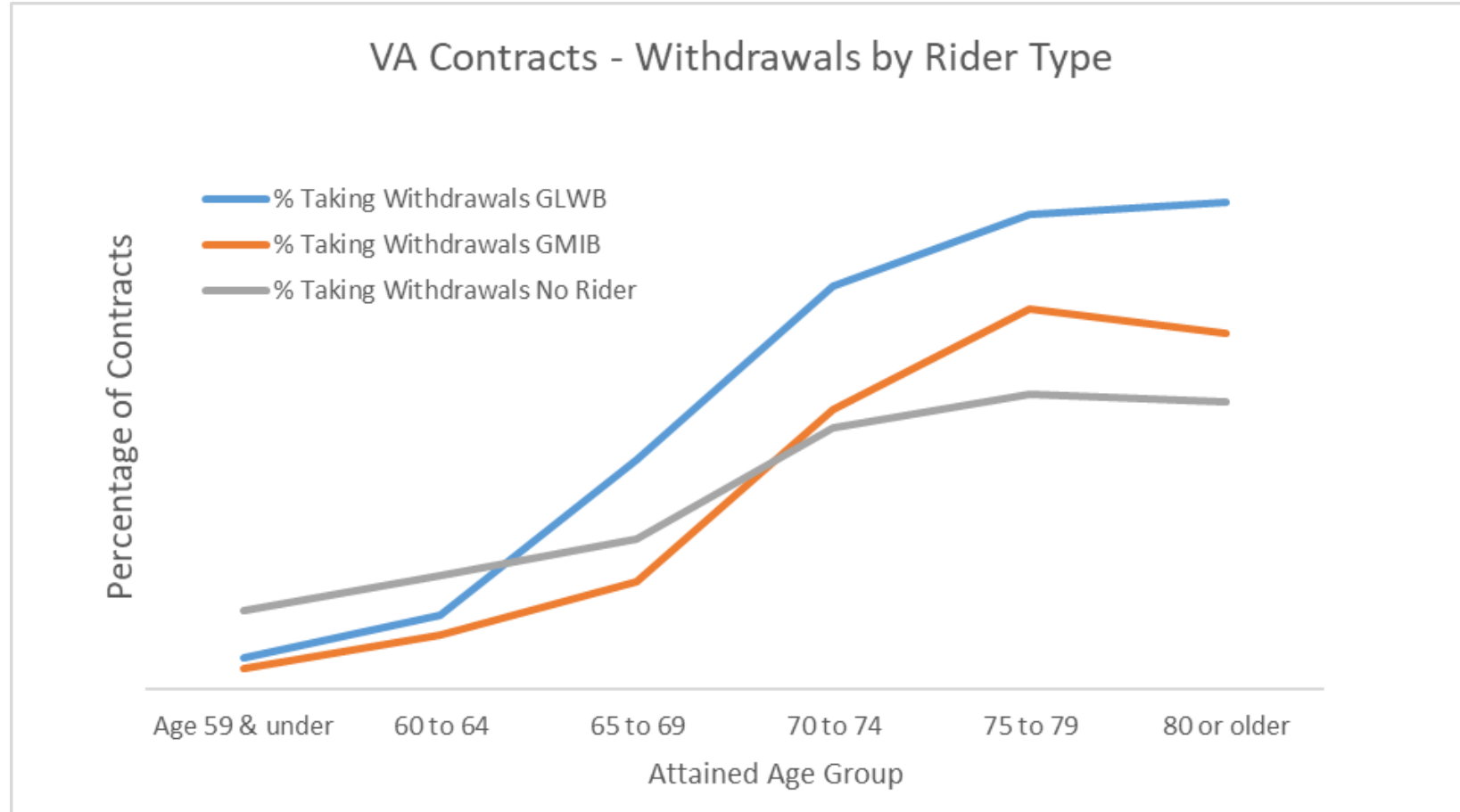


Variable Annuities – Withdrawals by Market Type



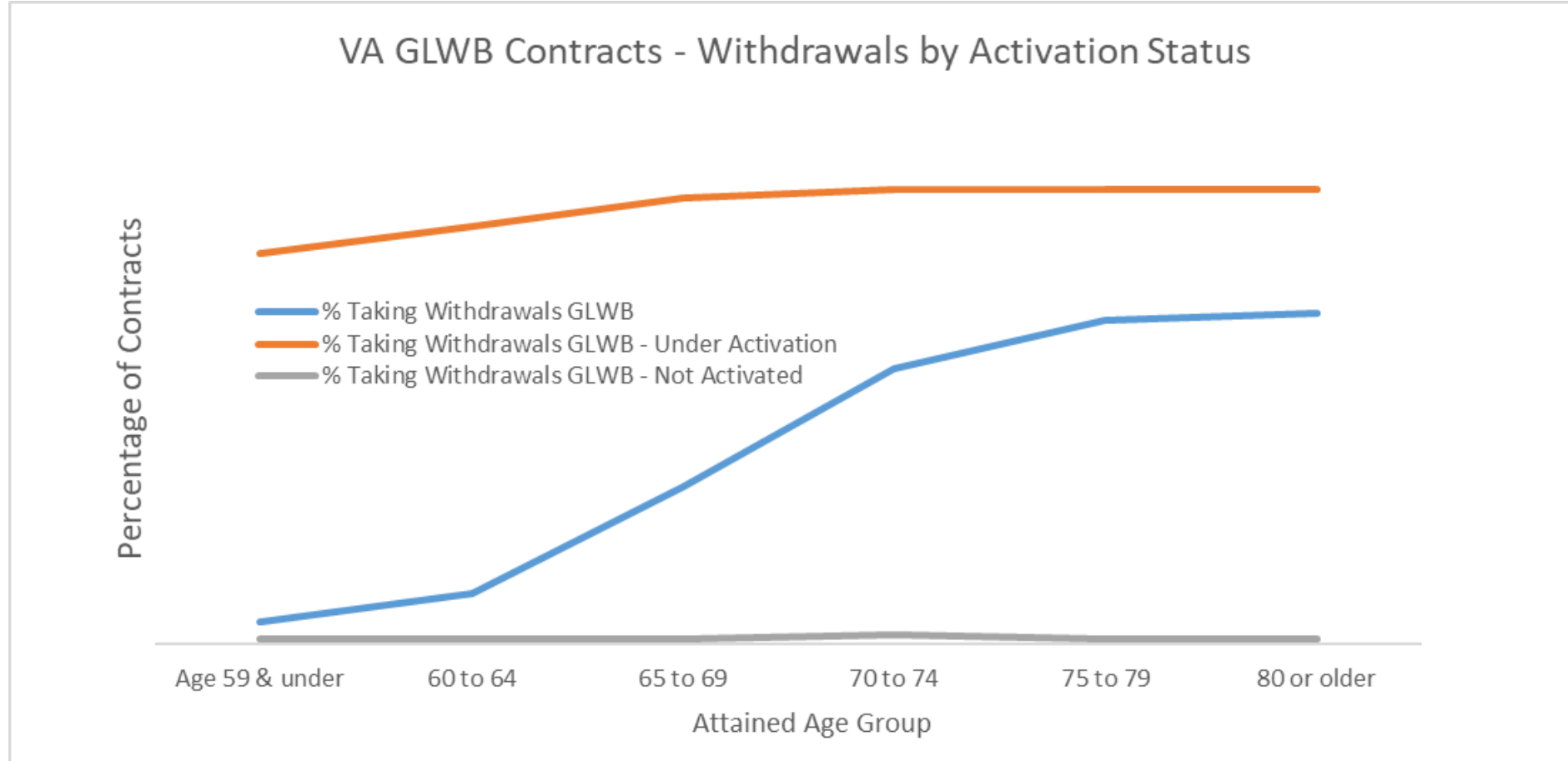
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Variable Annuities – Withdrawals by Rider Type



