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**Session 92, Hot Products in the U.S. and Canada –  
Would They Sell Well on the Other Side of the  
Border?**

**Moderator**

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## Hot Products in the US and Canada – Would they Sell Well on the Other Side of the Border?

### Variable Annuity/Segregated Fund Guarantees

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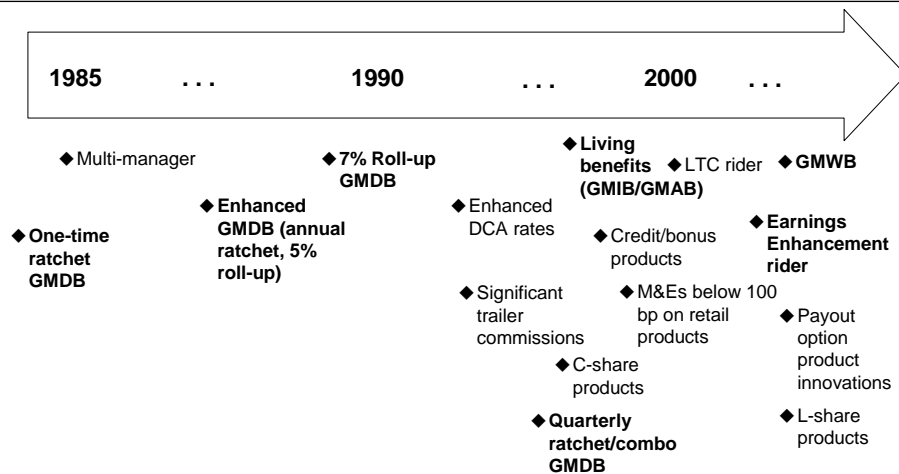
June 18, 2008



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UNITED STATES

Product has always played a key role in the VA market



Product innovators have captured market share and achieved a short-term market advantage

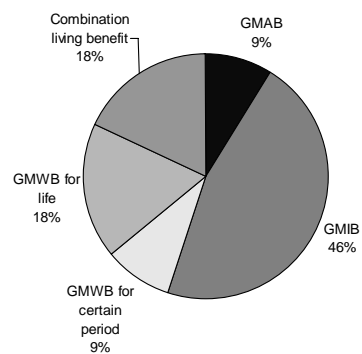
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Guarantees continue to be an important selling feature in the VA market

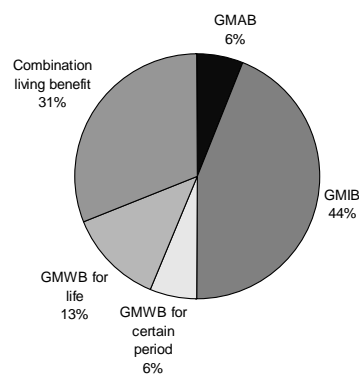
Type	Nature of Guarantee	"Standard" Feature	"Rich" Feature	Charge	Notes
GMDB	Lump sum on death	Annual ratchet or 5% roll-up, to age 80	Combination, or 7% roll-up	15 – 35 bp	Enhanced GMDB is standard feature
GMIB	Income at annuitization	5% roll-up	6% roll-up	50 – 80 bp	Relative purchase rates important
GMAB	Lump sum at end of specified period	Generally return of premium at end of 10 years	Available on equity funds	25 – 75 bp	Low end of range requires asset allocation
GMWB	Guaranteed amounts via partial withdrawals	Withdraw 7% of premium annually	Reset provision	50 – 80 bp	This feature has attracted considerable attention

Financial advisors at Merrill Lynch view living benefit guarantees as the reason variable annuities are more compelling today

**Which LB is generally easiest to sell?**



**Which LB offers the best value for your client?**



Source: Merrill Lynch Distribution Survey

## The Guaranteed Minimum Income Benefit (GMIB) continues to attract the industry's attention

- The first US GMIB feature was introduced in late 1996, early 1997
- This was the first "living benefit" guarantee in the VA market and was a true product innovation that attracted market place attention
  - Up until this time, GMDBs played an important role in the VA market
  - Increasingly rich GMDB designs have evolved over time
- The GMIB increased VA sales particularly through independent distribution channels
  - Innovative feature — provided a means of differentiation for an increasingly commoditized product
  - Safety Net — provided an attractive "safety net" guarantee for contract holders wishing to lock-in equity market gains and reduce the effects of equity market volatility

