



Life and Annuity Market Update

Southeastern Actuaries Club

John Fenton, FSA, MAAA

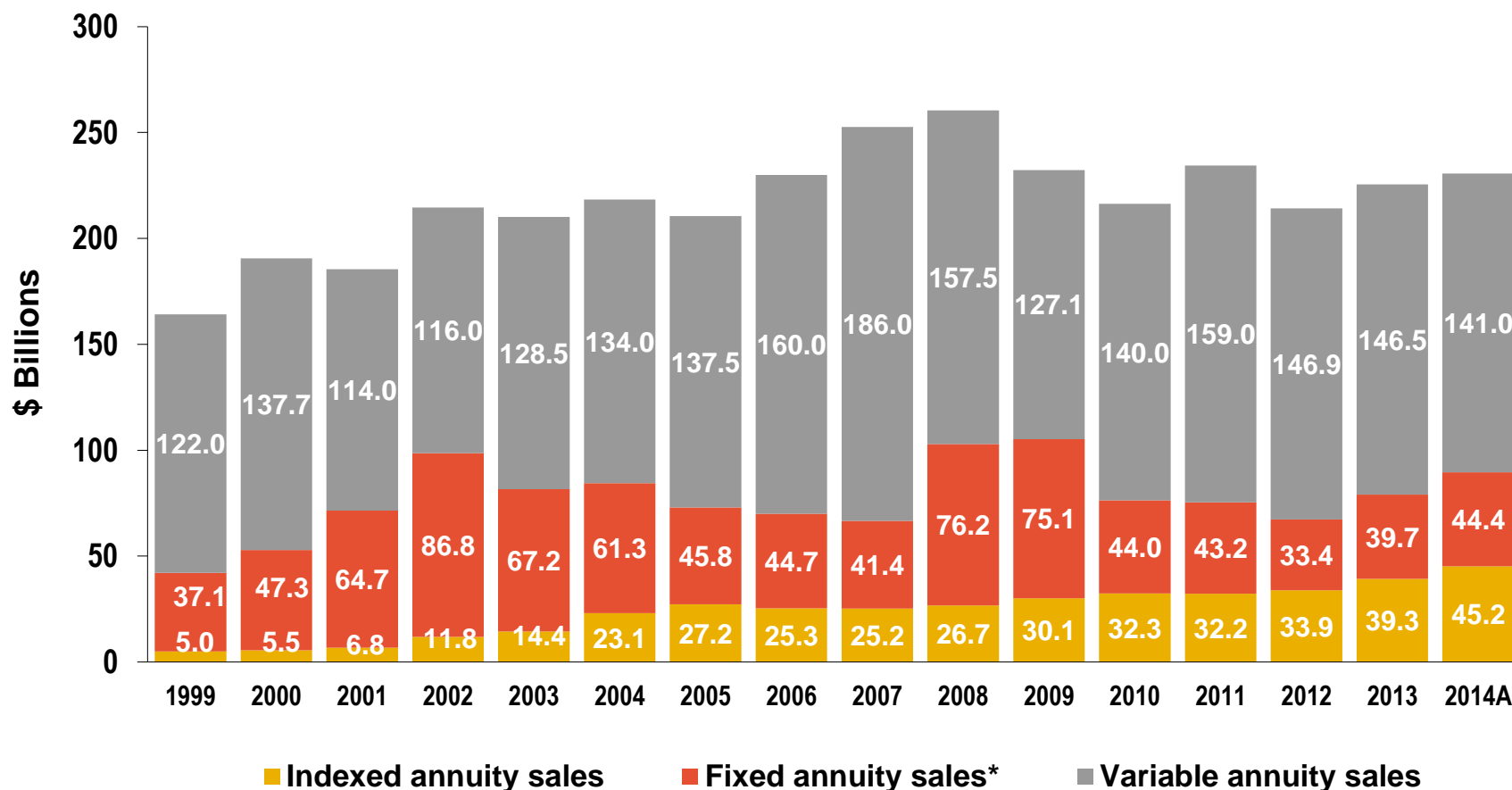
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Overview of presentation

