

Current Annuity Topics

Is there a Change in the Wind?

Presented by:

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For the past few years, the Wind has been our Backs, all is right with the World



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Individual Annuity Statutory Results 1999-2004

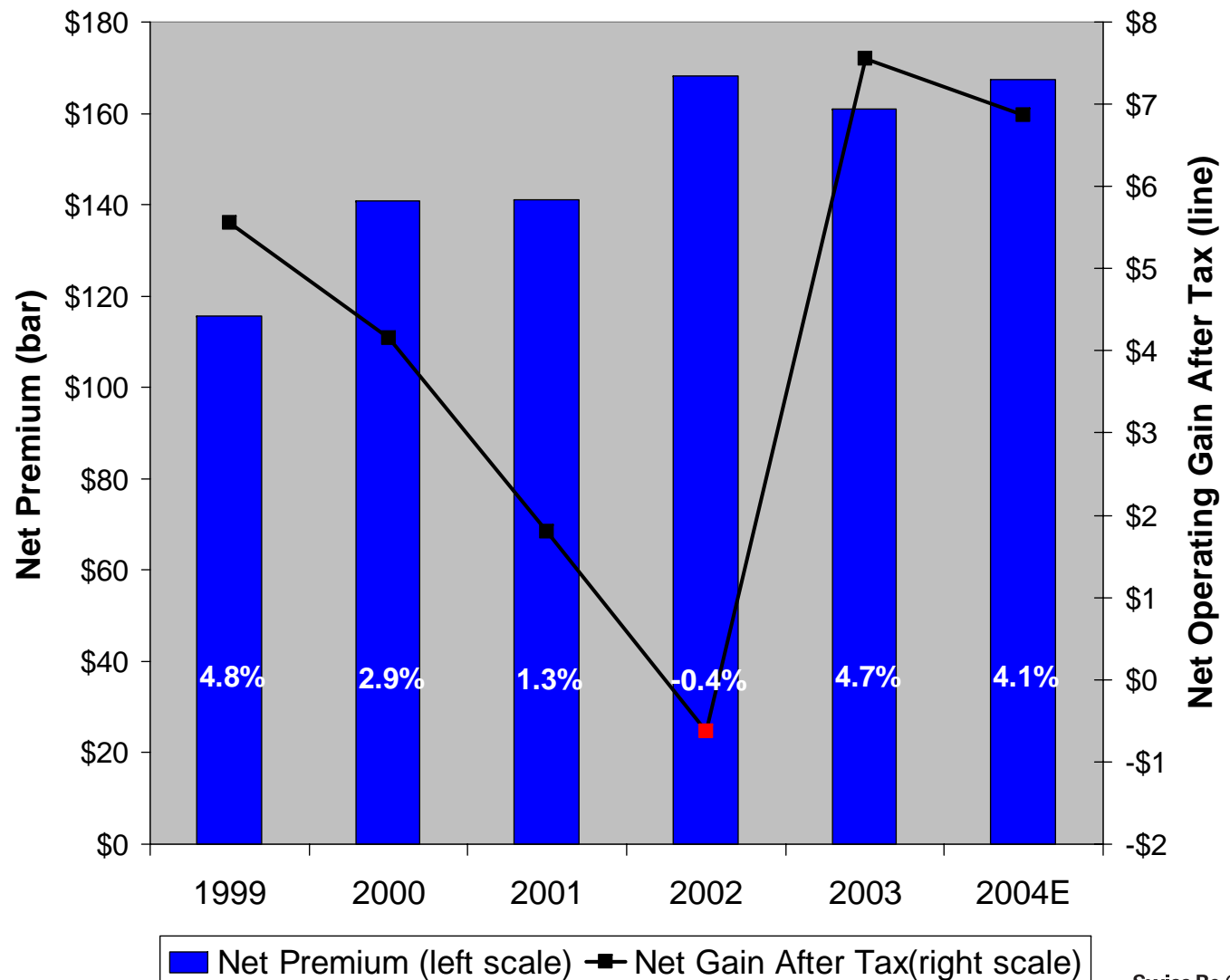
After a loss in 2002,
Record Gains in 2003.

2004 was almost as
good.

(\$ in billions, % on bar
is operating margin)