## GMWB features have attracted significant market place attention

- The first GMWB was introduced in August 2002
  - All but one of the top 15 US VA writers now offer some form of GMWB
- The GMWB guarantees a minimum income stream equal to the return of the contract's principal, provided it is withdrawn over a period of time within specified limits
- "Benefit payments" or withdrawals may generally not exceed 5% – 7% of premium per year (non-cumulative)
- Withdrawals in excess of the maximum reduce subsequent benefit payments
- Withdrawals less than the maximum increase the length of the income stream
- Many riders offer an optional Benefit step-up after a specified time (e.g., year 5)
  - The Benefit amount is "stepped-up" to the then current account value
  - Step-up election may increase the cost of the rider
- GMWB riders are optional at issue (or subsequent to issue), but generally may not be dropped once elected
- Some riders require participation in an asset allocation program, but some allow 100% allocation to equity funds

GMWB features have continued to evolve, becoming richer and more complex

- GLWB - Lifetime payout
  - Originally 5% starting at age 65
  - Now 5% at age 60 becoming more prevalent
  - Also, payment amounts that vary by age
- Bonus
  - Base grows if postpone taking withdrawals, typically 5% per annum
  - Deferral helps pay for expensive withdrawals
- Benefit value resets or step-ups
  - Annual step-up becoming required (few products offer more frequent step-ups)
  - Some offer optional reset, while others offer automatic step-ups at specified intervals
  - Automatic resets are becoming more standard
- Asset allocation
  - GMWB often requires a specified asset allocation (to limit equity exposure), but a few companies don't currently enforce
- Spousal continuation – guarantees withdrawals for two lives

GMWB and GLWB designs continue to be popular

- GLWBs provide:
  - A minimum floor of protection for the contract owner
  - Guaranteed income payments that the annuitant cannot outlive
  - Flexibility – partial withdrawals are allowed and annuitants have the ability to stop and start payments, as needed
  - Liquidity – the cash surrender value of the contract is available, if needed
- GMWBs and GLWBs address the need for guaranteed income for baby boomers approaching retirement, while offering flexibility and liquidity – advantages which most payout annuities don't offer
  - Many see the GLWB as a viable alternative to a payout annuity
- We expect to see continued design evolution and enhancements
  - Indexed withdrawal guarantees
  - More flexibility in design
  - More value enhancements for delaying withdrawals

## Brief History of Segregated Fund Guarantees

- Ontario Securities Commission (1970)
  - Insurance companies could offer segregated funds not subject to provincial securities regulations provided that they return at least 75% of deposits on death or maturity
- 1971 federal guidelines
  - Maturity element of guarantees effectively capped at 100% of the deposit with a term not less than 10 years
- Stronger segregated fund guarantees have been used by insurance companies as key product features in marketing segregated funds against mutual funds
  - Some insurers have strengthened death benefit guarantees by including ratchet or rollup provisions
  - Minimum 10-year maturity guarantees of 100% of the initial deposit are not uncommon
    - Some guarantees offer elective or automatic ratchets and resets provided the term is reset to a new 10-year term
  - GMIBs have been introduced
  - Insurance companies now provide wrappers to allow mutual fund companies to market these features

## GMWBs in Canada

- Original GMWB was introduced in 2006
  - Provided guaranteed stream of annual payments of 5% of guaranteed amount for 20 years
  - Guaranteed amount could increase
    - Bonuses of 5% per year were available for 10 years after the initial deposit in years where no withdrawal has taken place
    - Automatic resets every 3 years
- Lifetime benefit introduced in 2007
  - Provides guaranteed stream of annual payments of 5% of guaranteed amount for life
  - Guaranteed amount can increase
    - Bonuses of 5% per year are available for 15 years after the initial deposit in years where no withdrawal has taken place
    - Automatic resets every 3 years
  - Payouts begin at age 65
- These features have received considerable attention in the marketplace
  - Other companies are/have followed suit

