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ANNUITY PRODUCT DEVELOPMENT UPDATE

Moderator: JAMES R. THOMPSON
Panelists: PAUL T. BOURDEAU
PAUL H. LEFEVRE
Recorder: JAMES R. THOMPSON

- o CD annuities
- o Modified guarantee plans
- o Split annuities
- o TSA plans
- o Product success: features plus service

MR. JAMES R. THOMPSON: Annuities have been very prominent in the last year and the Society actually devoted a full extra day at the San Francisco meeting in giving attention to them. It's a fairly diverse field, and we had promised in the bulletin to cover CD annuities, modified guaranteed annuities, split annuities, tax sheltered annuities, and we're also going to deal with several other niche markets. We're going to differ from the approach used by previous sessions. We're not going to have one speaker, another speaker, and then finally the third speaker. We've divided this up into modules of maybe five or ten minutes in length. I will also be one of the speakers.

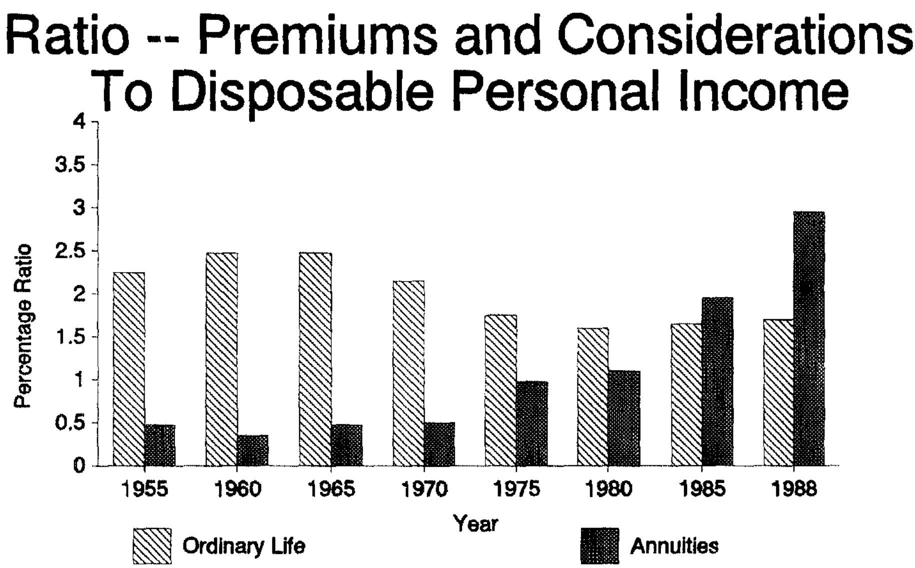
The other two speakers are Paul Bourdeau, on my far right. He is currently President of Bourdeau and Associates, a consulting firm that is intimately involved in annuities. He formerly was Chief Executive Officer of Beneficial Standard Life Insurance Company for five years. This is a big annuity company where he was previously intimately involved in the development of tax sheltered annuities. To my immediate right is Paul LeFevre. His company is Keystone Provident, where he has been for 12 years in an actuarial capacity. Recently, he has been promoted to be Chief Financial Officer of that company. He also was recently elected to the Council of the Financial Reporting Session.

I have been involved in annuity product development and issues for about ten years, the last six or seven with Federal Kemper in the Chicago area. We will lead off the session with Paul Bourdeau giving us a brief market overview.

MR. PAUL T. BOURDEAU: The following five charts illustrate the growth in the annuity business which compares somewhat to what we've experienced in the ordinary life lines of business.

From 1955-1970, you found it pretty level for life insurance in the 2-2.5% range (Chart 1). Now it has started to decrease by about a third until 1980. It's around 1.5%, and it's relatively level, maybe oozing upward just a hair. On the other hand, let's look at the annuities. The annuities from 1955-1970 were right around the .5% place, and there has been a steady increase since 1970, all the way up to 3% in 1988, and that's almost a tripling since 1980 alone. It's almost double the ordinary life ratio. Right here, we're talking 1.67 against 3%.