- U.S. Annuity Market
 - Sales trends
 - Key issues
 - Products
- U.S. Life Market
 - Sales trends
 - Key issues
 - Products
- Regulatory Outlook
- Longevity Trends

U.S. Annuity Market

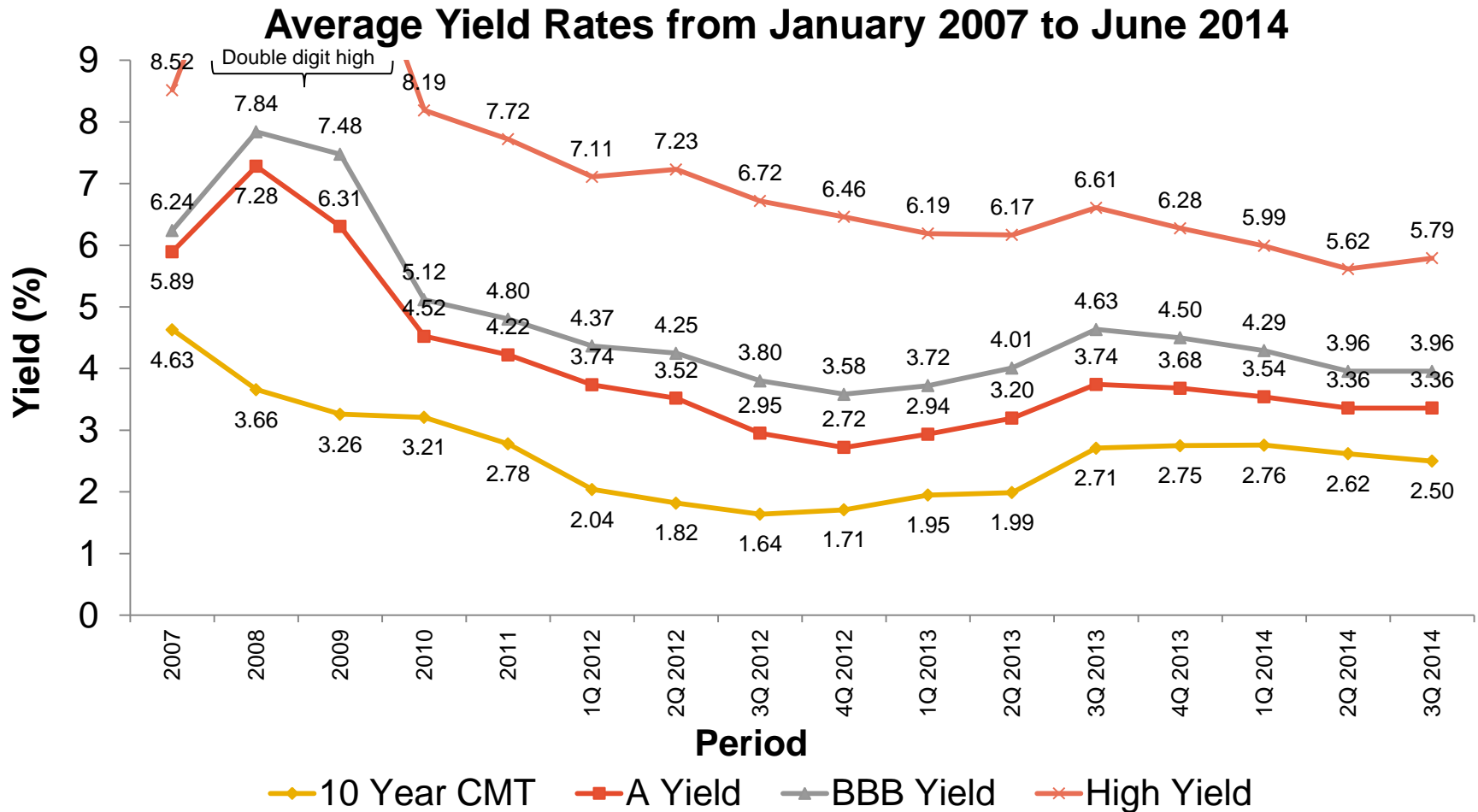
Total annuity sales levels have been fairly stable over recent years