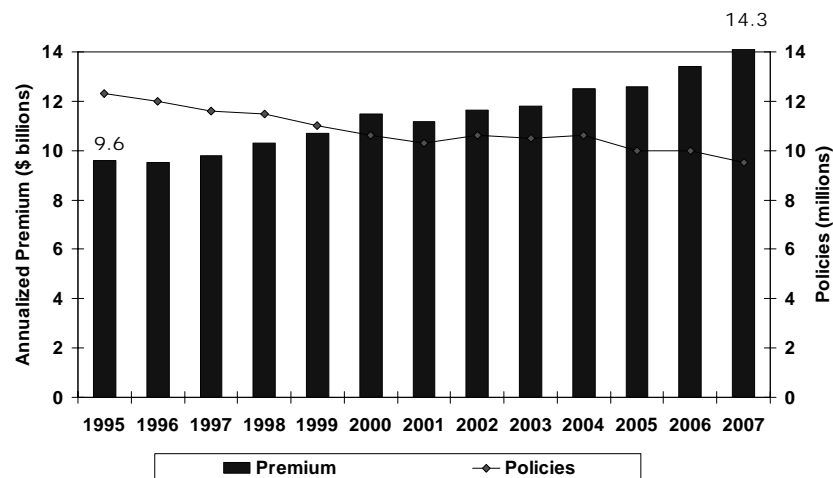
# U.S. and Canadian Sales Trends

SOA Spring Meeting  
June 18, 2008

Karen Terry  
LIMRA International



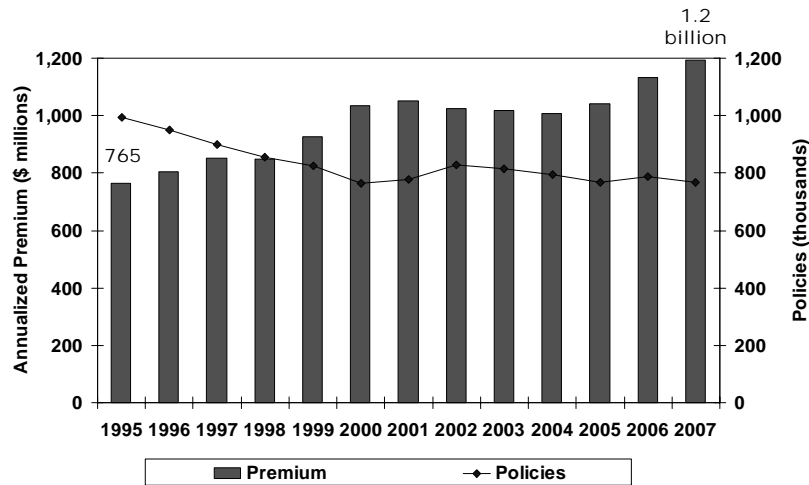
## Individual Life Insurance Premium Written in the U.S.



Source: LIMRA's Individual Life Sales Survey and LIMRA Estimates



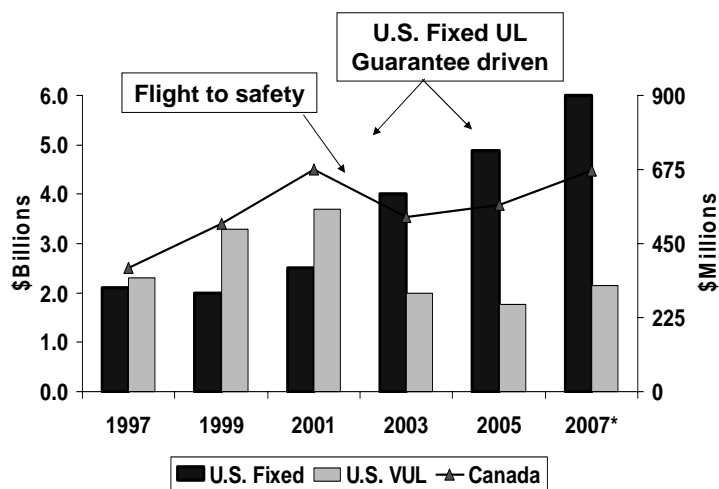
## Canadian Individual Life Sales Trends



Source: LIMRA's Individual Life Sales Survey and LIMRA Estimates



## U.S. & Canadian Universal Life Annualized New Premium



\*Preliminary Estimates

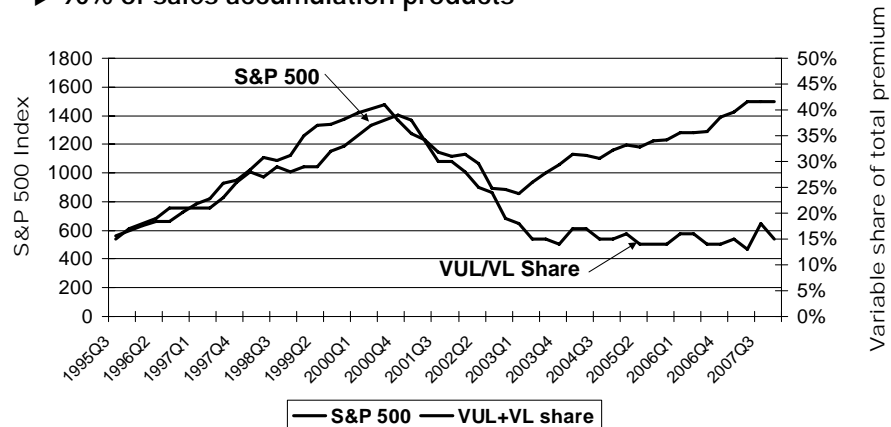
Source: LIMRA's Individual Life Sales Survey and LIMRA Estimates





## U.S. Variable Products and the Equity Market

► 90% of sales accumulation products



Sources: LIMRA's US Individual Life Insurance Sales, LIMRA estimates, Economy.com



## U.S. VUL Challenges

- Producer fear of client backlash
- Consumer desire for guarantees
- Cost of guarantees
  - Companies introducing, but few takers