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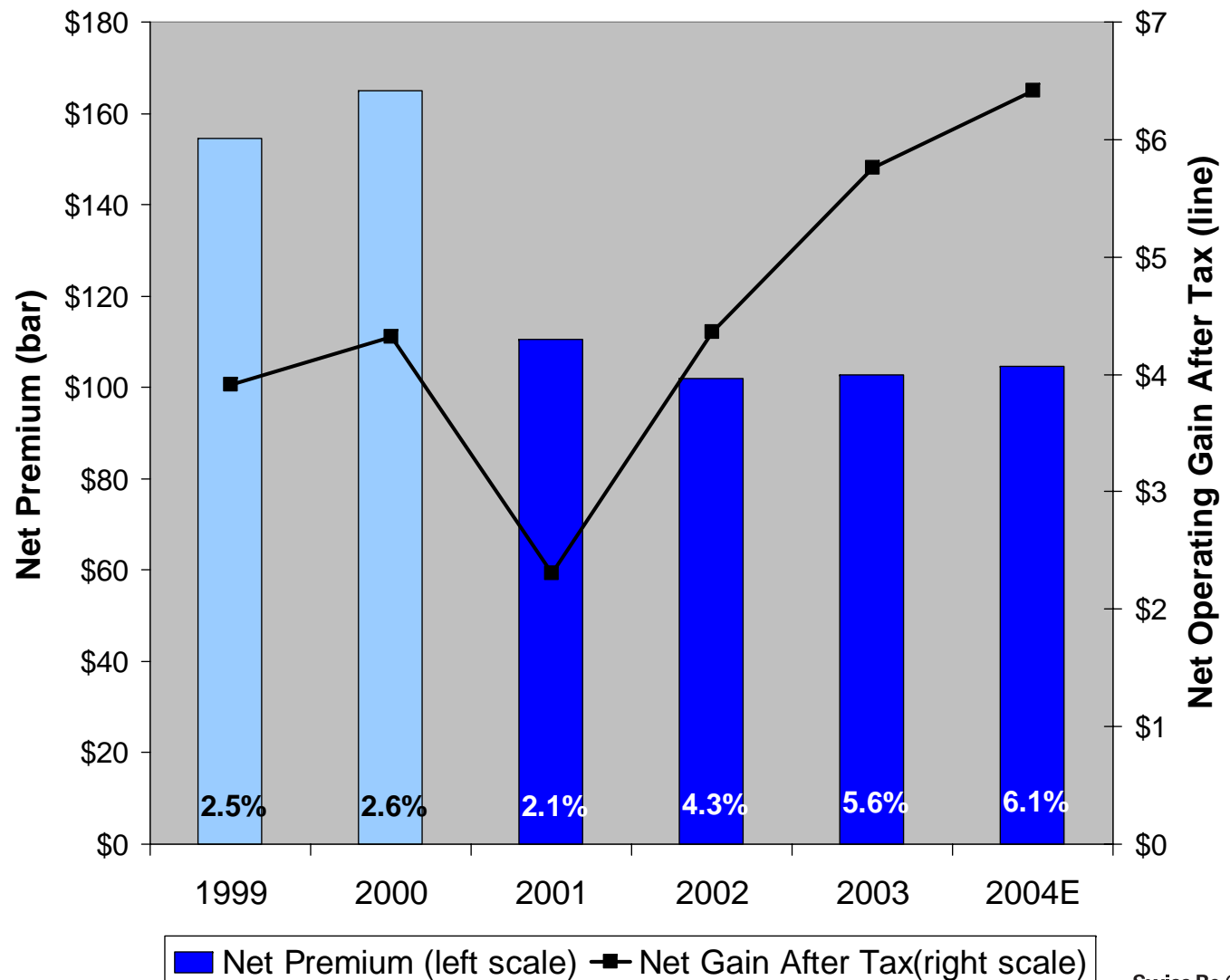
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Group Annuity Statutory Results 1999-2004

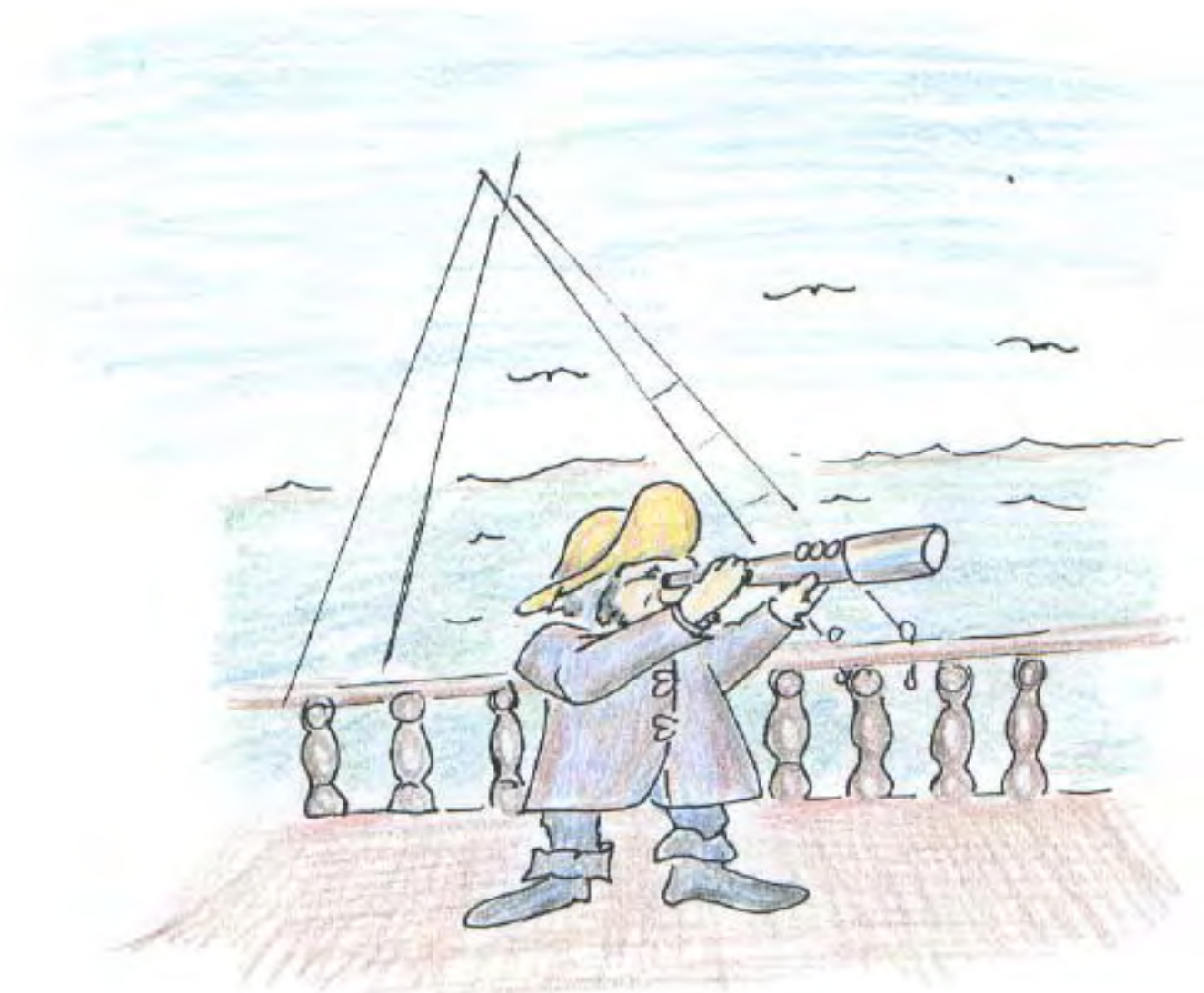
Codification affects net premium in 1999-2000. Record Gains in 2003, and 2004.