CHART 1



Source: Data from *Life Insurance Fact Book*, American Council of Life Insurance, Washington, D.C.

Chart 2 shows some information on the ordinary lines of business for comparative purposes, including annualized premium plus 10% of the single, nothing magic about that. I think you'll agree it's a pretty common way of reporting new business activity. You'll find that 1975-1985 were pretty good years for life insurance. It went from 2.8-11.6%. From 1980-1985, there was particularly a lot of growth and new activity. Probably a lot of it was the placements, but in any case, that's a 19.8% compound annual growth. But from 1985-1989, it levels at 11.6%, -- a little more single premium. Things peaked in 1987, and single premiums were at 7% there. Of course, tax laws have changed, and it drifted downwards.

The situation for annuities is on the same basis that we looked at before (Chart 3). It's annual premium plus 10% of the single. If you go back to 1970, you almost had no annuity activity -- on that basis 200 million. I remember in those days, I'm old enough, that when you went in and you received a single premium annuity application, everybody gathered around the desk to look at this model. We actually got an annuity in. So you'll see that that's changing.

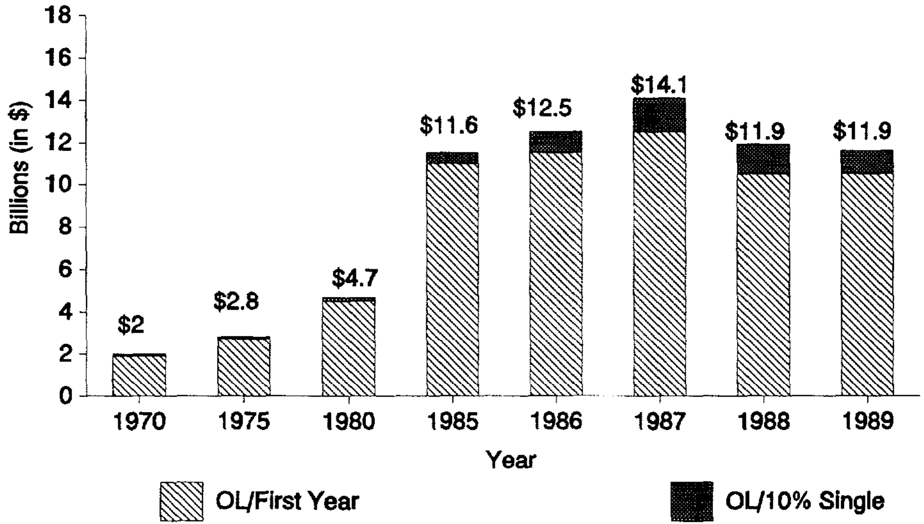
In the 1970s, we had a nice growth from 200 million to 1.1 billion from a very low base, but that was almost at 20% interest compound growth rate. In the 1980s, it took off from 1.1-11 billion. That's a tenfold growth in nine years. There's been an incredible growth that we know about, but we don't stop to reflect on it. That's a 30% annual compound growth rate. It is both in the annual premium. The annual premiums grew 28.6% and the single premiums 30.5%. So it was not a single premium phenomena. The annual premiums were moving along there very nicely in the 1980s.

If you go back to 1970, the life insurance business was ten times the annuity business (Chart 4), two billion versus 200 million. By 1980, it was 1.1-4.7. The life insurance was 4.3 times as big as the annuity business. As late as 1985, it was 4.5 against 11.6. The life insurance business was still double the annuity business, but by 1989, there's almost parody -- 11.6-11 billion.

In 1970, 91% of new premium activity on this measure came from life insurance (Chart 5). By 1980, it was still very strong at around 81%, but by 1989, as I mentioned earlier, it dropped to 51%, essentially equal. I've already said that it appears that when you look at that, that the growth in annuities, you'll find the single grew nicely and the first year grew nicely. The single premium life insurance has wavered between 3-7%. I think in 1987, it was 7.2%. That was high, so it appears that the annuities are getting the premium at the expense of the ordinary life, which has been somewhat on a steady decline and it leveled last year and who knows for the year or two ahead.

