



What's New in Reinsurance?

Annuity Financing Solutions

Justin Mosbo
Chief Actuary & Chief Pricing Officer, Nassau Financial Group

Kimberly Love
Vice President & Marketing Actuary, Canada Life Reinsurance

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AGENDA

- Fixed Indexed Annuity Product Background
- FIA with GLWB Reserve Requirements
- Types of Financing Solutions
- Key Transaction Considerations (Cedent and Reinsurer)



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Fixed Indexed Annuity Product Background

Key Product Features

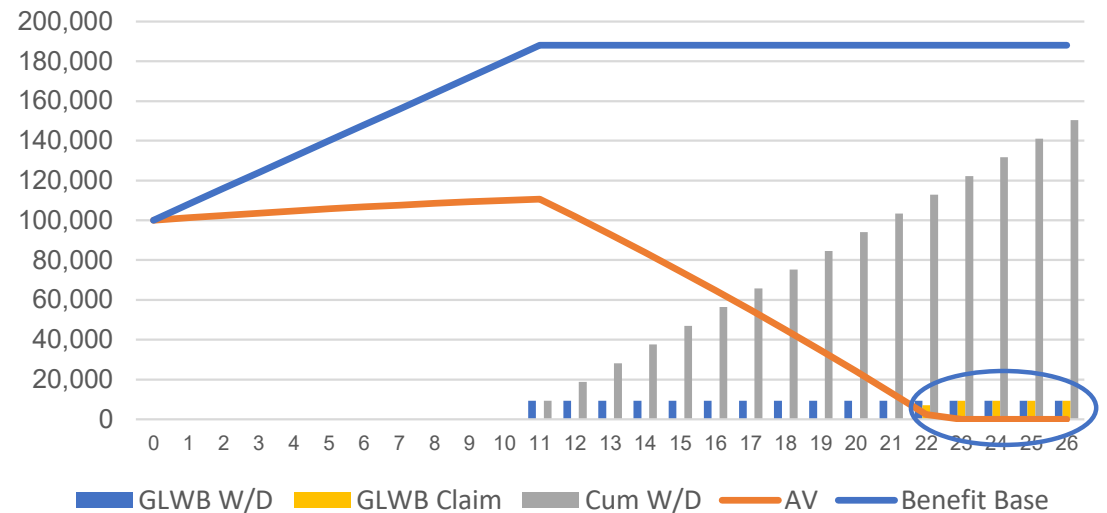
- Index-Linked Account Value Crediting
- Guaranteed Lifetime Withdrawal Benefits (GLWB)
 - Withdrawal Amounts (Benefit Base x Withdrawal Rate)
 - Withdrawal Deferral Incentive (Benefit Base Rollups, Age / Delay Based Withdrawal Rates)
 - Withdrawal Timing (Utilization)

Policyholder pays:

- Single premium (earns interest at indexed rate or fixed rate)

Policyholder receives:

- Death: AV
- Surrender: CSV
- **GLWB: Annual withdrawal amount for life, even after AV is depleted**