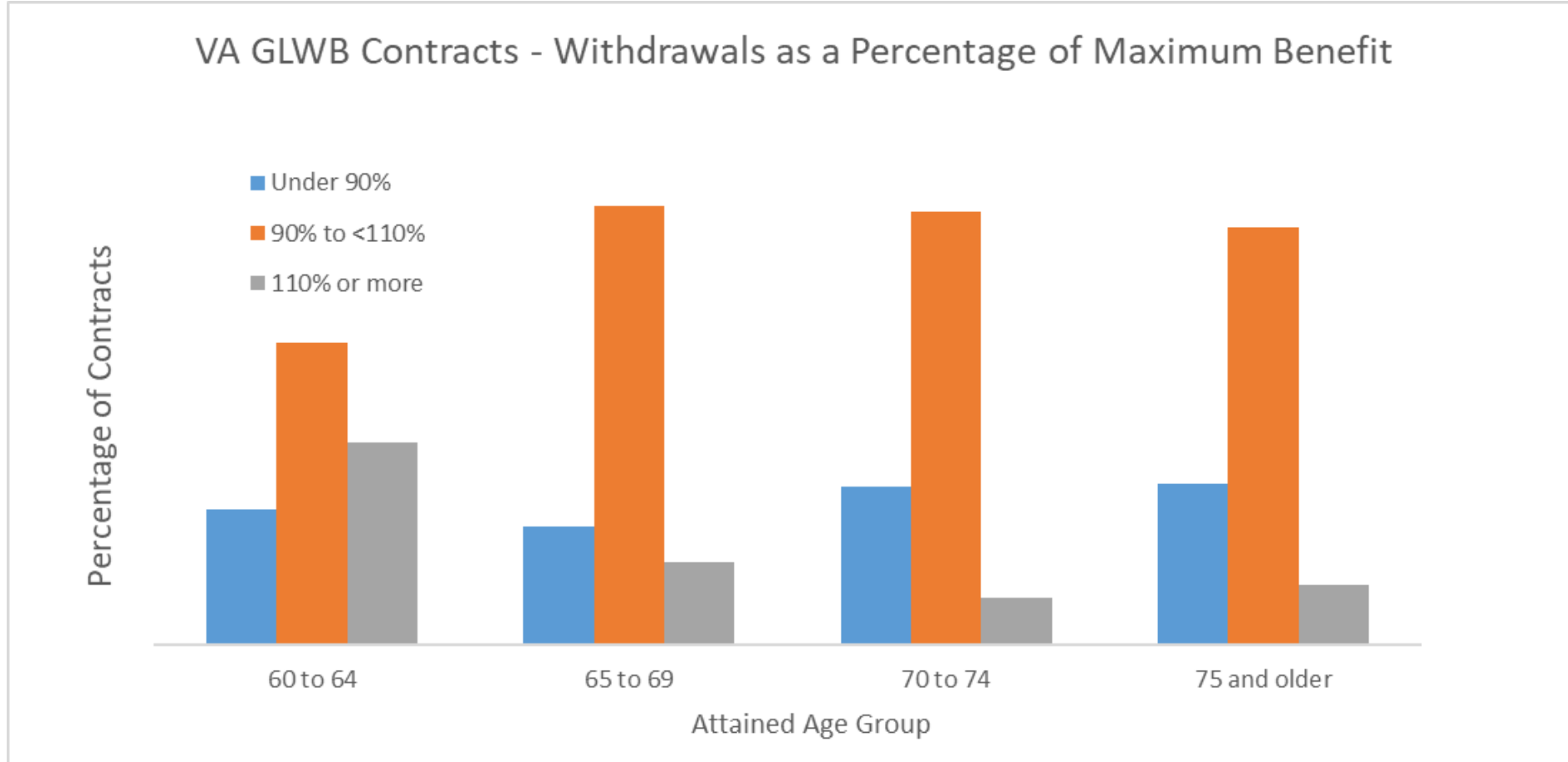
We also collected experience data for Hybrid riders and RILAs, but there was not sufficient company experience to show any surrender rate detail here.