(\$ in billions, % on bar is operating margin)

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What's on the horizon?

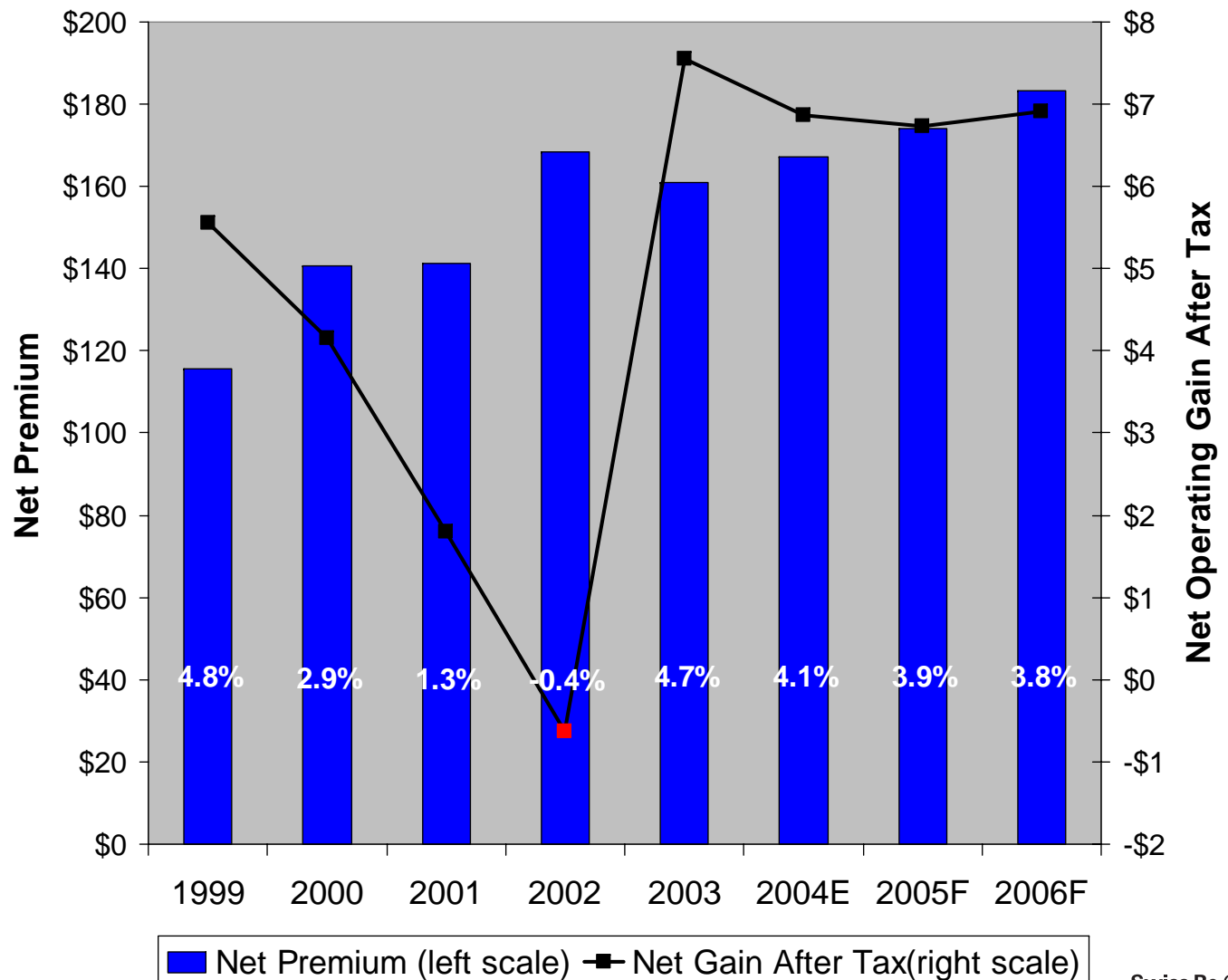


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Individual Annuity Statutory Projections 2005-2006

Net Premium projected to continue growing, operating gain roughly level.
 (\$ in billions, % on bar is operating margin)