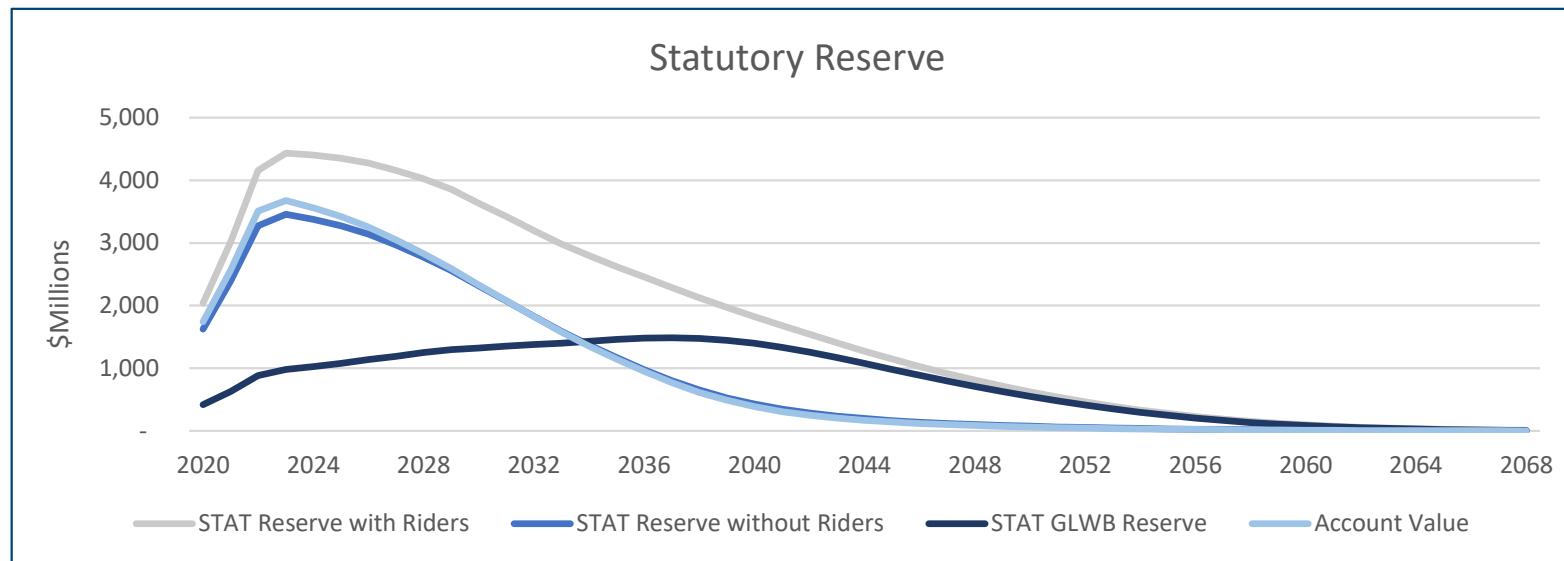


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FIA With GLWB Reserve Requirements

Statutory Reserves With GLWB

- AG 33/35 (VM-22 on the horizon)
- Base Policy Reserve = Death and Surrender Benefits
- Total Policy Reserve includes GLWB Benefits

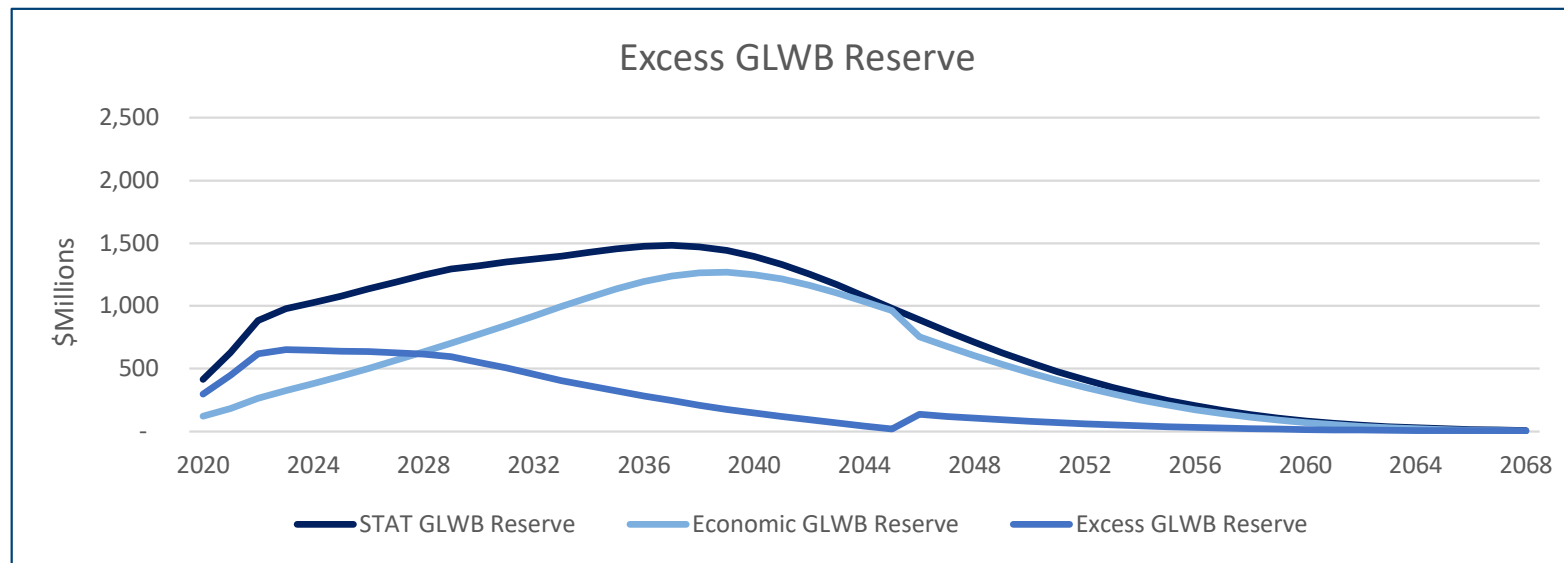


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FIA With GLWB Reserve Requirements

STAT vs. Economic Reserve and Financing Opportunity

- Key assumptions are Policyholder Utilization, Discount Rate, and Mortality
- STAT = prescribed; Economic = Company best estimate
- Policyholder Utilization includes both timing and overall level of utilization *



* Policyholder Utilization assumption:

- STAT assumes 100% utilization at the optimal time (producing the highest PV of benefits)
- Economic best estimate is based on Company and industry experience, but FIA GLWB experience is limited