So it's nice to be bigger than life, but they're no longer a stepchild. Annuities have been a real stepchild. I can remember serving on many committees and you'd spend 95 hours on the great problems of the life industry and you'd give 10 minutes on annuities. Just on size alone, I think we need more . . . I'm not one for regulations or anything, but we do need more rules. We need more new rules and we need guidelines. We need a lot of interpretations. In the New York State expense limitation law, for instance, they have an actuarial committee to look at that for annuities because it is just not doing the job. Enough on that.

New Individual/Ordinary Receipts*
U.S. Life Insurance Companies

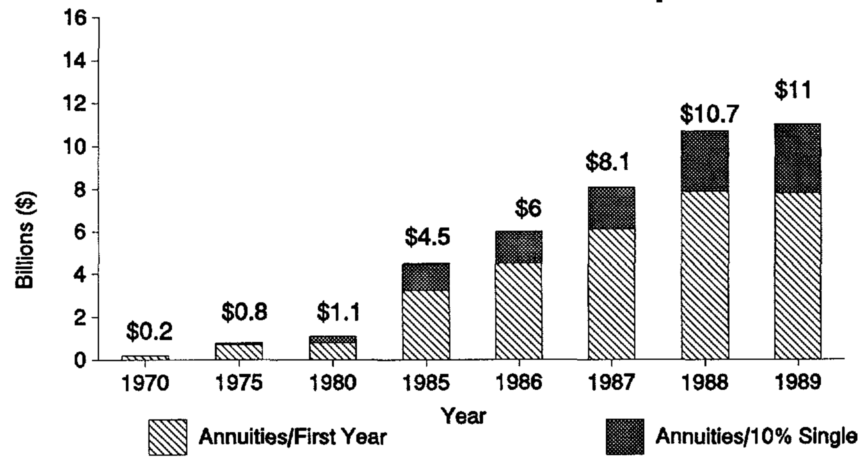


* Includes 10% of Single Premiums

Source: Data from *Life Insurance Fact Book*,
American Council of Life Insurance, Washington, D.C.

CHART 3

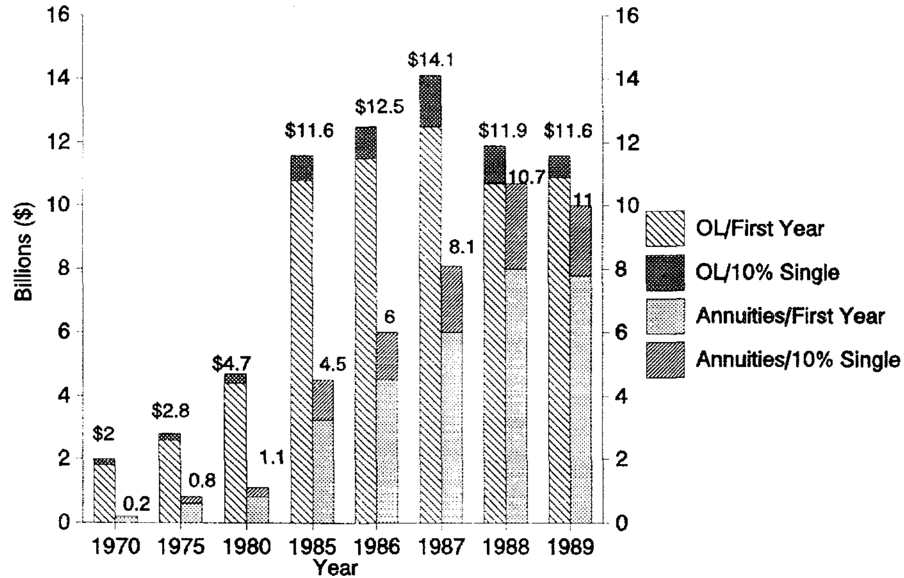
New Individual/Ordinary Receipts*
U.S. Life Insurance Companies



* Includes 10% of Single Premiums

Source: Data from *Life Insurance Fact Book*, American Council of Life Insurance, Washington, D.C.

