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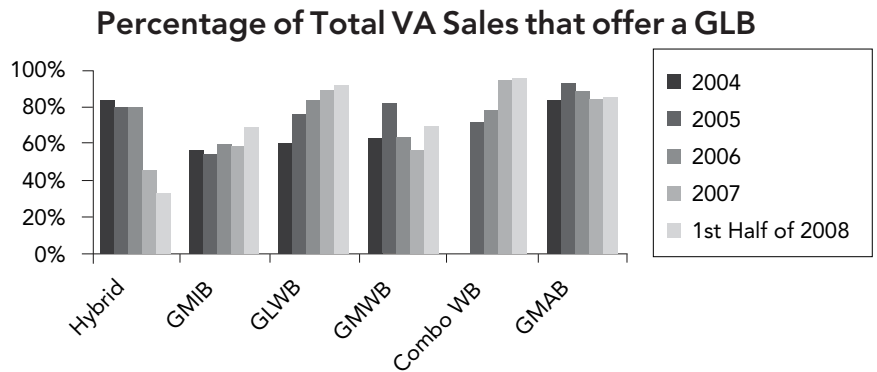
Guaranteed Living Benefits: Before the Meltdown

by Sue (Sell) Saip

The dominance of Guaranteed Living Benefits (GLBs) in the U. S. variable annuity (VA) market is well known. However, these features are still relatively new and trends regarding purchase rates and utilization rates are just beginning to evolve. Four primary types of GLBs are currently offered in the VA marketplace: Guaranteed Minimum Income Benefits (GMIB), Guaranteed Minimum Accumulation Benefits (GMAB), Guaranteed Minimum Withdrawal Benefits (GMWB) and Guaranteed Lifetime Withdrawal Benefits (GLWB). Some VA insurers offer hybrid GLB products that package together multiple GLBs, such as GMAB/GMIB or GMAB/GLWB. Others offer combination withdrawal benefits (GMWB/GLWB) that have the potential of providing both benefits to the policyholder. This design typically tracks both a GMWB and a GLWB feature for the policyholder and does not force the policyholder to elect either option on a stand-alone basis. Milliman, Inc. recently completed its fourth annual survey of leading variable annuity insurers to identify developing trends and experience in the VA GLB market. VA carriers that offer at least one type of GLB were invited to participate in the survey. The scope of the survey covered calendar years 2004 through 2007 and the first half of 2008. Note that responses were made during the last quarter of 2008, while the unsettled market conditions were beginning but had not yet reached their greatest stress. Twenty-one carriers participated in the survey (13 were top 20 carriers based on Morningstar, Inc.'s The VARDS Report) representing over 41 percent of total VA industry sales for the first half of 2008.

Based on the sales of survey participants, the average percent of such sales that offer any GLB has increased from 87 percent in 2004 to 96 percent during the first six months of 2008.

Sales information was reported by GLB type with averages of participants' responses shown in the chart on the right (top). The hybrid results are for the most popular design offered (GMAB with GLWB or GMWB). Other hybrid designs are offered by one company each. Note that the totals do not add up to 100 percent since multiple GLBs may be offered on the same product.



GLB election (purchase) rates were also reported by survey participants. Average election rates by GLB type are as follows:

GLB Type Elected	Average Election Rate as a % of Total Sales of VAs that Offer the GLB				
	Calendar Year 2004	Calendar Year 2005	Calendar Year 2006	Calendar Year 2007	YTD 6/30/08
GMAB with GMWB or GLWB	57.9%	62.7%	63.0%	36.9%	27.5%
GMIB	49.0%	42.1%	36.0%	28.4%	24.9%
GLWB	50.9%	21.3%	37.6%	46.9%	56.6%
GMWB	25.0%	18.5%	23.4%	19.4%	14.4%
Combo GMWB/GLWB		58.3%	51.0%	40.9%	37.0%
GMAB	20.7%	15.8%	12.1%	10.8%	10.4%

The distribution of sales by GLB type for survey participants was reported for calendar year 2007 and the first half of 2008. Since the introduction of GLWBs, there has been a shifting toward such sales and this trend continues as shown in the figures in the chart on page 10 (top).