Variable Annuities – GLWB Withdrawals by Activation Status

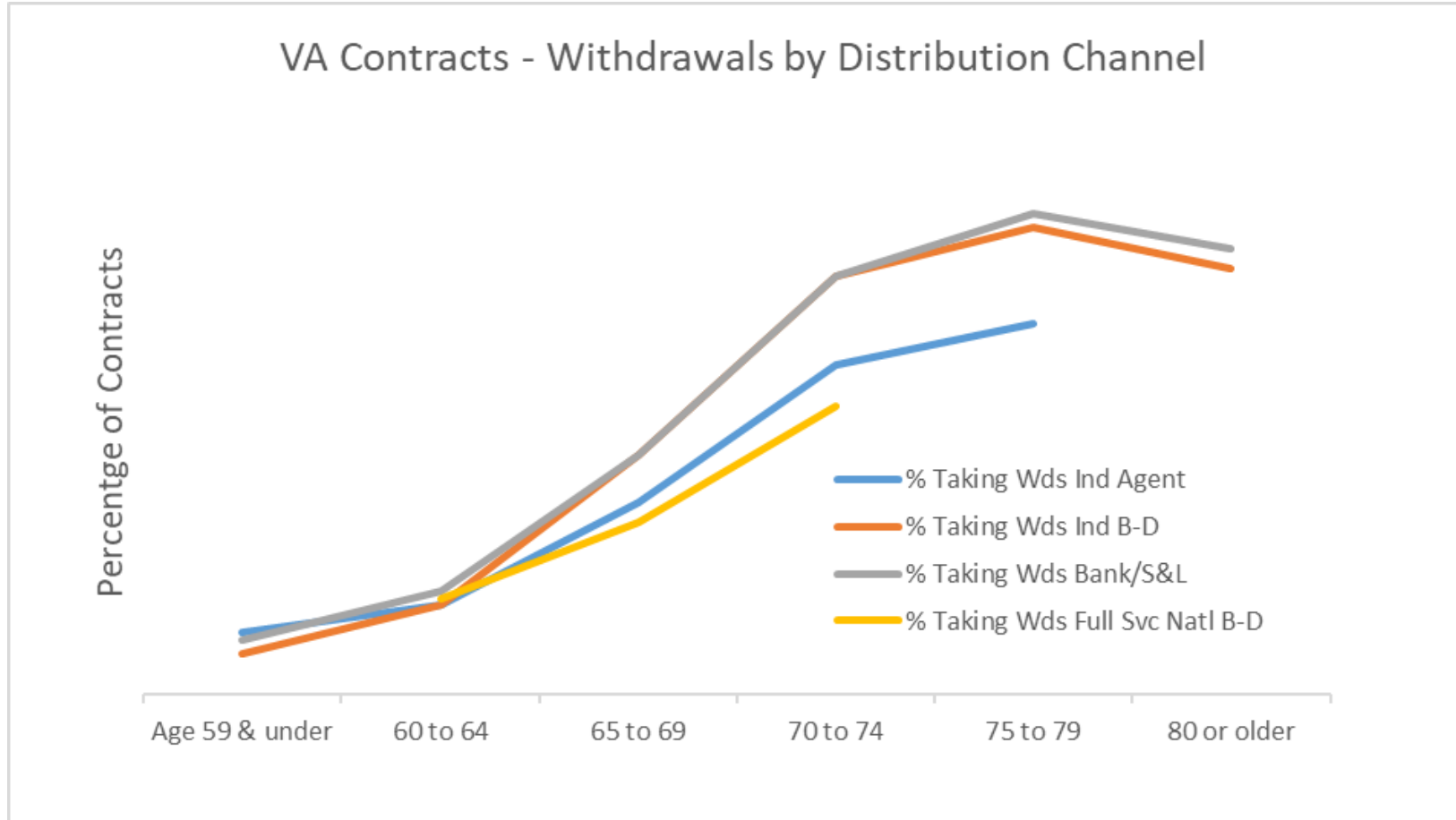


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Variable Annuities – GLWB Efficiency of Withdrawals