*Excludes structured settlements

Sources: Towers Watson VALUE Survey, LIMRA

Interest rates have risen since early in 2013, although rates remain low; 10 year Treasury yield now approximately 2.x%



Source: Bloomberg (BoFA Merrill Lynch US Corporate 7-10y Yields and CMT data)

VA product/market trends

- Prior market leaders — Prudential and Met — continue their pullback
 - Others try to manage sales (expect year-end restrictions)
- Continued implementation of volatility controlled funds
 - Now accounts for approximately \$200B of total funds
 - Initially on new products but several insurers have now implemented on inforce
- Products with living benefits remain main sellers but investment only products have gained traction
 - Jackson National (Elite Access) has quarterly run rate of \$1B
 - Prudential reports 10% of sales, Ameriprise 25%
 - Jefferson National's Monumental was sector leader (\$200M quarterly run rate)
 - Others have introduced product fairly recently (Met, Lincoln)
- Living benefit products
 - Some limited enhancements (before interest rates dropped again)
 - Becoming more common now to vary "rates" (monthly rate sheet)
- Buyback programs continue — AXA and Hartford supplemented existing programs, Voya added
- Some ongoing changes to inforce

Fixed annuity sales have been increasing since 2012

- Annualized sales up 18% so far in 2014, strong gains in most product types

	YTD Q2 2014	2013	2012	% Change (YTD Q2 2014 vs. 2013)
Book Value	11.2	22.4	20.2	+0%
Indexed	24.3	39.3	33.9	+24
MVA	4.6	6.9	4.5	+33
Immediate*	6.4	10.5	8.7	+22
Total Fixed^	46.5	79.1	67.3	+18

* Includes deferred income

^ Excludes structured settlements

Source: LIMRA, sales in billions

Key issues in fixed annuity market

- Indexed annuity sales continue to grow
 - Many products use GWLBs to drive sales — focus on income story
 - Sales expanding to lower commission distribution channels
 - Major players have added managed volatility funds — and removed cap on index return (caps have otherwise been in 3-4% range)
- More traditional fixed annuities (MVA and BV) have been helped by rise in rates since 2013
 - Sales are still relatively low
 - Companies with alternative asset strategies have helped boost market
- Growth in SPIA and particularly DIAs

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
- 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
- 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)