## UL Products

### U.S.

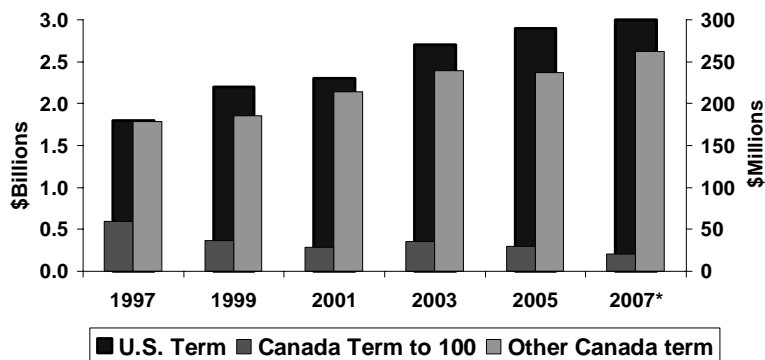
- ▶ Secondary Guarantees
  - drove growth, but slowing
  - replacement activity down
- ▶ Cash accumulation growing faster
  - IUL 2007 annual growth = 34%
  - SOLI/IOLI

### Canada

- ▶ Indexed UL dominates
- ▶ Level COI about 2/3 of sales
- ▶ Segregated UL – dead?



## U.S. & Canadian Term Sales Annualized New Premium



\*Preliminary Estimates

Source: LIMRA's Individual Life Sales Survey and LIMRA Estimates

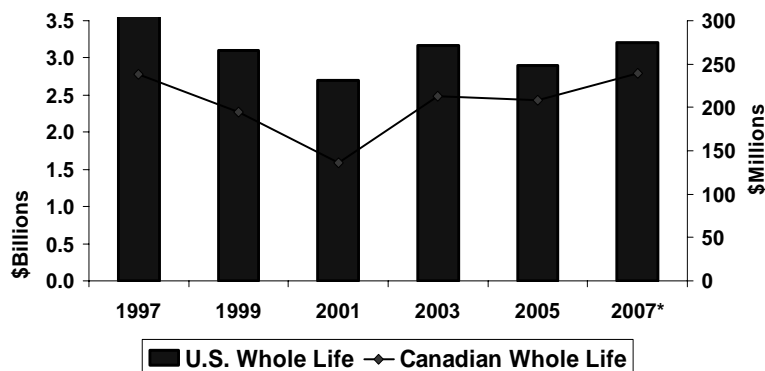


## Term Trends

- ▶ Term successes based on guarantees
  - Longer level premium periods
  - U.S. ROP – popular, but growth has slowed
    - Premium cost?
- ▶ Term to 100 in a decline
  - Profitability



