

A MILLIMAN GLOBAL FIRM



**Milliman** USA

*Consultants and Actuaries*

## **Payout Annuities**

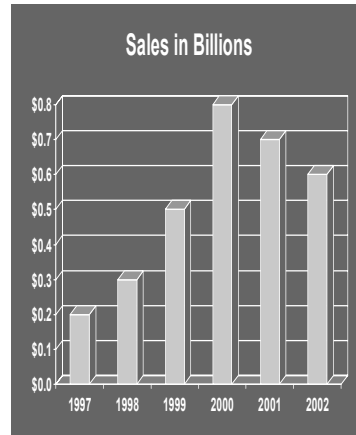
**Novian Junus, Consulting Actuary  
Milliman, USA  
2004 Product Development Symposium**

### **Summary Outline**

- **Industry Overview**
- **SP Immediate Variable Annuity (SPIVA) Product Designs**
- **Fixed SP Immediate Annuity (SPIA) Product Designs**
- **Marketing Considerations and Approaches**

## SPIVA Total Sales

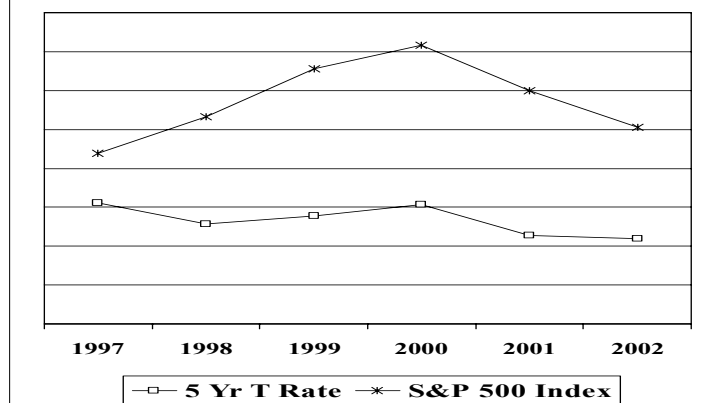
- Rapid Growth Prior to 2001
- Declines in 2001 and 2002
- Correlates Well With Equity Market Movement



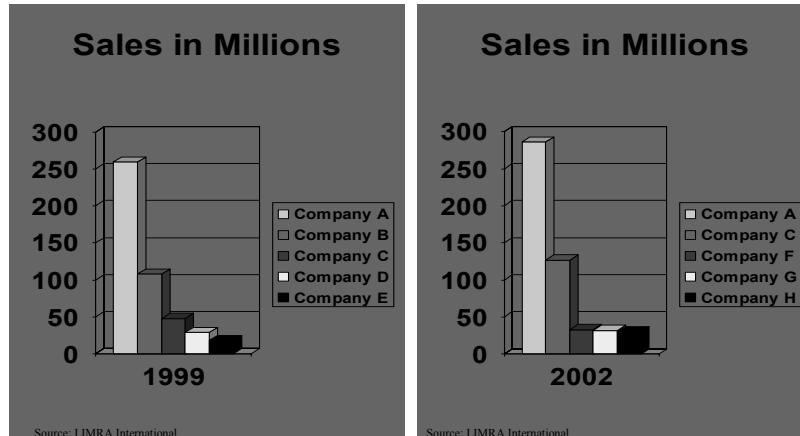
Source: LIMRA International

## SPIVA Total Sales

### Average Interest Rates and Equity Index

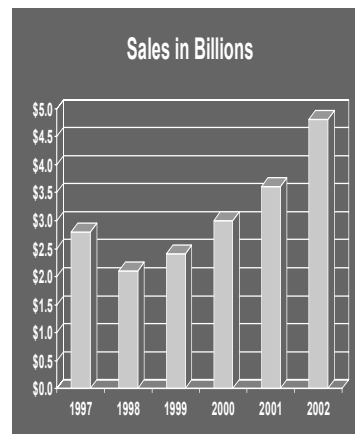


## Top 5 Companies SPIVA Sales

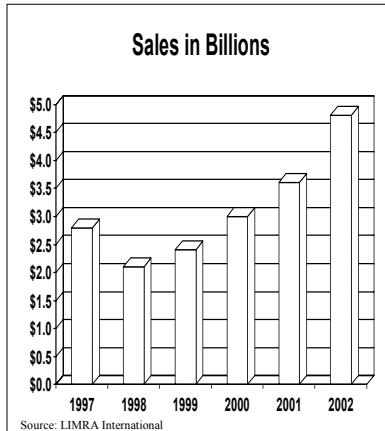
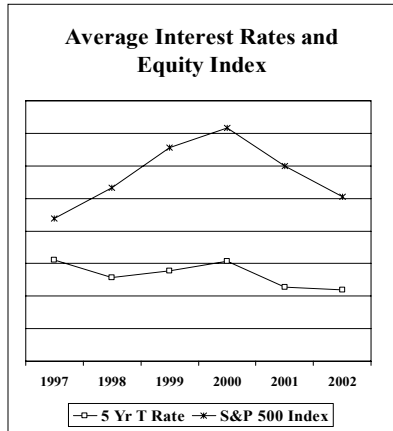