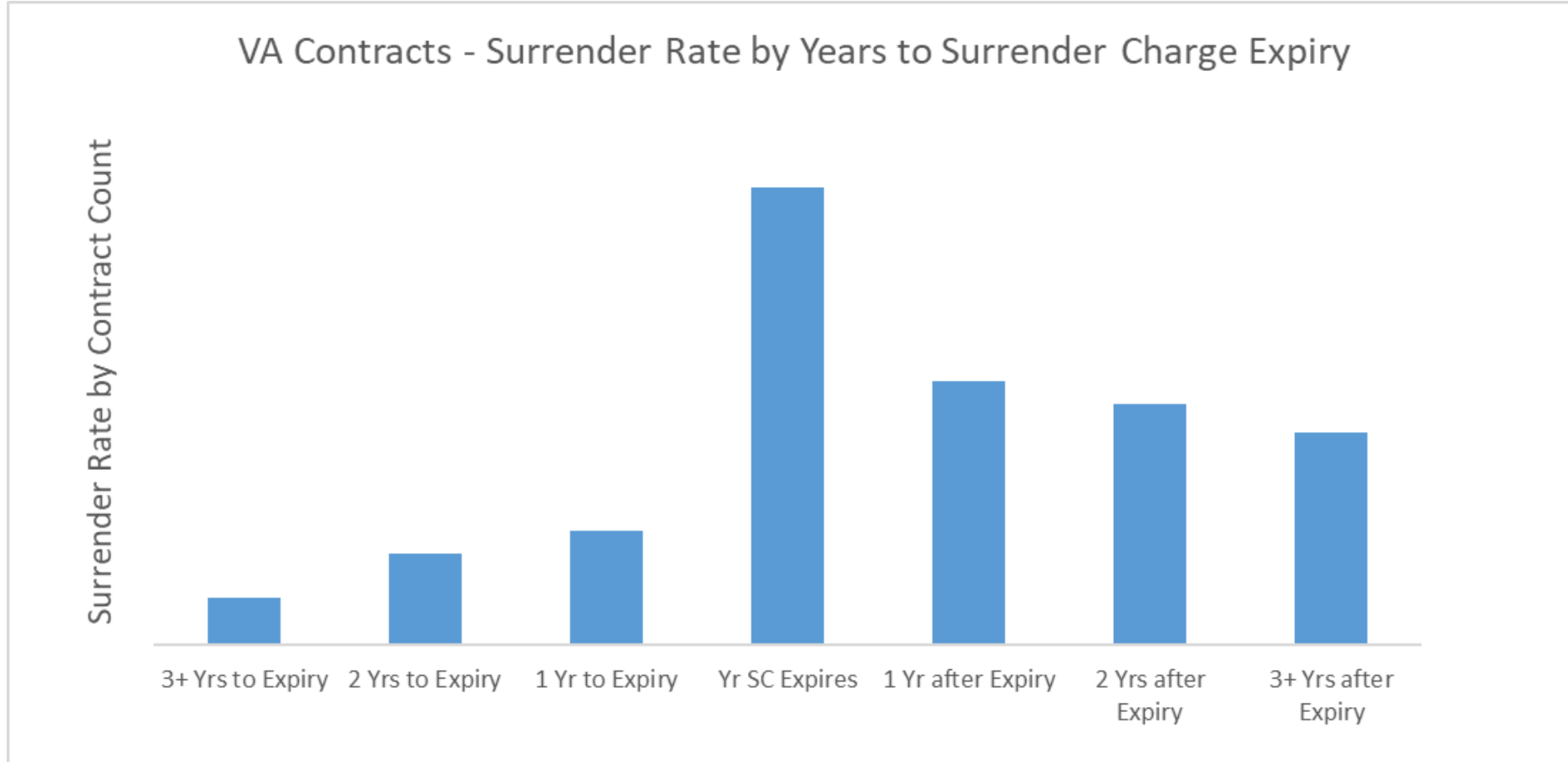


Variable Annuities –Withdrawals by Distribution Channel