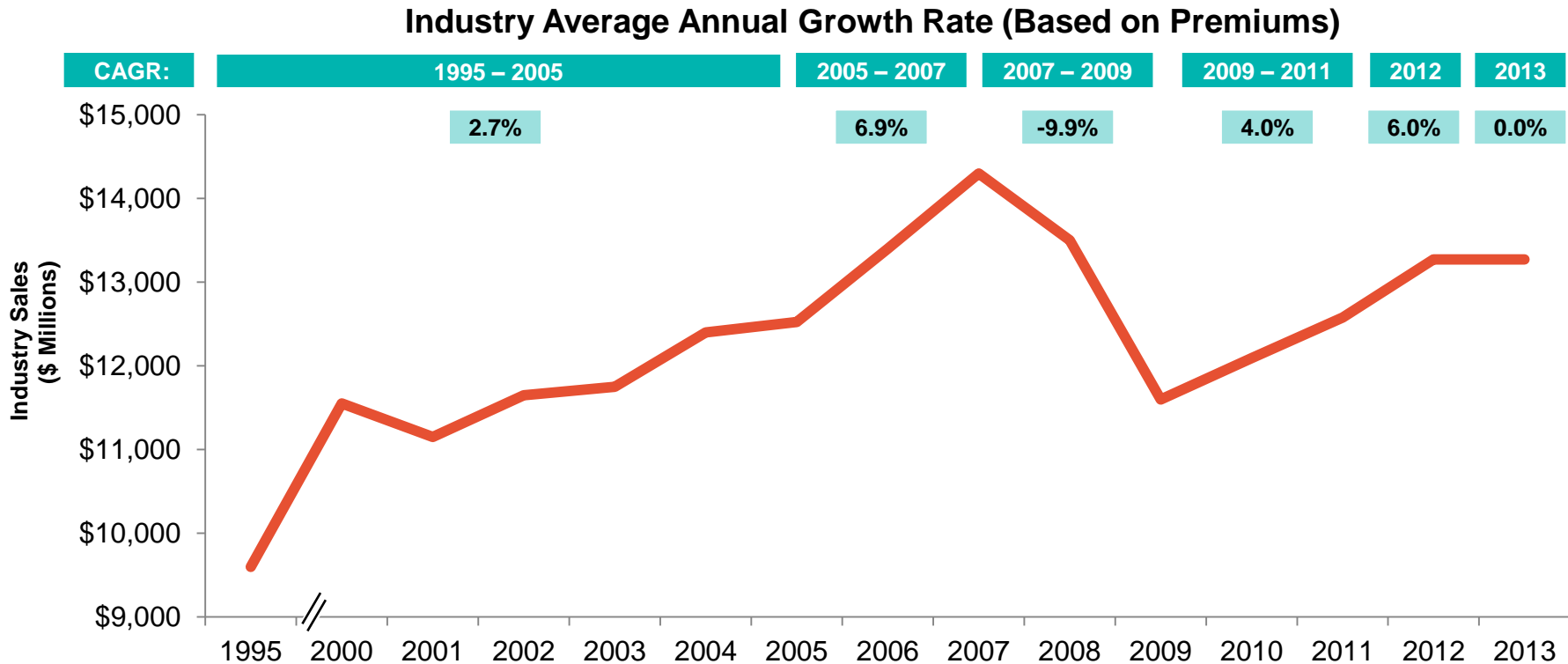
“Hybrid” annuities are gaining interest

- More downside risk than IA (can invade principal) but offers some protection (more than VA)
- Greater upside than IA via higher cap rates
- Two main design types
 - Buffer design: first $x\%$ of losses is absorbed by company (buffer to policyholder), but PH pays losses beyond that
 - Floor design: first $y\%$ of losses is paid for by PH, then a floor
- AXA had original product, more recent entries by MetLife, Allianz, CUNA Mutual, and VOYA
- Invades principal so must be a registered product
- The cost of hedging is generally less due to less volatility in claims levels, given that the vast majority of investments are in fixed income securities and index exposure is limited to index based call spreads

U.S. Life Market

After a significant decline in 2007-2009, life insurance sales have increased steadily (but not spectacularly); however, 2013 was flat