## SPIA Total Sales

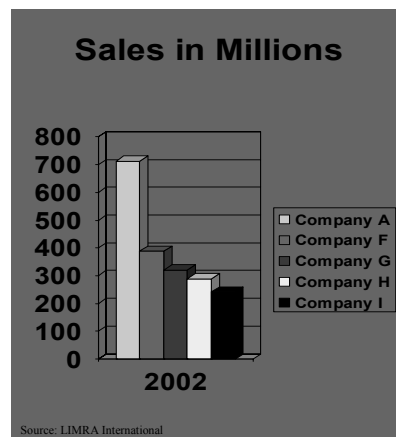
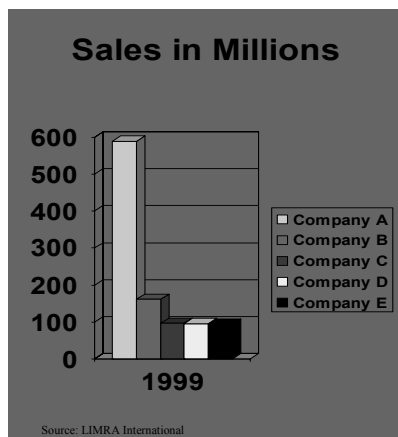
- Decline in 1998
- Steady Increase Thereafter
- Does Not Correlate Well With Interest Rate Environment



# SPIA Total Sales

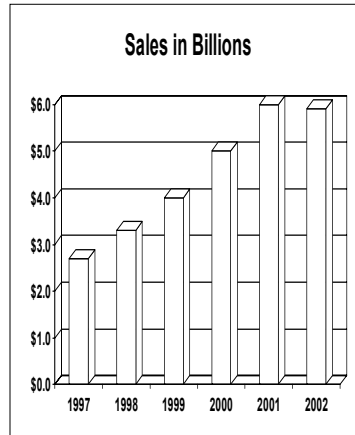


# Top 5 Companies SPIA Sales



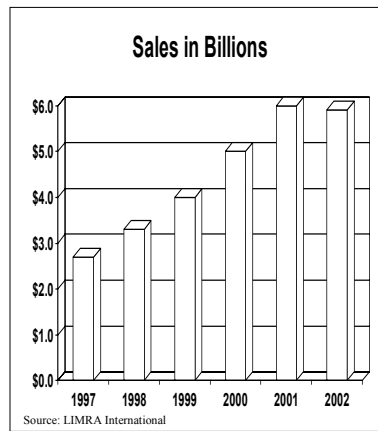
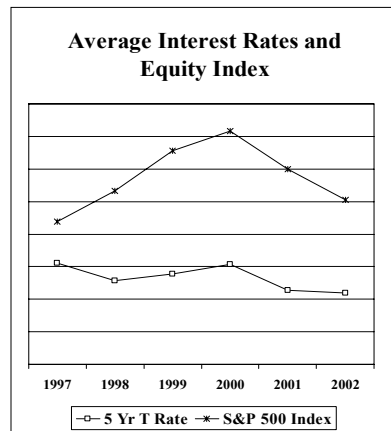
## SS Total Sales

- **Steady Increase 1997 to 2001**
- **Leveling in 2002**
- **Delayed Correlation to Interest Rate Environment**