## U.S. & Canadian Whole Life Sales Annualized New Premium

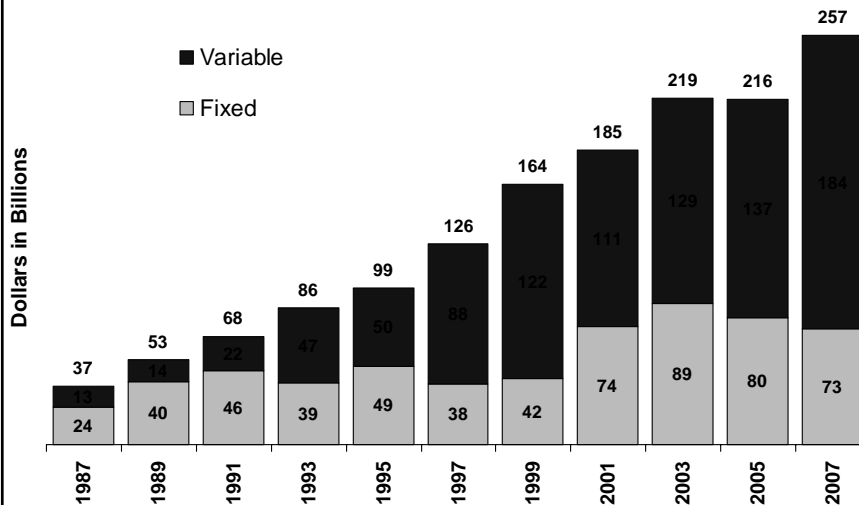


\*Preliminary Estimates

Source: LIMRA's Individual Life Sales Survey and LIMRA Estimates



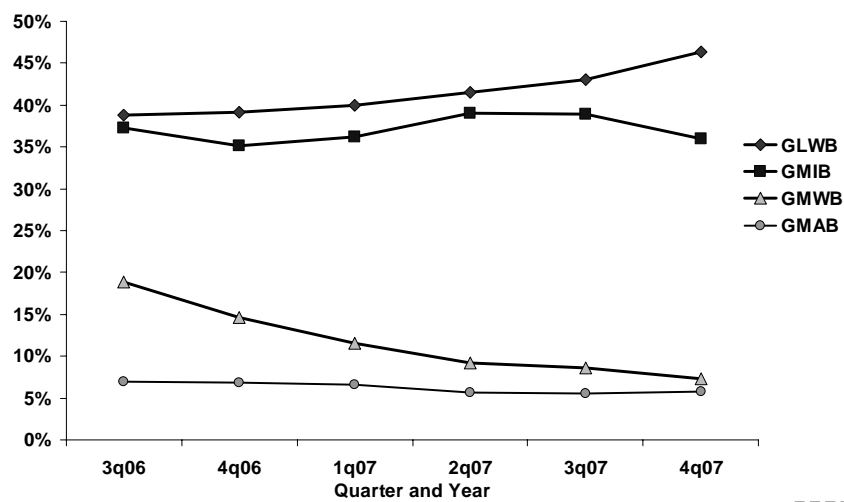
## U.S. Individual Annuity Sales (Billions)



Source: LIMRA International, *Individual Annuity Market: Sales and Assets*.



## VA GLB Election Rates by Quarter



Note: Each series based on a constant group of companies, including companies that began to offer a GLB type during this time period. Source: LIMRA International, *Variable Annuity Guaranteed Living Benefit Election Tracking, Fourth Quarter 2007, 2008*.



## **U.S. Annuities**

Guarantees drive variable increases

- ▶ Original recovery driven by GMWB
- ▶ Majority of VAs (70%) now sold with guarantees
- ▶ Consumers prefer longer guarantees most popular now
  - Guaranteed annual amount for life (GLWB)
  - Guaranteed minimum income benefit (GMIB)



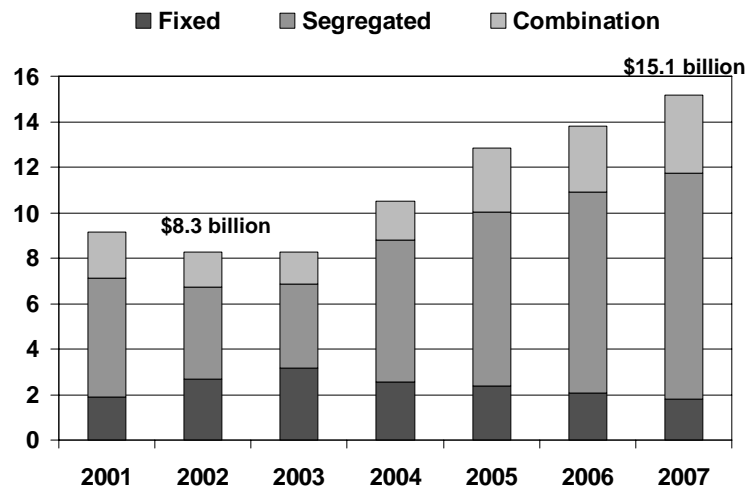
## **U.S. Individual Annuities**

Other positive trends

- ▶ Indexed annuities continue to grow
- ▶ Qualified plans – primarily IRA rollovers



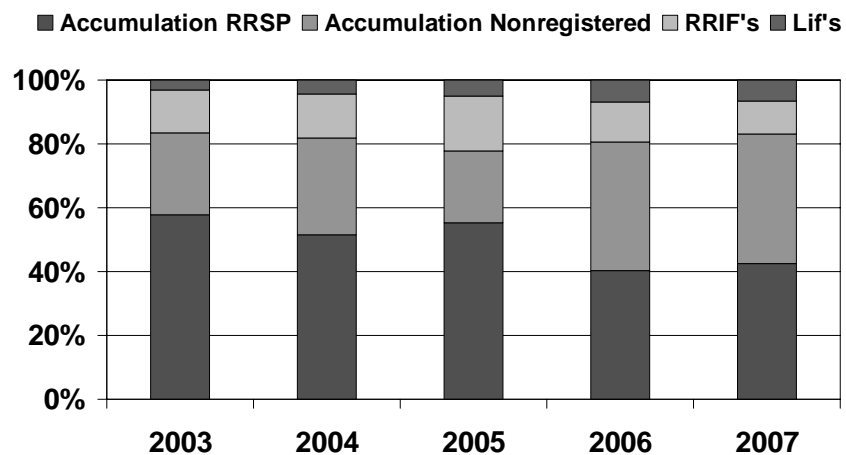
## Canada Annual Individual Annuity Sales (Billions)