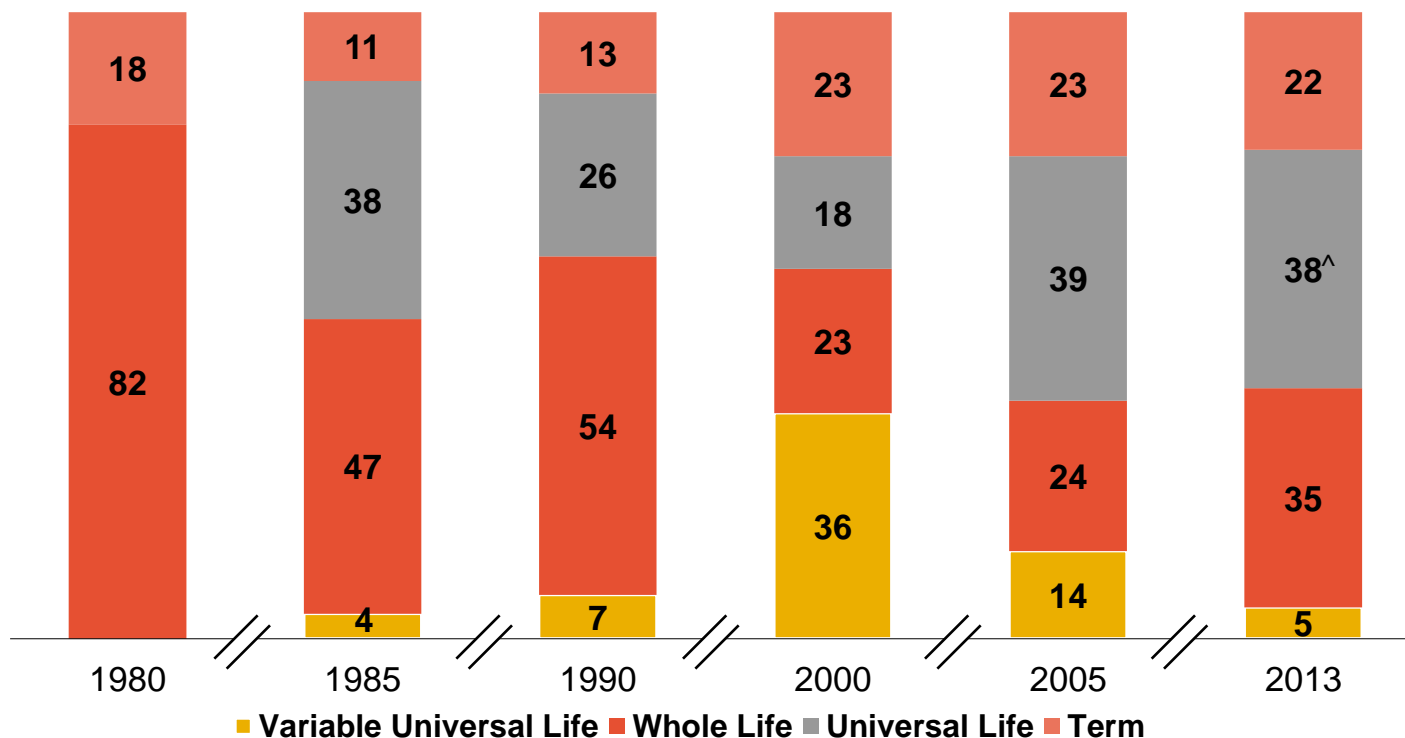
- Increases generally 4% a year since 2009, jumping up to 6% in 2012
 - Sales growth by premium have consistently outpaced sales growth by face amount/number of policies (not shown), indicating that sales growth is coming from premium oriented policies
- YTD sales are down in 2014



Source: LIMRA International Market Trends, TW analysis. Based on first-year (weighted) premium; 100% of planned ongoing premium plus 10% of single premium

Universal life (including IUL) remains the leading product type

Market Share of Individual Life Insurance by Product Type
(Percent of Total FY Premium)



Sales Growth 2Q YTD
2014 vs. 2013

UL	-12%*
WL	+1%
Term	-3%
VUL	+29%
Total	-4%

* Includes IUL

[^] IUL included here and represents 13% of total

Source: LIMRA International. Based on first-year premium. Results based on policies issued would be significantly different.

Life insurance sales remain low

- Life insurance sales have rebounded somewhat since GFC (2008) levels, but still not attracting as much premiums
 - STOLI has not recovered
 - Savings dollars going elsewhere
 - Life insurance agents, in general, are getting older
 - Life ownership levels lowest in years
- We need a new approach
- Some believe streamlined underwriting is the answer