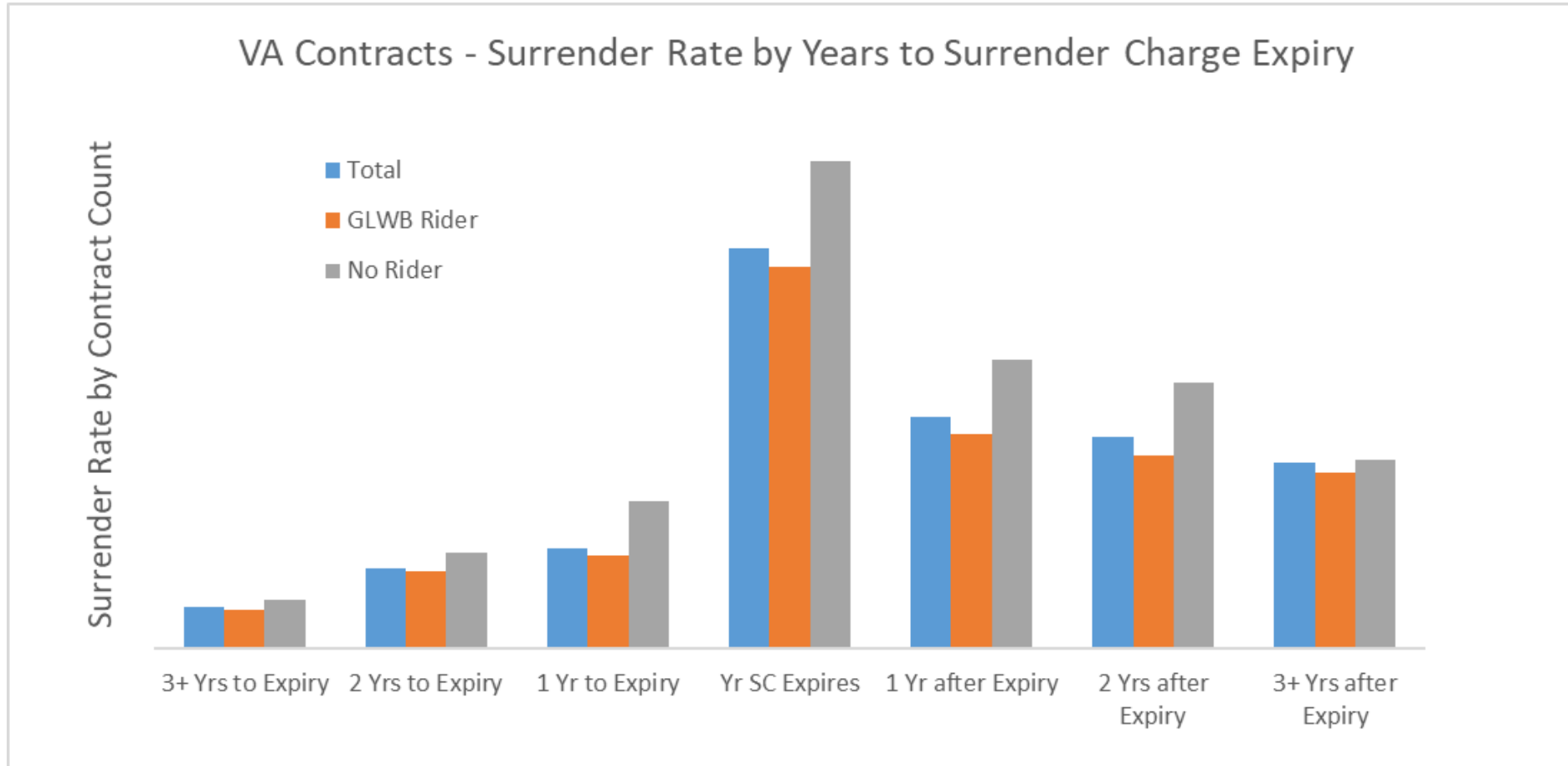


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