Source: *Individual Annuities in Canada* survey



## Canada Segregated Annuity Sales By Product Type



Source: *Individual Annuities in Canada* survey



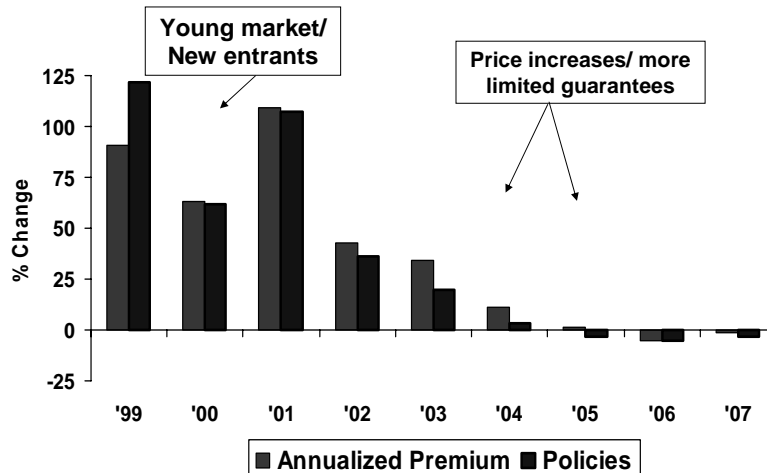
## Canadian Individual Annuities

### Hot Products

- ▶ Segregated accumulation products
- ▶ Combination products growing (87% seg)
- ▶ Introduction of GMWB/GLWB
  - 1Q08: Fixed up, seg and combo down



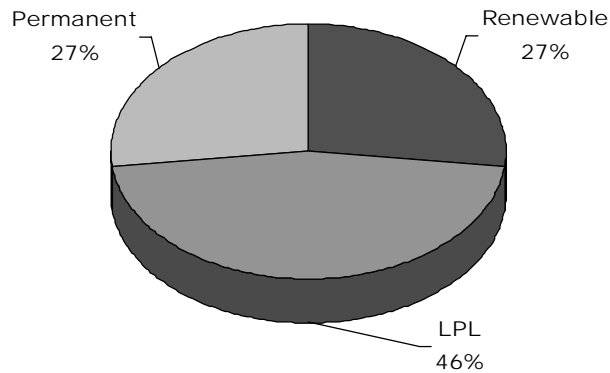
## ~ Canada ~ New Individual Critical Illness



Source: LIMRA *Canadian Individual Critical Illness Insurance Survey*



## ~ Canada ~ New Individual Critical Illness Premium Market Share



Source: Canadian Individual Critical Illness Insurance Survey



## Canadian CI challenges

- Price increases
- Stringent Underwriting
- Consumer awareness

*"Let's face it, we're in the business to make money. CI pays a lot less than a lot of life insurance products, so going through twice as much work and getting not nearly as much pay. Then on top of that, if it gets rated, I have to re-sell. So I'm doing two sales for the same thing and getting a small amount of money. I mean that is a selfish way to look at it, but it is the truth. I'm in it to make money, not just to sell product."*

Advisor, Vancouver





## **U.S. Critical Illness**

Not much information

In 2006:

165,684 policies/certs

\$47 million in new premiums

- ▶ Mostly worksite
- ▶ Less than ¼ traditional individual sales

Source: LIMRA International - Gen RE LifeHealth/NACII 2007 Critical Illness Insurance Market Survey Extract



## **U.S. CI challenges**

- ▶ Lack of awareness
- ▶ “Dread disease” stigma
- ▶ Share of wallet
- ▶ No driving force
  - National health care
  - Mortgage requirements





## Sharing Canada/US Product Knowledge

Albert Tiw, FSA, FCIA

VP, Product Solutions

Foresters

### Canada vs USA (,000)

#### United States

\$11,791,519

+8%

78 Companies representing 83% of  
Total Premium Collected

#### Canada

\$1,109,135

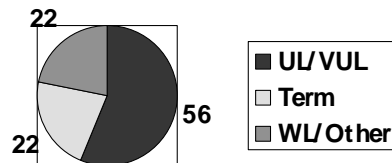
+5%

20 Companies representing 92% of  
Total Premium Collected

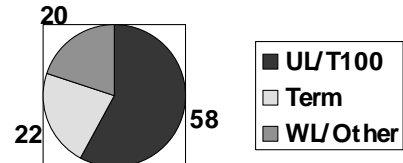
# Market Share by Product

Annualized Premium

## United States

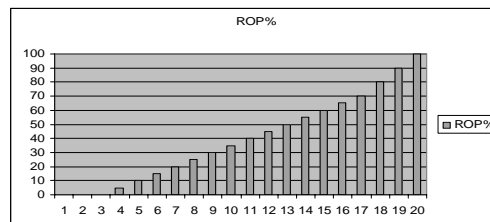


## Canada



# Term – ROP (US)

- Design
  - Premium paid duration the level period are refunded upon Survival
    - % returned on a graduated scale
    - "Money Back Guarantee"
    - IRR: 14.7% - Male 45, 30 yr\*
- Sample scale:



\*Limra: Market for Term Insurance - 2006

## Term – ROP (Can)

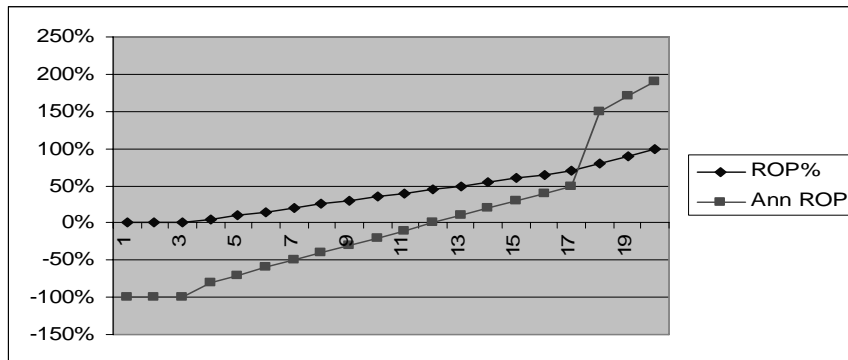
- Insurance marketplace
  - Late 1970's to Early 1980's
  - Buy term invest the difference
- Sales Decrease
  - Tax environment
  - Lapse Support
  - T100

## Term – ROP (Can) Tax

- ACB definition change
- US similar to Pre-NCPI change of 1981.
- Effect of Net Cost of Pure Insurance
  - T20 with ROP, MNS 40 Std, 300K, 120/mth
  - ROP Benefit: 28,800
  - ACB reduced (NCPI) by: 20,087
- Income Inclusion

## Term – ROP (Both) - Lapse

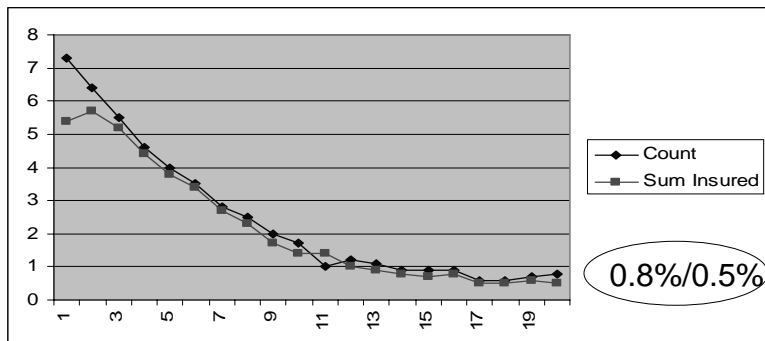
- Lapse Support Product
  - Experience will emerge quickly, secondary market, policy loans
  - Case 1: T20, M 40 NS Std



## T100 Term (Can)

- 1980's to 1990's
- Product Features
  - Level Rate for 100 years
    - Endowment
    - CSV varied
- Lapse Rates
  - Term-ROP: Experience emerged quickly
  - Priced "conservatively" at 5% Ult
- Experience: ?

## Lapse Experience under T100



- MNS 40, 100% CIA8692, 5% Lapse, 6% Int, 25% Exp/Profit Load
- Prem: 4.29/1000 → 8.48/1000

\*Lapse Experience under Term-to-100 Insurance Policies: Oct 2007



## T100 in the US?

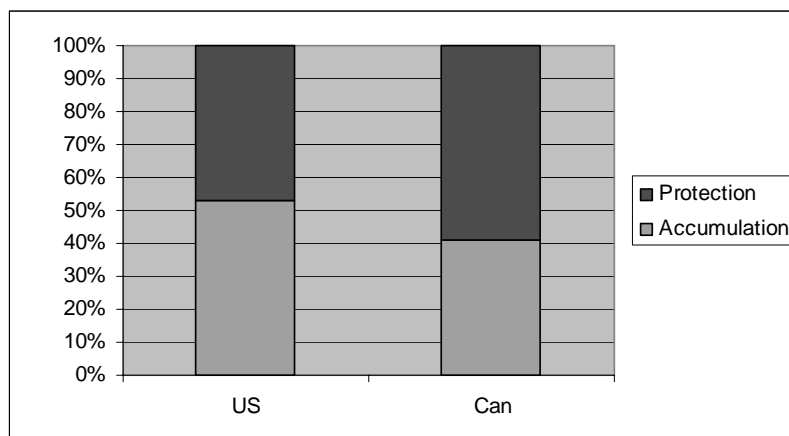
- ROP – ACLI/NAIC Working Group
  - General Impact
  - Reduce Lapse Support, increase CSV in middle durations
- US – Statutory Costs
  - Mandated Mortality Table – CSO2001
  - Time Zero Reserve Strain
  - UL: No lapse Guarantee/Secondary Guarantee