Elements of a streamlined underwriting approach

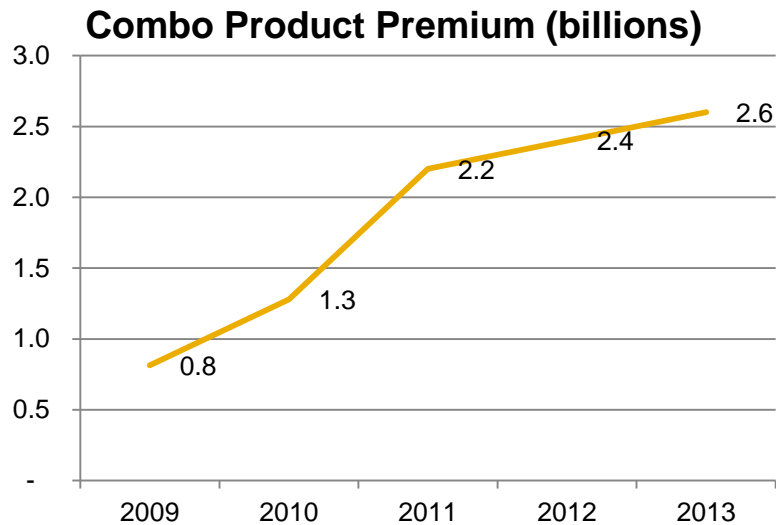
- Principal's accelerated underwriting approach is an example of this
 - Individuals up to age 60 can qualify for face amounts up to \$1 million without paramedical exam or bodily fluids
 - Combines short-app questionnaire from agent with tele-app, MVR, MIB, prescription check
 - Preferred Plus and Preferred risk classes
 - Underwriting completion within 48 hours from tele-app
 - Full agent compensation
 - Issue/UW expense savings help pay for (any) extra mortality
- May be possible to take elements of this approach to appeal to young demographics
 - Social media based solicitation
 - Target life style changes
 - Tie in with affinity groups

Life insurance combo products

- Often a rider that can be attached to any type of permanent life product
- Insured can accelerate all or a portion of face amount for LTC benefits
- Must meet eligibility requirements
- A small percentage (2%-4%) of face available per month until face exhausted
- Extension of benefits option: more than face is available for LTC
- Feature is financed via an additional premium or account charge

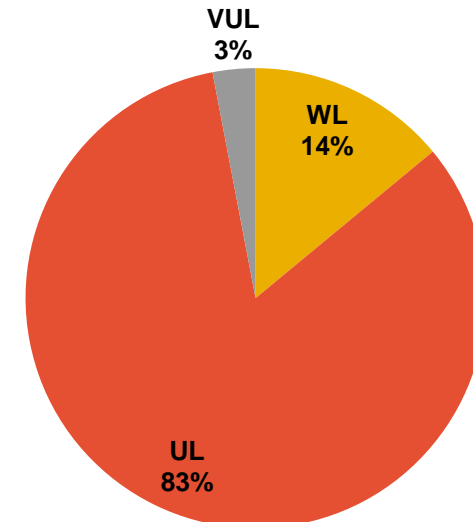
Growth of combo products

- Life combo product premium grew 12% in 2013 → 5th consecutive year of double-digit growth



Source: LIMRA 2014 Individual Life Combination Products Annual Review

2013 Product Distribution



Regulatory Outlook

PBR now appears likely to actually happen

- The NAIC (narrowly) approved the Valuation Manual in early December 2012
- The Valuation Manual must go through the state legislative approval process before becoming operative
- The Valuation Manual will become operative on January 1st following the first July 1 in which both of the following occur:
 - Adoption by 42 states (out of 56 jurisdictions, or 75%); known as the supermajority
 - Adoption by enough states that represent at least 75% of industry direct premiums in 2008
- 18 states have already enacted (representing 28.0% of premium)
- 19 states have indicated they are committed to adopting in 2014/2015 (representing 45.1% of premium)
- This leaves 5 states and 1.9% of premium to go
- Even without California and New York, there are enough states to push it across the finish line

So, we suggest it is time to start planning more earnestly for this — January 1, 2017 operative date is likely

Longevity Trends

U.S. population mortality improvement has seen some shifts over the past 30 years

