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## Features

# Guaranteed Living Benefits Experience Study

by Susan J. Sell

**G**uaranteed living benefits (GLBs) have been drivers of deferred variable annuity (VA) sales for the past several years in the United States. Recently, The Variable Annuity Research & Data Service (VARDS®) Quarterly Sales and Asset Survey reported that 78 percent of VA sales during the first half of 2005 were of products that offered a guaranteed minimum withdrawal benefit (GMWB), a popular form of GLB. Similarly, 52 percent of such sales offered a guaranteed minimum income benefit (GMIB) and 28 percent of such sales offered a guaranteed minimum accumulation benefit (GMAB).

Milliman, Inc. recently conducted a survey of leading variable annuity insurers to better quantify the current dynamics of the GLB market. The scope of the Milliman survey included variable annuities that offered any type of GLB during calendar year 2004 and during the first quarter of 2005. Fifteen carriers participated in the survey, which suggests there is great interest in this topic.

Overall, total VA sales (with and without GLBs) of survey participants averaged \$4.2 billion during calendar year 2004 and \$1.0 billion during the first quarter of 2005. During 2004, survey participants reported that, on average, over 87 percent of total VA sales were

of products that offered GLBs. This average increased to nearly 92 percent during the first quarter of 2005. Responses ranged from nearly 27 percent to 100 percent for survey participants during 2004. The range was 77 percent to 100 percent for the first quarter of 2005. This increase is not surprising since some survey participants first entered the GLB market late in 2004.

Survey participants were also asked to report GLB election rates as a percentage of total sales of VAs that offered any GLB. On average, this election rate was 56 percent during calendar year 2004. The comparable figure for first quarter 2005 was over 60 percent. During 2004, GLB election rates ranged from nearly 12 percent to over 95 percent of total sales of VAs with GLBs offered by survey participants. During the first quarter of 2005, GLB election rates ranged from 12 to 97 percent for survey participants. It appears that the 12 percent election rate is an outlier, because the next lowest election rate reported by survey participants is about 41 percent.

Similar sales information was reported by GLB type (GMWB, GMIB, GMAB), with **averages** of participants' responses shown in the table below.

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### GLB Election Rates as a Percentage of Total Sales of VAs that Offer Benefits

| Sales Statistics                               | Calendar Year 2004 | First Quarter, 2005 |
|--|--------------------|---------------------|
| <i>Guaranteed Minimum Income Benefit</i>       |                    |                     |
| Total Sales of VAs that offer a GMIB           | \$2.9 billion      | \$641 million       |
| GMIB Election Rates                            | 52%                | 48%                 |
| <i>Guaranteed Minimum Withdrawal Benefit</i>   |                    |                     |
| Total Sales of VAs that offer a GMWB           | \$4.2 billion      | \$994 million       |
| GMWB Election Rates                            | 37%                | 40%                 |
| <i>Guaranteed Minimum Accumulation Benefit</i> |                    |                     |
| Total Sales of VAs that offer a GMAB           | \$1.5 billion      | \$349 million       |
| GMAB Election Rates                            | 33%                | 34%                 |

The GMWB election rates shown in the table on page 9 are based on standard (non-lifetime) GMWBs, with the exception of one lifetime GMWB response. The average sales of VAs with the GMWB feature exceed sales of other GLBs, reflecting the popularity of this benefit in recent years.

Based on the rates of those participants who contributed data by distribution channel, on average, election rates of GMIBs by distribution channel are more variable than those of GMWBs or GMABs as shown in the following table below:

### Election Rates by Distribution Channel

| Distribution Channel          | GMIB | GMWB | GMAB |
|-------------------------------|------|------|------|
| Career Agents                 | 14%  | 20%  | 11%  |
| Independent Producers         | 58%  | 27%  | 26%  |
| Wirehouses                    | 33%  | 30%  | 29%  |
| Large/Regional Broker-Dealers | 44%  | 25%  | 24%  |
| Independent Broker-Dealers    | 46%  | 30%  | 25%  |
| Banks                         | 29%  | 31%  | 41%  |
| Other (e.g. Direct)           | 63%  | 32%  | 31%  |

Survey participants also reported the percentage of in-force VA policies with GMIBs past the waiting period where a GMIB was exercised. A small number (four) of survey participants reported that some policies with GMIBs were past the contractual waiting period. Three of these four respondents did not have any GMIBs exercised once past the waiting period. One participant reported that 10 percent of its VA GMIB in force (for calendar year 2004 and for first quarter 2005) exercised this option once the waiting period had been satisfied. Note that these responses are based on the “in-the-moneyness” of the contracts at the time specified, and election rates might have differed significantly if “in-the-moneyness” had been different.

During calendar year 2004, the percentage of inforce VA policies with GMWBs where a GMWB was exercised was, on average, nearly 12 percent for survey participants. During the first quarter of 2005, the average GMWB exercise rate was also nearly 12 percent.

Based on survey results, it appears that, on average, VA customers that elect GLBs (with the exception of GMABs) pay relatively higher premiums than those VA customers that do not elect GLBs. The table below shows the average initial premium for VAs with GLBs for customers that elect a GLB versus customers that do not elect a GLB.

### Average Initial Premium of VA

| GLB  | Policies With GLB | Policies Without GMIB |
|------|-------------------|-----------------------|
| GMIB | \$81,890          | \$69,526              |
| GMWB | \$85,184          | \$74,709              |
| GMAB | \$74,116          | \$83,809              |

## Guaranteed Living Benefits Experience Survey

Survey participants reported the average investment allocations for policies that do and policies that do not elect a guaranteed living benefit. The average of the allocations reported for each investment alternative is shown in the chart below.

### Investment Allocation

| Investment Alternative         | Allocation for Policies that Elect a GLB | Allocation for Policies that Do Not Elect a GLB |
|--------------------------------|--|---|
| Growth                         | 24.8%                                    | 23.5%   |
| Growth & Income                | 15.8%                                    | 15.2%   |
| All Other Equity               | 13.9%                                    | 14.6%   |
| Balanced/Asset Allocation      | 21.5%                                    | 14.0%   |
| Balance/Other*                 | 3.1%                                     | 2.3%  |
| Corporate Bond High Quality    | 5.7%                                     | 6.1%  |
| All Other Fixed Income Funds   | 3.9%                                     | 5.2%  |
| Money Market                   | 2.1%                                     | 3.7%  |
| Fixed Interest/General Account | 9.4%                                     | 15.2%   |

\* Includes Balanced/Income, Balance/Convertible and Balanced/International funds

Allocations are different for the two groups of policies for balanced/asset allocation funds, and the fixed/general account. It is not surprising that the amount allocated to balanced/asset allocation funds is greater for those policies electing a GLB since many GLBs have asset allocation requirements.

The survey results support the perception that guaranteed living benefits are popular. It is expected that GMWBs in particular will remain popular given the introduction of lifetime benefit guarantees. Lifetime GMWBs have been offered by some companies for some time, but recently have become a “must have” feature and are becoming more common. Carriers that introduced a

lifetime GMWB early on attributed their VA sales success to this feature. The election of such lifetime GMWBs will likely increase over time as they are included in more VAs and as they are positioned as a strong alternative to annuitization. □



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