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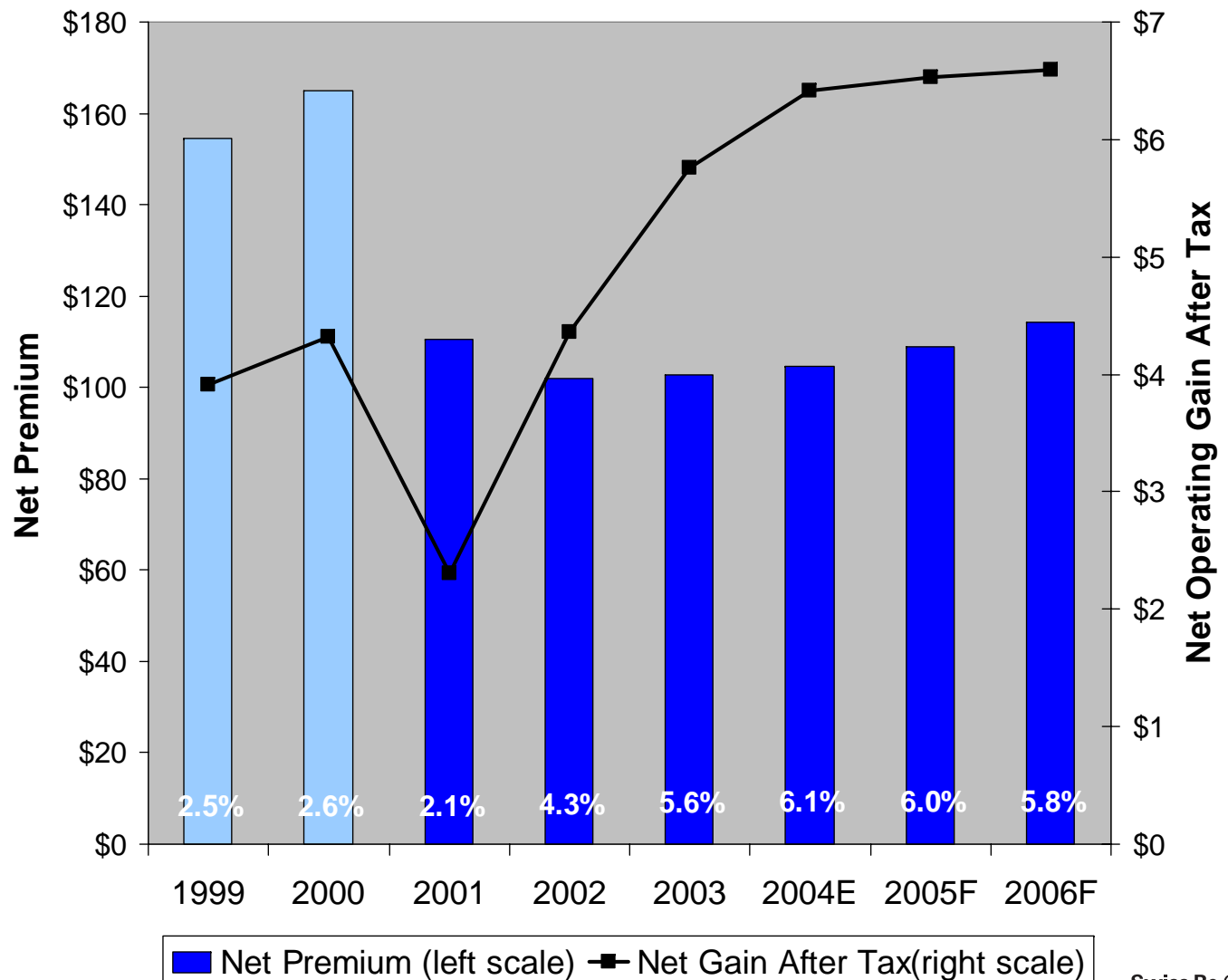
Group Annuity Statutory Projections 1999-2004

Net Premium projected to exceed 2001 levels by 2006, operating gains to show modest increases.

(\$ in billions, % on bar is operating margin)

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What should we be on the lookout for?



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Change is in the Wind

■ Current Accounting Structure

- US GAAP
- US Statutory Accounting
- US Tax Accounting
- International Accounting Standards

■ Current Regulatory Structure

- State Regulation, with NAIC coordinating
- Federal Regulation of Securities
- EU and Country-Specific Regulations

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How Many Boats Must We Track?



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Regulatory and Accounting Convergence

- Regulatory Convergence:
 - EU Banking Regulations: Basel I and II
 - EU Insurance Regulations: Solvency I and II
 - NAIC is having discussions with EU counterparts
- Accounting Convergence:
 - International Accounting Standards (IAS)
 - US GAAP Fair Value
 - Accounting bodies are discussing how to coordinate US GAAP and IFRS
- Common Concepts Uniformly Applied can avoid “Regulatory Arbitrage” and “Accounting Arbitrage”

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Principle Based vs. Rule Based

- EU regulations being developed are Principle Based
- International Accounting Standards being developed are Principle Based
- US regulations are Rule Based, and not uniform across all jurisdictions
- US GAAP is Rule Based

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Changes to the Annuity World

- Changes to Statutory Accounting
 - AG VACARVM
 - RBC: C3 Phase 2

- Changes in GAAP Accounting
 - Fair Value
 - Future Convergence with International Accounting Standards

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Current Actuarial Guidelines affecting Variable Annuities