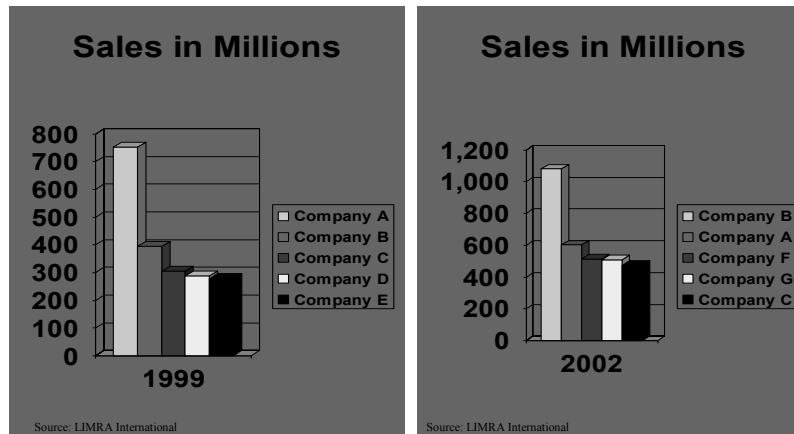
Source: LIMRA International

## SS Total Sales



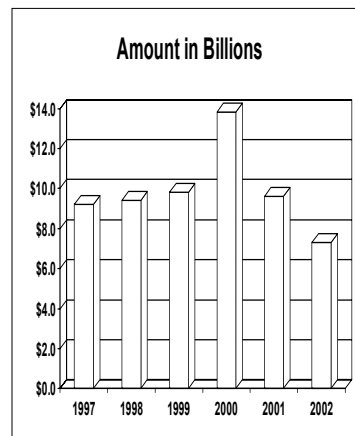
Source: LIMRA International

## Top 5 Companies SS Sales

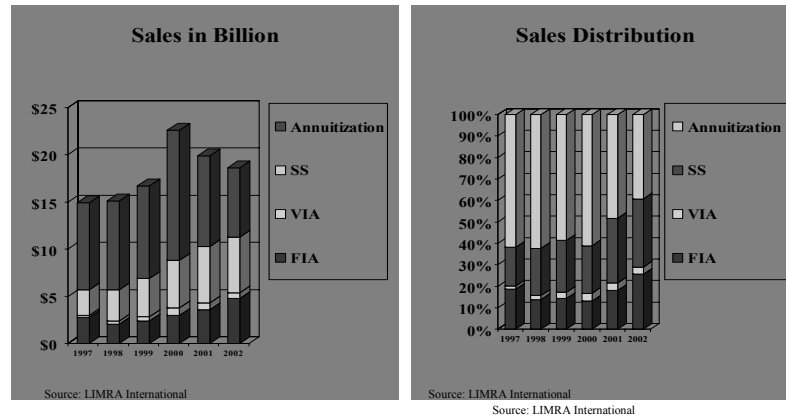


## Annuitizations

- Much Larger Than Immediate Annuity Sales
- Tailing Off in 2001 and 2002
- No Discernible Correlation to Equity or Interest Rates



## Total Payout Sales



## SPIVA Basic Product Designs

- Assumed Interest Rate (AIR)
- Joint and Single Life Options
- Certain Period Options
- Multiple Fund Options, Including Fixed Accounts
- Fund Transfers (Often Restricted to SA)

## **SPIVA Enhanced Product Designs**

- **Death Benefits**
- **Liquidity Provisions**
- **Guaranteed Payout Floors**
- **Multiple Payout Options**
- **Income “Levelization”**
- **Multiple Commission Options**

## **SPIVA Enhanced Product Designs**

- **Market Performance Changes  
Guaranteed Period**
- **Flexibility to Change**
  - AIR
  - Liquidity or Certain Period
  - Payout Frequency
- **Deferred VA with GMIB/GMWB**

## **SPIA Basic Product Designs**

- **Joint and Single Life Options**
- **Certain Period Options**
- **Cash Refund Options**
- **Certain Period Commutation**
- **Fixed “COLA” Payout Option**

## **SPIA Enhanced Product Designs**

- **Death Benefit Provisions**
- **Payments Linked to Equity Index**
- **Multiple Commission Options**
- **Substandard Payout**
- **Liquidity Provisions**

## **Enhanced Product Designs**

- **Tax Considerations**
  - Requirement that payments are fixed and determinable at start date
  - Aggregation rules and partial annuitizations
  - Treatment of partial withdrawals
- **Easier to be Innovative With Qualified Contracts**

## **Enhanced Product Designs**

- **Systems Considerations**
  - Handling enhanced product designs
    - Cash value and liquidity provisions
    - Flexibility to change options
  - Add on or build new
  - Big bet or small bets

## **Enhanced Product Designs**

- **Pricing and Financial Considerations**
  - **Guarantee floors**
  - **Longevity risk**
  - **Liquidity provisions**
  - **Initial payout factor in SPIVA**
  - **Large case size**
  - **Competitive positioning**
  - **Investment strategy**

## **Marketing Considerations**

- **Competition from other products and structures**
  - **Systematic withdrawal programs**
  - **Self insured longevity pools**
  - **DB pension payout**
  - **Social Security benefits**
  - **Reverse mortgages**

## **Marketing Considerations**

- **Main drawbacks to basic SPIA and SPIVA designs**
  - Irrevocable decision
  - Lack of liquidity
  - Lack of flexibility
  - Loss of principal
  - No account value

## **Marketing Approaches**

- **As Pure Payout**
  - Only sell the income guarantee
  - Deferred or immediate
- **As Enhanced Systematic Withdrawal**
  - Flexibility and unbundling
- **As Total Income Management Package**
  - Payout program from accumulation to income

## **Summary**

- **Seems to be on the cusp**
  - Lot of interest and activity
  - Increasing sales and acknowledgement
- **Room to be innovative and stake your claim**
- **Pricing and financial challenges mean having to take calculated risks and ensure sound design**