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Types of Solutions

Reserve Financing

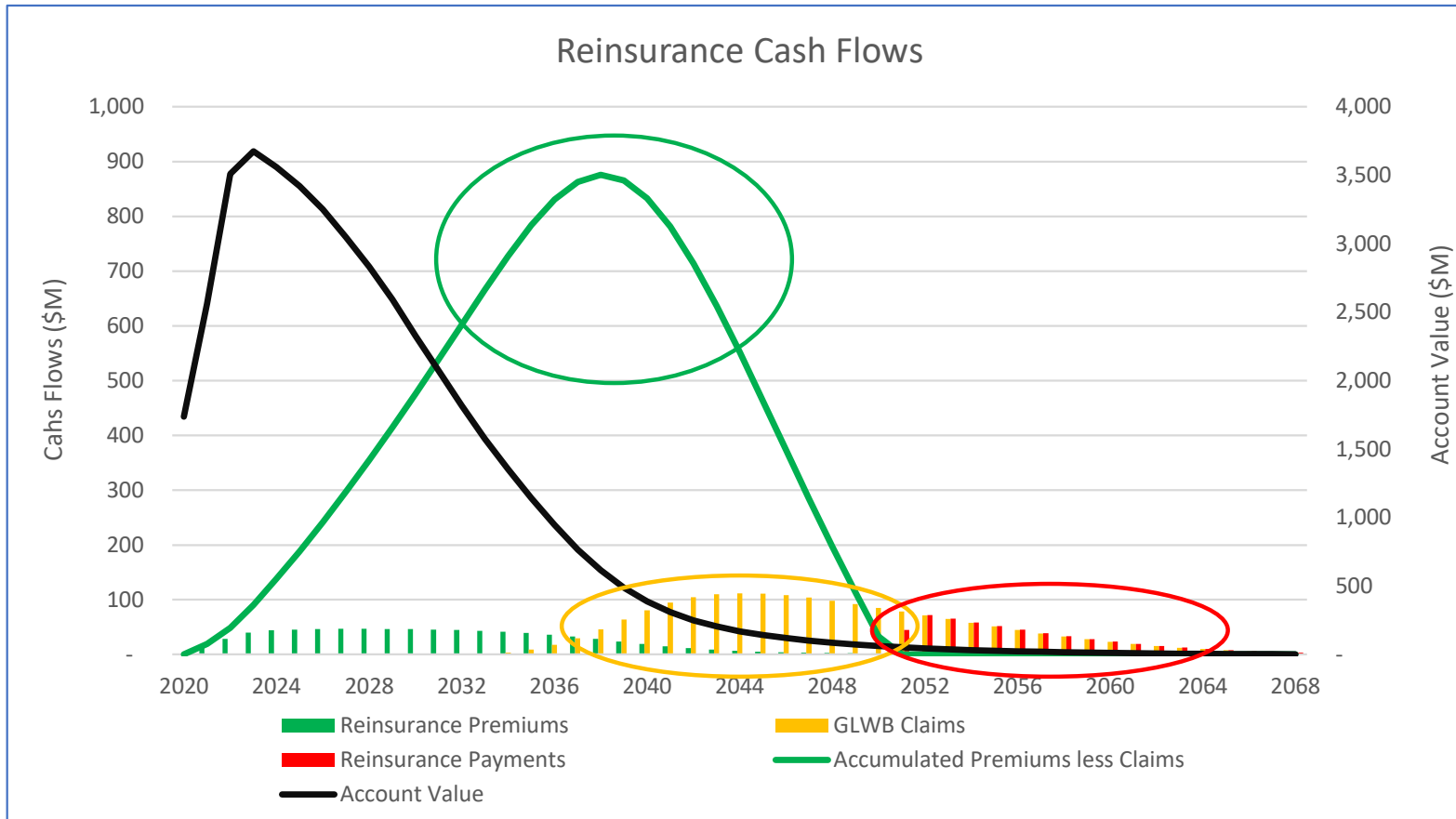
- **Variety of Structures available:**
 - Coinsurance vs. YRT vs. XOL
 - Captive vs. Non-Captive
 - Structure depends on economics of the underlying business and risk appetite of the ceding company's regulator
- **Reinsured Business can be New Business (Flow), Inforce (Block), or both**
- **Reinsurance Premium = Agreed-upon premium stream**
- **Reinsurance Claims = GLWB claims after AV goes to 0**
- **Duration = fixed term (captive) or lifetime (with recapture option)**
- **Reserve Relief depends on structure and is typically similar to:**
 - Stat GLWB Reserve less Economic GLWB Reserve
 - Stat Total Policy Reserve less Stat Base Policy Reserve
 - Stat Total Policy Reserve less Cash Surrender Value
- **Risk Charge = $X\% \times$ Reserve Relief**
- **Lifetime structures with recapture option may accumulate Reinsurance Profits in an Experience Account, which is returned to Cedent upon recapture**



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Types of Solutions

Illustrative Example



- Reinsurance Premiums are accumulated to pay GLWB Claims
- GLWB Claims begin when policy Account Values are depleted
- Reinsurance Payments are made once Accumulated Premiums are depleted

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Key Transaction Considerations

Cedent

- Structure – captive versus reinsurance
- Operational considerations
- Regulatory approval / jurisdiction
- Rating agency treatment
- Counterparty
- Amount of capital relief realized
- Risk charge
- Product and NGE management
- Deal duration
- Refinancing risk
- Capital impacts at the end of the deal (or upon recapture)



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Key Transaction Considerations

Reinsurer

- Reinsurance Premiums and Subordination
- Deal duration
- Recapture incentive
- Risk Charge
- Product and NGE Management
- Open and frequent dialogue with the regulator if a Captive is used