## Protection: NLG/LCOI

- US UL Products: YRT Only
- Secondary Guarantee/Production Products
  - Stipulated Level
    - Provides a guarantee of X years so long as a specified level annual premium is paid
  - Shadow Account
    - Policy will not lapse if secondary account has a positive value
  - ART
    - Policy will not lapse if interest accumulated sum of premiums paid is greater than the sum of ARTs
- Can UL Products: YRT/LCOI

## Sales of Protection/LCOI 2006 Premiums



Source: Source: *Universal Life Sales in Canada: Level versus Non-level Cost of Insurance*, LIMRA's Universal Life and Variable Universal Life Product Studies



## NLG verses LCOI

Min Prem MNS Std at 1,000,000

<u>Age</u>	<u>US Company</u>	<u>Can Company</u>	<u>% Difference</u>
25	4,859	2,459	98%
35	7,300	3,752	95%
45	10,215	7,432	37%
55	15,830	15,368	3%
65	26,885	31,248	-14%
75	51,330	59,484	-14%



## Difference?

- Expense/Commission/Interest Rates/Mortality/Lapse?

<u>Age</u>	<u>Base</u>	<u>Exp/Comp</u>	<u>Interest</u>	<u>Mortality</u>	<u>Result</u>
25	98%	-5.0%	14.3%	0.0%	89%
35	95%	-5.2%	11.5%	0.0%	89%
45	37%	-5.6%	8.8%	0.0%	34%
55	3%	-6.2%	6.0%	0.0%	3%
65	-14%	-7.4%	4.2%	0.0%	-11%
75	-14%	-9.4%	2.6%	0.0%	-7%



## Lapses

LCOI Lapse Experience			Milliman UL Pricing Survey (16 Respondents)	
Duration	Count	Coverage	Lapse Rates if Secondary Guarantee is in the Money	
1	8.3	5.2		
2	7.1	5.4		
3	6.5	5.1		
4	5.4	4.0		
5	4.6	3.6		
6	3.9	3.1		
7	3.1	2.4		
8	2.6	2.1		
9	2.6	2.2		
10	2.3	2.0		
11	2.4	1.9		
12	2.1	1.7		
13	2.2	1.8		
14	2.0	1.5		
15	1.7	1.4		

	Number of Responses
0%	6
Lapse Rates the Same (1-3%)	3
0.5% - 1% (varies by age)	1
1%	1
1% if additional premiums are due. 0% otherwise	1
No reduction from base assumption (1-3%), 0% otherwise	1
Half of Normal Lapses	1
Varies	1

Source: Lapse Experience Under LCOI: Oct 2007, Milliman's Universal Life/Indexed Universal Life Issues: Dec 2007



## NLG – Min Premium By Duration

Age	Premium	Duration		Can UL Prem			
		10	20	10	20		
25	4,859	32	53	5,650	4,100	130%	67%
35	7,300	27	44	7,800	5,825	108%	55%
45	10,215	20	33	12,750	10,100	72%	36%
55	15,830	15	26	22,000	18,250	43%	19%
65	26,855	12	23	38,000	34,750	22%	11%
75	51,330	12	22	71,000	64,000	19%	8%

Mechanics:Dial-a-Guarantee?



## To Carry verses Endow Can UL Life Pay

<u>Age</u>	<u>Min/Carry Premium</u>	<u>Endow Premium</u>	<u>% Difference</u>
25	2,459	4,740	92.76%
35	3,752	7,040	87.63%
45	7,431	12,140	63.37%
55	15,367	22,050	43.49%
65	31,248	40,500	29.61%
75	59,484	71,610	20.39%



## Indexed UL

- Canada – Indices
- US (50% sales growth for active participants)
  - Fund value growth based on an Index
  - Credit 100% of growth up to a Cap (12-14%)
  - Premium Protection – 0% floor
- Other Features
  - Minimum guarantee period – with interest credit
  - Auto-rebalancing to combination of highest yielding indices



## Index UL – Sample Calculation

Deposits: 1000/yr

Year	1	2	3	4	5
Return	10%	-18%	25%	-10%	8%
Cap	12%	12%	12%	12%	12%
Normal	1,100	1,722	3,403	3,962	5,360
Indexed	1,100	2,100	3,472	4,472	5,910
% Diff	0.00%	21.95%	2.04%	12.87%	10.27%

## What We Can Learn From Each Other: 101

- From US
  - Flexibility/Mechanics of Dial-a-guarantee
  - Next Level: n-Level Term/LCOI rates?
  - Investment Option/Indexed
- From Can
  - LCOI in PBR
  - Protection and Accumulation