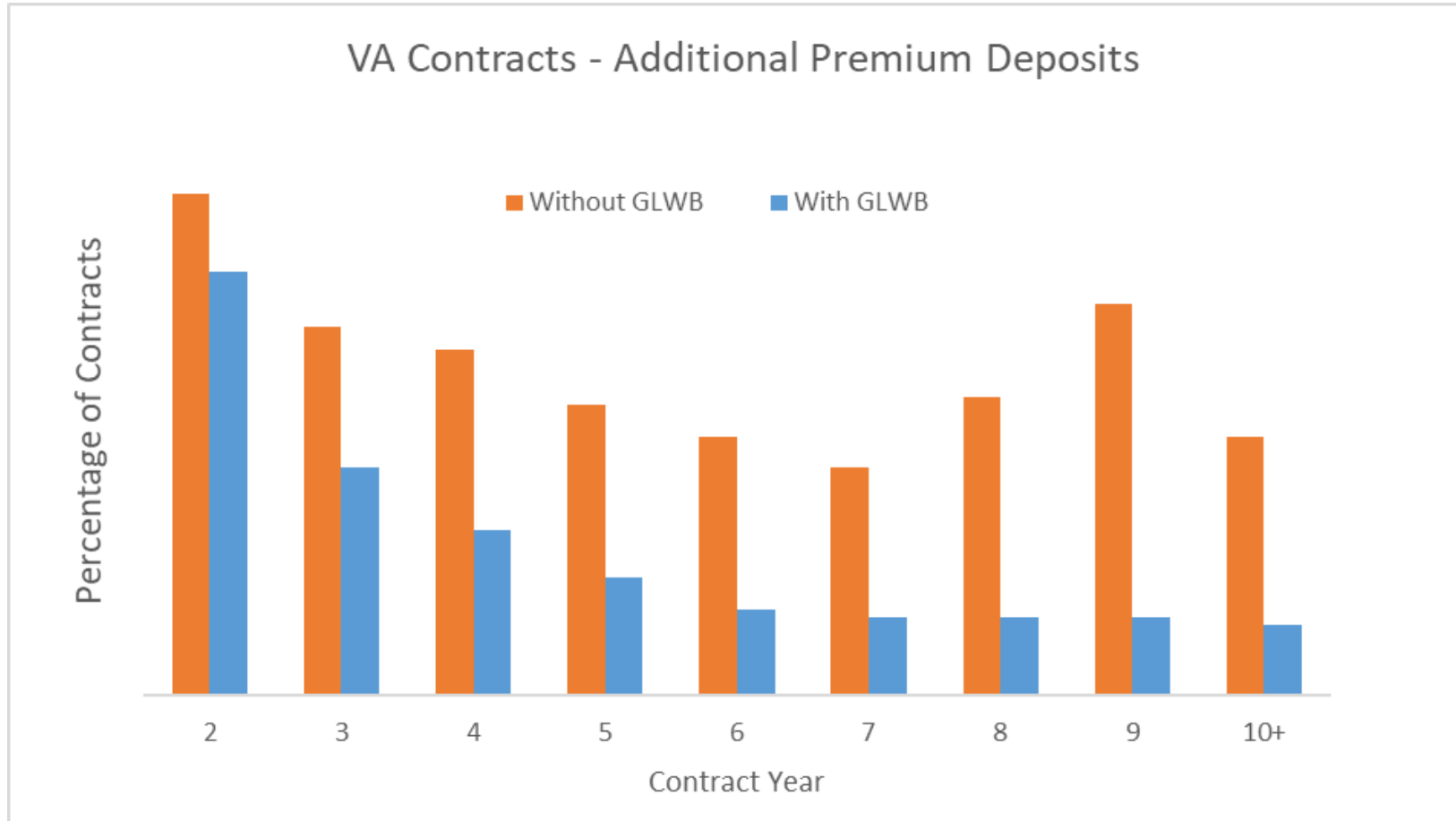
Variable Annuities – Surrender Rates