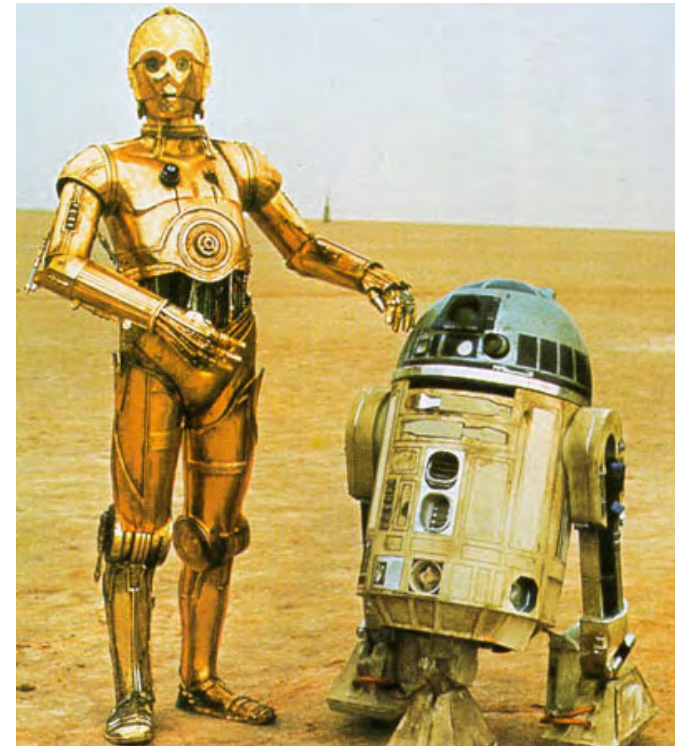
- Actuarial Guideline 34
 - Guaranteed Minimum Death Benefits
- Actuarial Guideline 39
 - Guaranteed Living Benefits (GMIB, GMAB, GMWB, and Guaranteed Minimum Withdrawal-For-Life)
- Both Guidelines are Formula-Based reserves
 - Prescribed Calculation
 - Prescribed Assumptions
 - Applied to Each Policy
 - Summed for All Policies

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Risk Based Capital: C-3 Market Risk Component

- Pre-2000: C3P0
 - Formulaic calculation based on annual statement data
- Starting in 2000: C3P1
 - Calculation based on large number of interest rate scenarios
 - Still formulaic
- Starting 2005(?): C3P2 and AG VACARVM



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AG VACARVM's 5 Principles

- Principle 1: Objective is to quantify reserves needed to meet contractual obligations
- Principle 2: Defines the Contingent Tail Expectation (CTE) method
- Principle 3: Assumptions to be “On the Conservative End of the Actuary’s Confidence Interval”
- Principle 4: Actual Reserve Needs Arise from the Actual Risks, and the CTE Model can’t capture everything (“It’s only a model”)
- Principle 5: Use of assumptions, methods, hedging, etc. designed solely to reduce the CTE without reducing the actual risk is inconsistent with principles (No Gaming the System)

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C3P2 and AG VACARVM

- Statutory Reserves and TAR (Total Asset Requirement = Reserves + RBC) based on:
 - Company-Specific Modeling
 - Stochastic Process
 - Reflecting
 - Market Value Changes
 - Interest Rate Changes

- AG VACARVM is the Reserving Counterpart

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So, when is it supposed to hit?



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Possibly for 2005 Reporting...

- ... assuming the NAIC reaches agreement in time for promulgation for year end.
- Companies should be working on implementation now.

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Implementation Issues

- Modeling requires Multiple Scenarios
- May (Will?) be Very Complex
- To get credit for Hedging Strategies, they must be included in the Model, further increasing complexity
- If you haven't started yet...



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Standard Scenario

- Despite the concerted efforts of the life insurance industry and many regulators to keep AG VACARM purely principle-driven,
- Some Regulators wanted a Deterministic “Floor,” which gives rise to,
- The Standard Scenario, just like current practice:
 - Prescribed Calculation
 - Prescribed Assumptions
 - Applied to Each Policy
 - Summed for All Policies
- Standard Scenario still under discussion

Changing Tacks...



... to a Marketing Focus...

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A Quick Quiz

What will happen approximately
7 days, 12 hours, and 20 minutes
from now?

The first Baby Boomer turns 59½ years old!

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What are Boomers facing?

- Longer life expectancy
 - In 1935, life expectancy at 65 was 12½ years
 - Now, life expectancy is 17½ years
- Decreased coverage from Defined Benefit Pensions
- Increased coverage from Defined Contribution Pensions