Annual Average Improvement in Mortality 1979-2010								
Period	Gender	25-34	35-44	45-54	55-64	65-74	75-84	85+
1979-2000	Male	1.5%	0.8%	1.7%	1.8%	1.4%	1.0%	0.0%
	Female	0.8	0.6	1.3	0.8	0.4	0.4	-0.3
	Combined	1.3	0.7	1.5	1.4	0.9	0.6	-0.2
2000-2010	Male	-0.2	1.8	0.7	1.3	2.7	2.0	1.3
	Female	-0.1	1.0	0.0	1.8	2.3	1.5	1.1
	Combined	-0.1	1.5	0.4	1.5	2.4	1.7	1.1
1979-2010	Male	1.0	1.1	1.4	1.7	1.8	1.3	0.4
	Female	0.5	0.7	0.9	1.1	1.0	0.8	0.1
	Combined	0.8	1.0	1.2	1.4	1.4	1.0	0.2

Combined rates reflect a 50%-50% blend (a simplifying assumption)

Source: Derived from CDC mortality database

Cause of death trends can be examined to better understand mortality improvement drivers

Historical Annual Mortality Improvement for Selected Causes of Death 2000-2010

Ages:	45-54	55-64	65-74	75-84	85+
Males					
Heart Disease	1.7%	3.2%	4.7%	4.1%	2.8%
Malignant Neoplasms (e.g., Cancer)	1.4	1.9	2.4	1.5	1.0
Cerebrovascular Disease	1.6	3.0	4.5	5.0	5.0
Nephritis, Nephrotic Syndrome, and Nephrosis	-0.6	-1.5	-0.6	-1.1	-1.3
Alzheimer's	-0.8	-0.1	0.0	-2.6	-4.2
Accidents	-2.1	-2.3	-0.6	-0.9	-1.2
Females					
Heart Disease	0.7%	3.7%	5.0%	4.3%	3.5%
Malignant Neoplasms (e.g., Cancer)	1.3	2.2	1.7	0.8	0.5
Cerebrovascular Disease	2.3	3.7	4.5	4.3	4.4
Nephritis, Nephrotic Syndrome, and Nephrosis	-2.0	-0.1	0.0	-1.5	-1.9
Alzheimer's	-8.0	-0.2	-1.1	-3.0	-4.1
Accidents	-5.6	-2.3	0.0	-1.3	-2.2

Source: Derived from CDC mortality database

In order to help predict future trends, we have developed a cause of death projection model

- This develops results by major cause of death, varying by period, age, and gender
 - In general, shows lower rates of improvement in later years
 - Roughly 50% of initial rates after 30 years
- Our model can also be used to examine the impact of significant events, e.g., a cure for cancer
- We suggest using prudence for longer projection periods
 - Higher rates for longevity risk
 - Lower rates for mortality risk
- Could also consider netting risks
 - Expect corporate to provide guidance on this

We have also studied other factors

- Socioeconomic
 - Our analysis suggests up to a 1.5% difference (i.e., 1.0% vs. 2.5%) for low vs. high earners
- Cohort effect (i.e., vary by birth years)
 - Data show some limited evidence of cohort effect in U.S. (males born in 1930-40, males born in 1920-30, females born in 1930-40)
- Smoking prevalence
 - The reduction in smoking prevalence may have contributed .2-.3% annual mortality improvement over the past decade (i.e., 1.0% goes to 1.2-1.3%), but given recent stabilization in smoking prevalence this is unlikely to lead to future contributions
- Obesity
 - Rising levels of obesity could lead to a .25% per annum reduction in mortality improvement in the future

All of these are studied in the recent Towers Watson White Paper “Longevity Trends in the United States”

Contact information

TOWERS WATSON 

John Fenton, FSA, MAAA
Director

3500 Lenox Road, Suite 900
Atlanta, GA 30326-4238

T +1 404 365 1619

john.fenton@towerswatson.com