Variable Annuities – Surrender Rates by Rider Type



Variable Annuities – Additional Premium Deposits



VM-21 SPA Assumptions

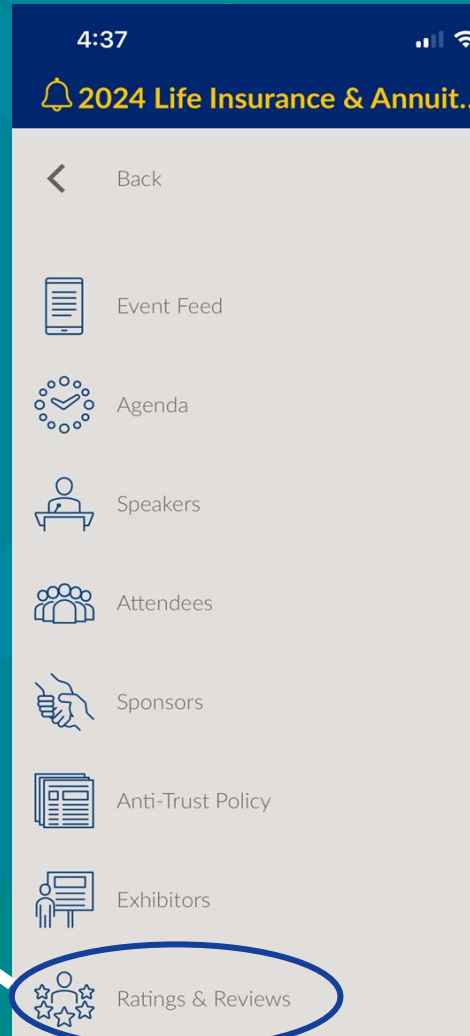
- VM-21 covers variable annuities
 - Standard Projection Amount (SPA) assumptions require periodic monitoring and updating
 - Updated SPA mortality assumptions were presented at NAIC Spring National Meeting
 - https://content.naic.org/sites/default/files/national_meeting/LATF-2024NM-Materials.pdf (see pages 65-79)
 - Proposed SPA mortality assumptions based on recent deferred annuity mortality study:
 - <https://www.soa.org/research/topics/deferred-annuity-mortality-2011-2015/>

VM-22 SPA Assumptions

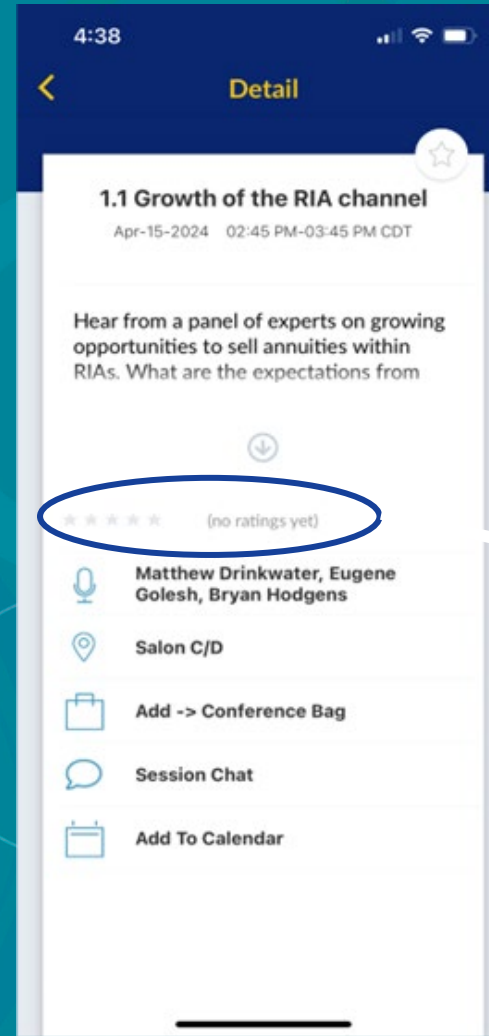
- VM-22 covers non-variable annuities
 - Fixed annuities (indexed and non-indexed)
 - Structured settlements
 - Payout annuities
- Recent SOA/LIMRA policyholder behavior studies are being used to develop VM-22 SPA assumptions for surrenders and withdrawals
- Recent SOA mortality studies used for VM-22 SPA mortality assumptions
- VM-22 field test work July – September 2024
 - Objective of field test: “Measure the impact on actual business of the proposed reserve and capital frameworks relative to the current standards to ensure frameworks are working as intended.”
 - [20240306 VM22 Field Test Specs.pdf \(naic.org\)](#)

Please Provide Your Feedback on the Conference App

OPTION 1



OPTION 2



Thank You