New Individual/Ordinary Receipts*
U.S. Life Insurance Companies

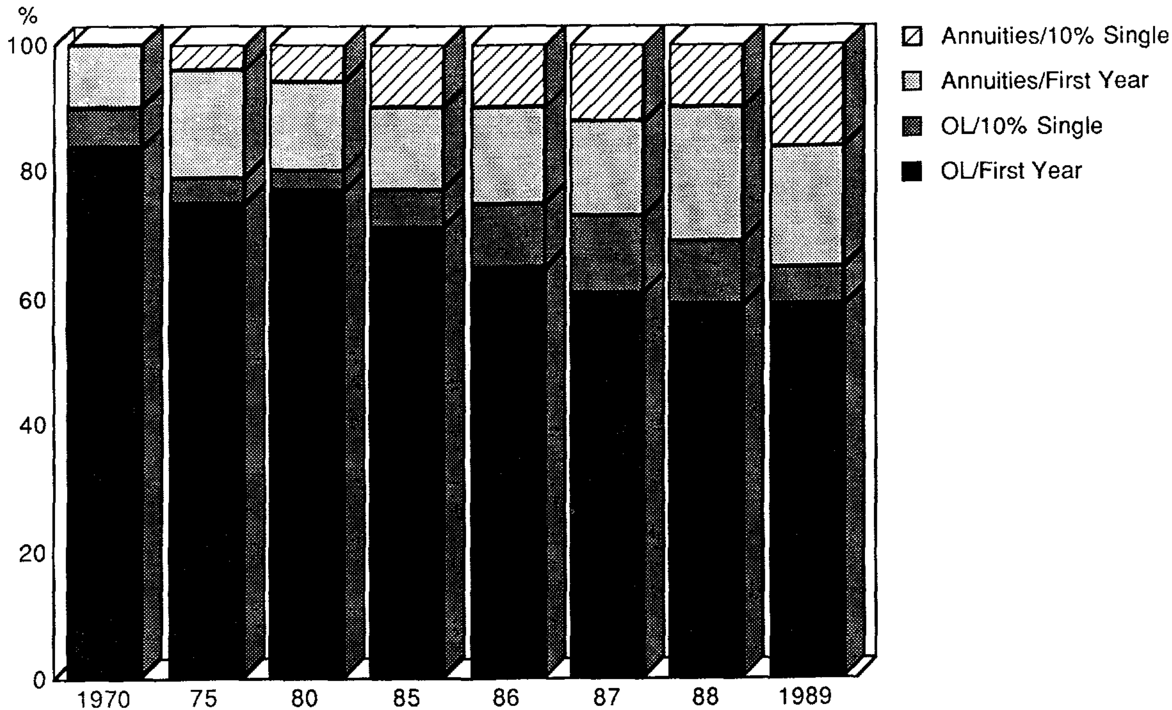


* Includes 10% of single premiums

SOURCE: Data from *Life Insurance Fact Book*, American Council of Life Insurance, Washington, D.C.

CHART 5

NEW INDIVIDUAL/ORDINARY RECEIPTS*
U.S. Life Insurance Companies



* Includes 10% of single premiums Bourdeau & Associates – 1990
Source: ACLI

I'd like to point out that I feel that the 1980s were almost a golden era for annuities, and let me tell you why. The competition was relatively mild. There were few players, but as the decade went on, there were more players. We had 30% annual growth. It's pretty easy to thrive and get business and maybe even make a profit when you have a 30% annual growth. The investment conditions were, in the latter part of the 1980s, not bad, relatively favorable. There was a somewhat steady economy, and I believe that most companies were generally attaining their pricing spreads.