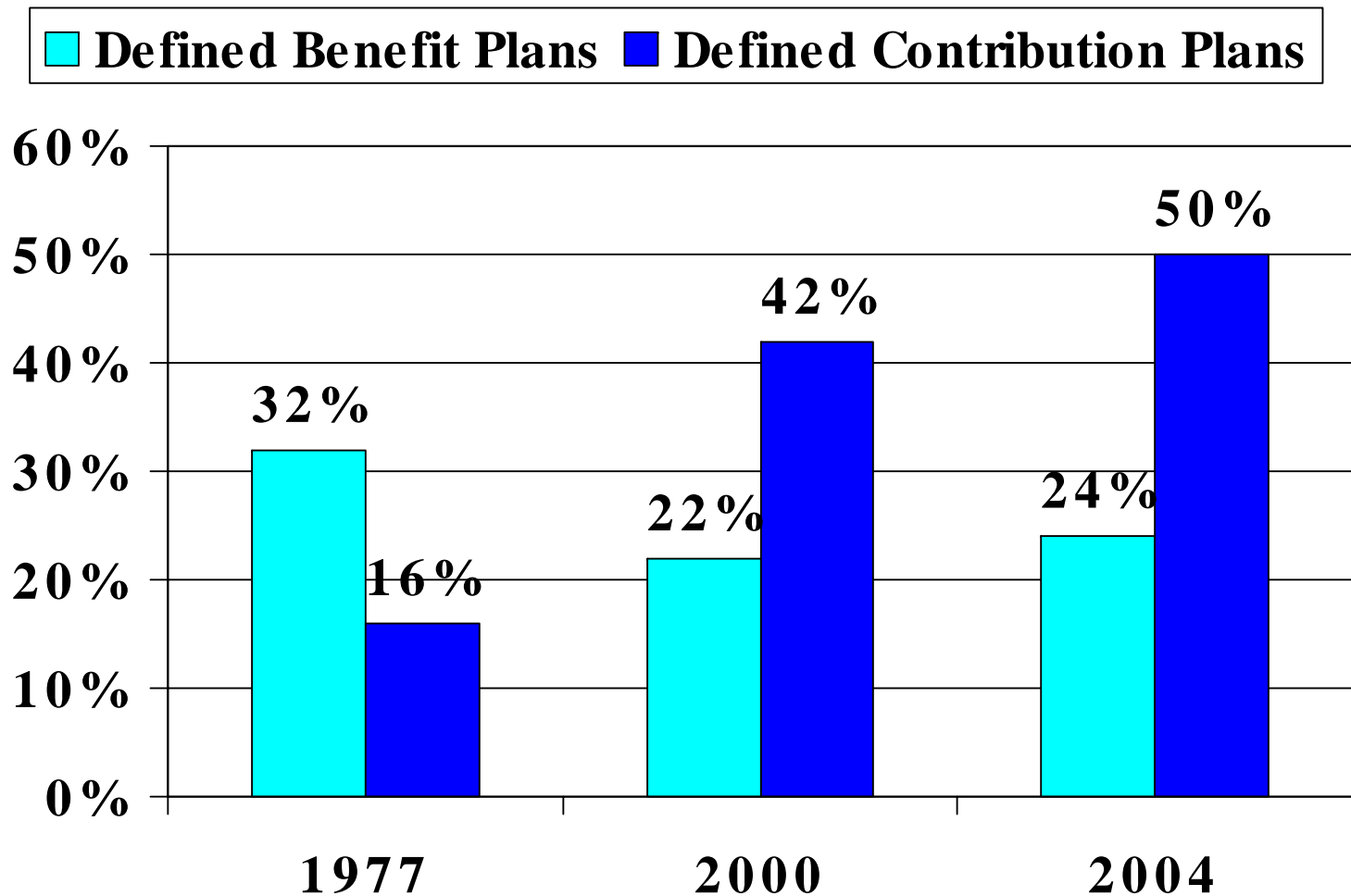
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What are Boomers facing? Less Guaranteed Income

Source:

U.S. Department of
Labor



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What are Boomers facing?

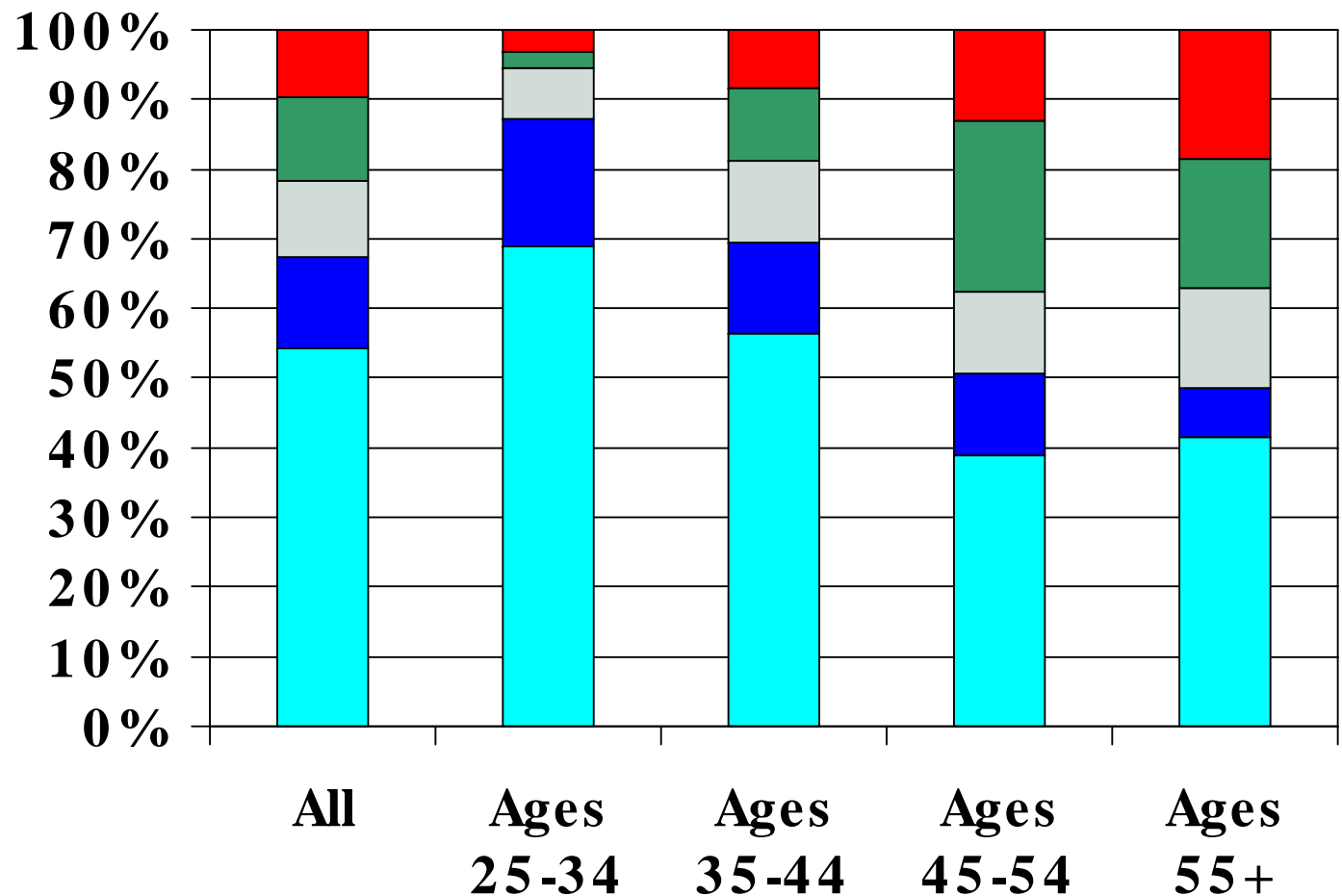
Less Savings to make up the difference

Total Savings and Investments Excluding Primary Residence

- \$250,000 or more
- \$100,000-\$249,999
- \$50,000-\$99,999
- \$25,000-49,999
- Less than \$25,000