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GLB Type	Average Distribution of GLB Sales	
	Calendar Year 2007	YTD 6/30/08
Hybrid GLB	9.2%	4.9%
GMIB	9.5%	7.3%
GLWB	41.9%	63.9%
GMWB	4.8%	2.4%
Combo GMWB/GLWB	28.9%	16.6%
GMAB	5.7%	4.9%
Total	100%	100%

There is a notion that customers that purchase a GLB pay higher premiums than customers that do not purchase a GLB. The figures in the chart on the left (bottom) indicate that this appears to be true, on average, based on survey responses for guaranteed withdrawal benefits, however, these figures are greatly influenced by one insurer. The general relationship is not true for those that do and those that do not purchase GMIBs or GMABs.

Other statistics gathered in the latest survey looked at the utilization of the withdrawal benefit feature. Utilization of this feature refers to partial withdrawals being taken on policies with a withdrawal benefit. Utilization of withdrawal benefits were reported by withdrawal eligibility, by the percent of the withdrawal allowance used, and by the withdrawal timing. Withdrawals taken during the first six months of 2008 were broken down by contracts that were not yet eligible (e.g., minimum age requirement not met), contracts that include an incentive to delay the withdrawal (e.g., roll-up rates), and contracts that do not include an incentive to delay the withdrawal. Survey participants also reported the percentage of the withdrawal allowance that is used. For example, if the withdrawal allowance is 5 percent and a 4 percent withdrawal is taken, then this percentage would be 4 percent/5 percent which equals 80 percent. In addition, the timing of withdrawal rates was also reported. (See chart on the right, top)

GLB Type	VA Customers that Purchase the GLB	VA Customers that do not Purchase the GLB
Hybrid GLB	9.2%	4.9%
GMIB	9.5%	7.3%
GLWB	41.9%	63.9%
GMWB	4.8%	2.4%
Combo GMWB/GLWB	28.9%	16.6%
GMAB	5.7%	4.9%
Total	100%	100%

Experience is gradually evolving regarding GMIB utilization rates. Utilization refers to the percentage of in force VA policies with GMIBs past the waiting period where a GMIB was exercised. Survey participants reported the percentage of in force GMIB business beyond the waiting period, the percentage of such policies where the GMIB was in-the-money, and the percentage of such policies that began income payments in the following calendar period. The chart on the right (bottom) summarizes the participants' responses.

Responses to the GLB survey were submitted during a time when GLB features continued to get richer and richer. The financial meltdown resulted in less generous benefits, higher charges, more restrictions, and less availability of some benefits. It may be some time before the GLB glory days return. ■

Utilization by:	Average Response - Withdrawals Taken during the First Six Months of 2008			
	Hybrid Involving a WB	GLWB	GMWB	Combo GLWB/GMWB
Withdrawal Eligibility				
Not yet eligible	1.4%	0.3%	0.9%	0.7%
Eligible – incentive to delay	2.6%	1.1%	3.9%	5.5%
Eligible – no delay incentive	2.0%	1.2%	6.6%	3.0%
% of Withdrawal Allowance Used	70.7%	68.3%	79.9%	82.6%
Withdrawal Timing				
Withdrawals not started	78.5%	66.4%	65.3%	81.7%
0 – 12 months after eligible	23.4%	31.0%	16.4%	14.7%
13 – 36 months after eligible	5.8%	5.2%	6.0%	4.5%
> 36 months after eligible	3.1%	0.9%	2.1%	0.8%

2004	2005	2006	2007	YTD 6/30/08
Average % of Inforce GMIB Policies Beyond the Waiting Period				
0%	3.7%	18.5%	23.1%	21.7%
Average % of Inforce GMIB Policies Beyond the Waiting Period where the GMIB was ITM				
N/A	71.5%	64.2%	71.6%	65.3%
Average % of Inforce GMIB Policies Beyond the Waiting Period that Began Income Payments in the Following Calendar Period				
N/A	4.4%	5.9%	5.4%	1.8%



Sue (Sell) Saip, FSA, MAAA, is a consulting actuary with Milliman Inc. She can be reached at sue.saip@milliman.com.