I see a few people shaking heads. That's why I said generally. If they had trouble attaining pricing spreads in the 1980s, you've really got a problem in the 1990s. Many more companies have joined the fray. Some of the early companies are really focused. They know their markets. They've got good administrative systems, good procedures, and they're going to be tough. Then the new companies, the Johnny Come Lately's, probably will have to resort to some irrational pricing or market share pricing. We've still got the question of what kind of economics, what kind of investment conditions will we see in the 1990s?

As far as the market's distribution of products, each speaker will cover their specialty in some detail. I see it as not a homogeneous market. If somebody calls you in and says we need an annuity product, they're not selling all the same product, not with all the same bells and whistles, not in the same market, not for the same people, not through the same people. I find it extremely diverse and homogeneous, as it should be for the size market we have. We have a lot of distribution systems, and we have stockbrokers. But even within the retail stockbrokers, you have the large national firms where you have to treat them with a certain amount of deference and proprietary products. You have the regional firms which you have to deal with differently and the local firms. For financial institutions, banks, and savings and loans, it's the same thing. There are many styles of play within those, and we're seeing a second and third generation of selling techniques as everybody trashes their kiosks and tries to find other ways to sell. In either case, about 25% of the savings and loans and banks have initiated annuity products in the 1980s, and we would expect that number to go to possibly 85% or 90% before the end of the decade. In either case now, it's hard getting good statistics on the industry, but they're somewhere around 20% of the single premium annuity market. We have our established ordinary agencies and the brokerage networks. We have specialty marketing companies where pretty much the salaried personnel are selling through personnel directors of colleges.

A comment on direct response. Historically, at least in my experience, until recently, there have been no successes in direct marketing of annuities. In fact, there has been incredible failure, but that is changing. I have talked to several chief executive officers in the last few months that at least are saying they're getting some success, and I believe them because they're continuing to mail. This is logical because the direct marketing of annuities is likely to be a factor as annuities become more and more mainstream. The product has to be very mainstream, very simple, and very accepted to be sold direct marketing.

A comment on products. Obviously you have the single premiums and you have the annual premiums. You have qualified, nonqualified, variable, fixed, and then we have combinations of products that allow you to choose how much fixed and how much variable you want. The modified guarantee product is now just starting to be used. Of course, you have front-end loads, back-end loads. I could go on. We have specialty products like split annuities. Jim Thompson will cover that item in detail. We have agencies that specialize in selling in banks, that are enamored with things like the seventh day life and annuity combination for tax reasons.

I see current and guaranteed interest rates all over the ballpark. In the last year, I've seen 6.75 credited rate and I've seen 10.25. I've seen all kinds of early year guarantees, but I've seen ultimate guarantees anywhere from 3-5%. Commissions are all over the place. They have to be consistent with your marketplace. I've seen single premiums that are almost like a bank account with a 1% commission. I've seen, very seriously, retirement related single premium products with 12% rates. So it's dangerous to think there's one product out there. You have to fine tune your approach, obviously, to your specific customer base, your specific distribution system, and stay consistent and loyal to your company objectives.

The burgeoning annuity market is obviously straining the capital structure of companies. There's been a shift. Historically, our primary risk was mortality, a nice, stable risk, something we're comfortable with. We've learned to live with it. Now and then, we get a scare like AIDS, but even that I think we've got under control. Clearly, the mortality risk is now secondary in our business. The basic credit risk, the C1 risk, and as we move into junk bonds, mortgages, what have you, and real estate. Then, of course, we've got to deal with disintermediation as we try to maximize our return and match our ever-changing liabilities.

I think we're learning fast. We can make pretty good use on Macaulay durations and talk knowingly of convexities and caps and swaps and options and futures. In spite of all our good learning and analysis, total immunization or anything close to it is not particularly feasible, so the business remains quite risky. I think we need a better understanding of our liability side, which is our responsibility. There was a discussion yesterday of the risk-adjusted capital ratios. I think we're going to see more of that. Moody uses it as part of their evaluation of your claims paying rating. It's interesting that in these risk-adjusted ratios, they might assign 1% for GICs, assets, and liabilities and 2% for life insurance, but it's 3% for annuities.