Source: Employee Benefit Research Institute

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What are Boomers facing? Less Post-retirement Medical Coverage

Source: Kaiser Family Foundation, Hewitt Associates

- Of Employers with 200+ employees
- 1988: 66% offered post-retirement medical
- 2004: 36% offered post-retirement medical
- Premiums, Deductibles, Copays are Increasing
- Benefits, Employer subsidies are Decreasing

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What are Boomers thinking?

Source: Kaiser Family Foundation, Hewitt Associates

- 62% believe:
Their Social Security Benefit < Taxes They Paid In
- 66% believe:
Their Social Security Benefit < Current Benefits Level
- 36% are confident that Social Security will be there
- 39% are confident that Medicare will be there
- 90% believe funding retirement income is primarily their own responsibility

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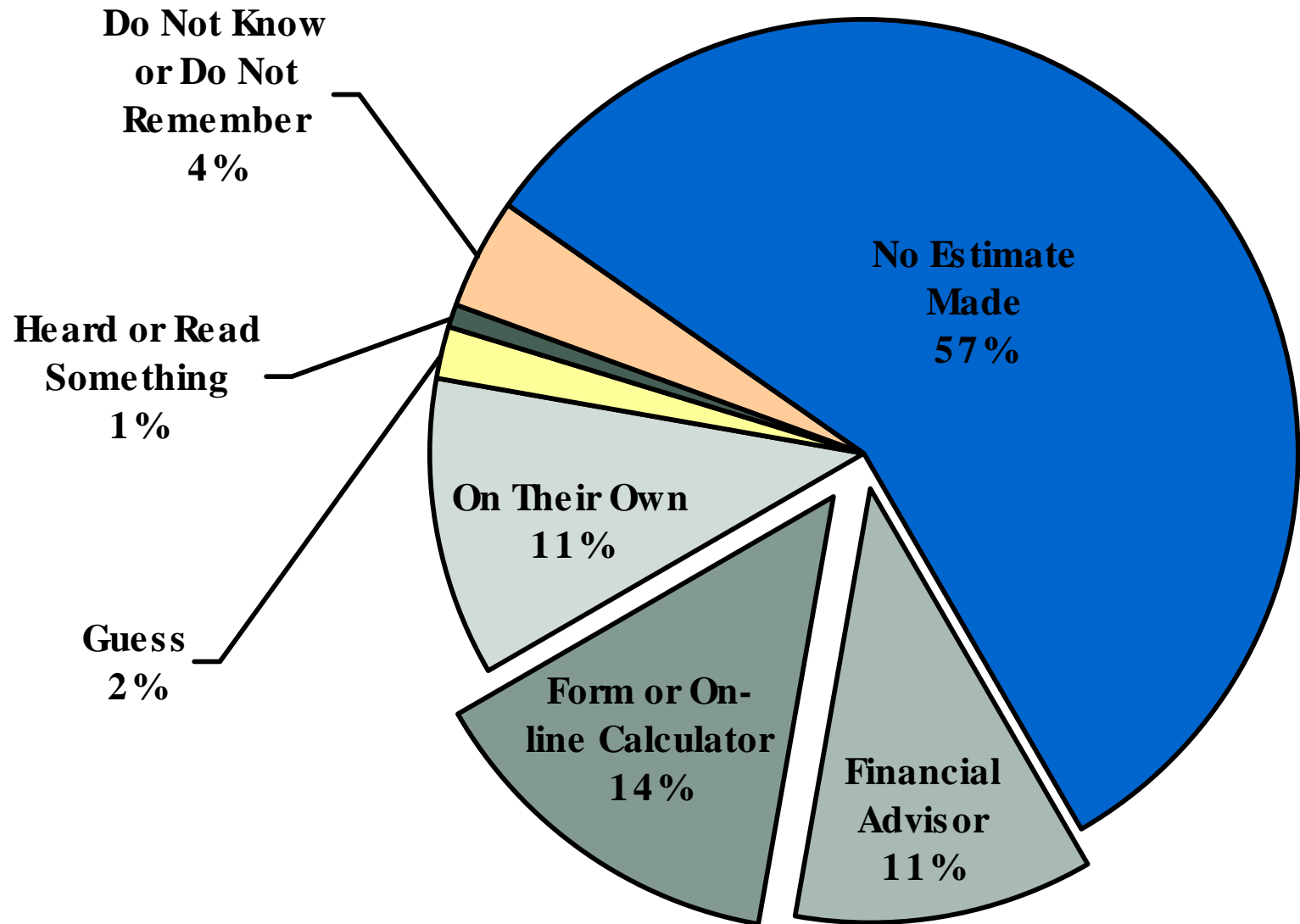
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What are Boomers doing? Methods and Resources Used to Estimate Retirement Needs

75% of Households have made either No Estimate, or used Questionable methods or sources

Source: 2003 Retirement Confidence Survey, Employee Benefit Research Institute

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What are Boomers facing?