They're also coming up with a mandatory real estate reserve similar to the Mandatory Securities Valuation Reserve, like 2.5% of mortgages, 10% of those that are in default. So I think what happens if the risk-adjusted capital ratio becomes a real meaningful industry in a handful of years, it will have a big impact on the annuity operators. First of all, they're the ones that are straining for the earnings. They're likely to be into assets that need risk adjusting or need more capital behind them. I saw a run number on a traditional basis; that in 1980 the industry ratio of capital plus Mandatory Securities Valuation Reserve, our traditional way of looking at it, over liabilities was 8.6%, and by 1988, this had dropped to 7.6%. You have to ask when will it stop decreasing. I think the question we have to ask ourselves is could we cope if short-term interest rates went to say 20% and stayed there for a year or two.

In summary, I think we've enjoyed incredible growth in the 1980s under generally favorable conditions, and we will have many more companies on the bandwagon, so we look forward to real competition. Survival will require, now that the market is big enough, a real defined product, distribution, customer, and niches. While you're doing that, you'll have to pay attention and build a financial fortress.

MR. THOMPSON: One of the niches which Paul mentioned is the sale of annuities to banks and savings and loans. The combined banks and savings and loans we call the institutional marketplace. This place has had a large and growing premium value. For the past few years, one consultant estimated that premiums grew from four billion in 1987 to seven billion in 1989, and recent headlines in *The National Underwriter* predict 35 billion. This, of course, is obviously due to sort of whirlwind market penetration.

There have been some companies which have tried to answer the bank annuity marketplace, however, which have received disappointing results along the way. There are pitfalls in this market, and we shall explore them. Tellinghast has surveyed over 100 of the top insurance companies by asset size. There were 87 replies which were compiled and presented at a seminar on institutional annuities earlier this year. There are some very interesting observations.

The problems in this marketplace were perceived as the following. Cultural differences accounted for 33% of the problems. By this is meant any difference between the corporate culture of the institution selling the annuities and the insurance companies and their agents who are the vendors. Distribution problems come next in importance at 28%. Some of these are, in a sense, cultural; but they relate to the compensation and how it is apportioned and how this relates to production. Then comes regulatory problems at 17%, and finally, product problems at 16%. Thus, in approaching this marketplace, there are other concerns which must be addressed rather than just simply comparing product features.

First, we shall handle the cultural aspects. There are some different business procedures which insurance companies should pay attention to. Some of these are fairly simple. One example we came across was something called the letter of intent. Now, remember what banks do is they put an annuity program in place and sometimes they roll their own certificate of deposit into the annuity. Sometimes, there are credibility problems in an institution, particularly with savings and loans, and people would rather trust the insurance company. Sometimes, they roll deposits from other institutions rather than from their own. Some of these people make new deposits.

In any case, you have to have this letter of intent, which is a procedure. If a person comes in and he gets an annuity quote and he says, "I want to roll my certificate of deposit, but I want to go home and think about it and consult with my grandmother or somebody else," you write down in 30 days, if you come in, if I've quoted you 8.5% and I've lowered my rate on money to 8%, we'll give you 8.5% if you roll that certificate of deposit.

Another is the use of the receipt for the premium. To us in insurance, when we have an application, we have a little tear strip at the bottom and we rip it off saying, "We have received your $10,000." Now some companies entering the institutional marketplaces found that instead of giving this, they give what is legally your premium receipt, but they make it into a big guild certificate. Therefore, psychologically, the person who is buying it thinks he has something. He has something that's like a bond or a stock certificate, but he only has legally his premium receipt. Now a related issue to this is the ability to issue policies in the field. Some people who buy CDs get a CD now. They walk into the bank and they buy a CD and they have that now. They don't understand the idea that they have a premium receipt and the policy is going to come in the mail someday, maybe. They may have had bad experiences with insurance companies not delivering policies, maybe a month turnaround for a life policy or something. You cannot have that, so you have to make field issue available through some arrangement with the bank. If you do not have this, you will be cut out of some marketplaces; but if you have a very, very quick policy turnaround like a week, you will be able to have an entry into others. Essentially, the institutions are used to making something seem easy and routine to their customer. If the insurance company is not accommodating and does likewise, some other insurance company will come along and make it accommodating and get the business.