- Increased Longevity Risk
- Some are prepared, but many are not, and don't know how

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What will Boomers be looking for?

- Guaranteed Income
- Advice
 - Savings Process (How much? What Vehicle?)
 - Investment Process (Managing the money between Deposit and Withdrawal)
 - Disbursement process (Managing withdrawals, including annuitization, tax compliance regarding minimum withdrawals, “GMWB for life” riders, etc.)
- Savings and Investment Process – Much help available
- Disbursement Process – Less help available

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Annuities and Longevity Risk

- Guaranteed Income is provided by Annuities
- Annuitization has been about 1% of total
- Insurance companies have not made distinction between Deferred Annuities and Payout Annuities
- “Dollar Cost Averaging” from Investments to SPIAs:
 - Maintain flexibility during early years
 - Maximize overall wealth
 - Greater success in attaining income and estate size goals
 - Allow more aggressive investment for remaining assets

Source:

Golden Retirement Resources

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What will Boomers be looking for? A Retirement Paycheck

- Salary
- Benefit Deductions
- Taxes
- Net Pay Deposited
- Note from HR
- Salary (Social Security, defined benefit payments, investment return, SPIA benefits, etc.)
- Benefit Deductions (Medicare premiums, investment mgt and advisory fees, etc.)
- Taxes (income tax withholding, mandatory withdrawals)
- Net Pay Deposited (based on a budget developed with an advisor)
- Note from HR “Reminder, you are due to update your retirement budget and investment plan. Log on or call your account advisor at...”

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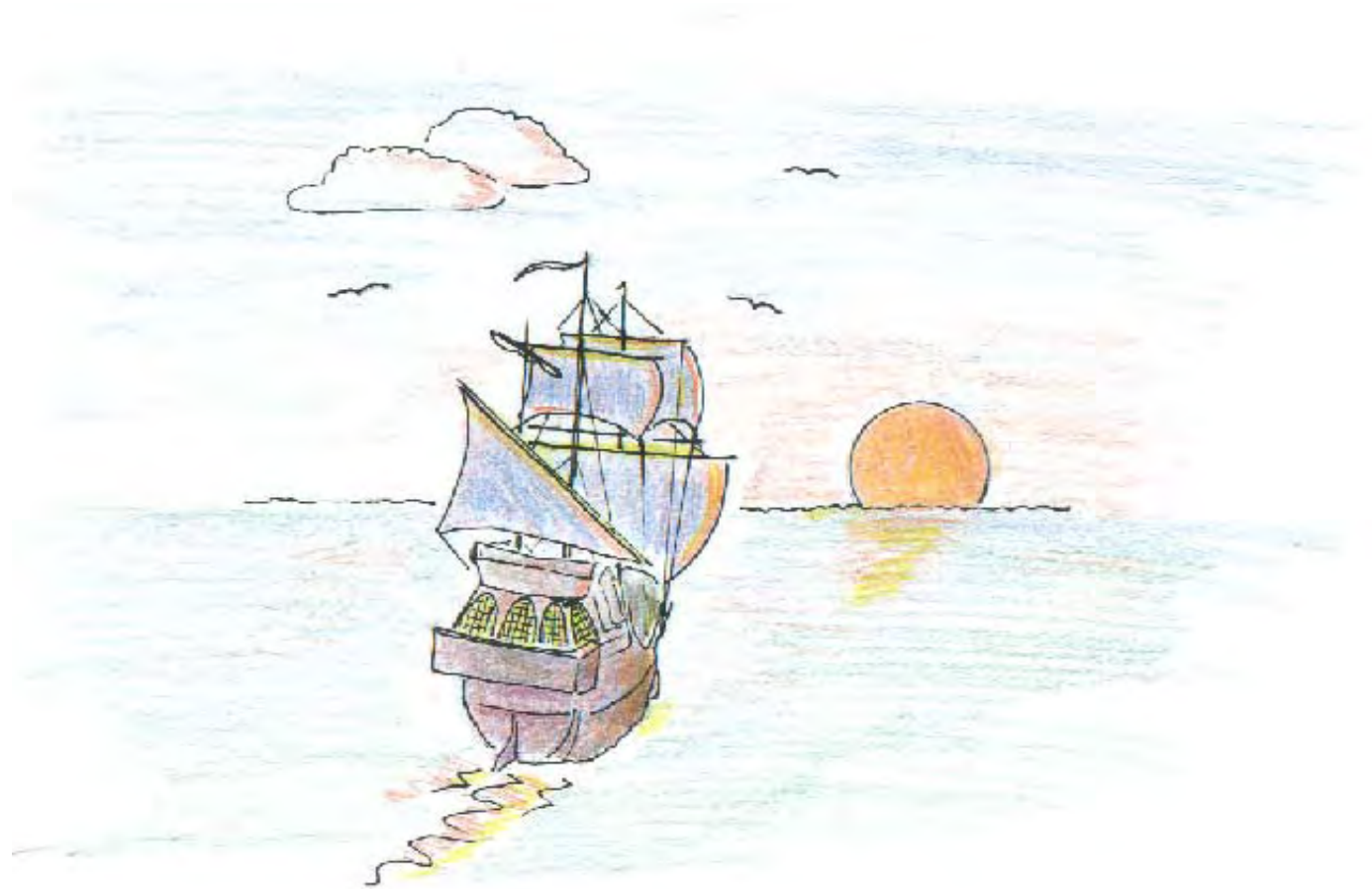
With proper planning, your company and customers can sail off into the sunset...



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Questions?



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