Distribution problems are second, and they come from the difference between a commission culture where rewards come from production and the institutional culture which is much more bureaucratic. The two most common methods of selling are by using personnel of the institution who have been trained or by placing agents in the institution. This was referred to as the kiosk approach. When the latter is done, there are very often sources of friction which arise due to the perceived high-pressure tactics of the agents when the agents feel they're simply doing their job. This approach has been perceived as much less successful. When sales are through the institution staff, other problems arise. The bank gets a commission. But how is this commission which the bank gets related to the way that the employee who makes the sale gets compensated? What sort of carrots and sticks are there for that person? The bank managers may need help in designing a compensation package.

Just from doing some little informal surveying before this meeting, I found that there's a general perception that a platform person is better than using a teller. Banks, if you go into them, have tellers who line up and take your cash, and then there's a little platform, usually elevated with a little rug and so forth, and there you do more highclass transactions like rolls. So what the marketing organizations like to do is train those people, at least one or many of them, to make the sale. They find that they get better results and more control.

Another problem actually is that the marketing organization that the company is dealing with may not give sufficient attention to your insurance company's product. Remember, the marketing organization is rewarded from its sale, and it may carry three or four products. If there's some perceived service difference and your company is perceived as inferior, they may just ignore you and prefer to deal with somebody else.

Last week, there was a session called the Walt Disney Management Style. I attended. I don't know that too many people did. At first I thought this might be some kind of laugh, because you associate this with what I call management by the mouse. That was a nickname for the course. They were handing out little Mickey Mouse dolls if you gave the right answer. At the same time, when you really analyzed what was going on in that session, I really learned something and I think that insurance companies going into the institutional annuity marketplace could learn something.

Basically, the whole philosophy of Disney, to some extent, is extreme attention to detail in customer relations. So they try to give the person a happiness experience. They pay attention to all the little customer contacts all along the way. I believe, essentially, that detail in the customer relations process is critical to the bank. So if you want to avoid a lot of Mickey Mousing around with frustrating sales results, the wise insurance company should pay attention to detail.

The third problem is the regulatory environment. This is an extremely complex issue. There's a whole seminar that's devoted to it. There are state and federal regulations. There are state and federally chartered banks. There are issues of banks selling insurance, owning insurance agencies, and actually underwriting insurance. Generally, the banks have been perceived as expanding in this area. You'll note that when I surveyed marketing organizations, I found out that one actually hired their own counsel to keep up on these changes, but most of the rest received help from the insurance companies themselves.

One issue of note in this area is the opinion of the comptroller of the currency authorizing the sale of fixed annuities by national banks. This was promulgated in February of this year. Although some insurance companies sell through institutions and some do not, the American Council of Life Insurance, which tries to represent broad industry positions, is filing suit against this because it is a threat to our entire business. Derrick Hughes of the ACLI, in a phone conversation, explained it to me. The comptroller believes that although annuities have historically been a product for insurance companies, they are primarily financial investments and functionally resemble certificates of deposit. That is stated in the opinion. This ignores the life contingent features of annuities, and the ACLI is primarily interested in challenging this because there are several points. One is federal law is preempting state law. It's kind of the state's regulation or state's right rule, which has been traditionally the way we likely regulated it. The other is an issue, in this case, to what extent, once the federals can regulate it, can federal law preempt state law in determining who can underwrite the business. It's this underwriting issue which is very critical. Recently, the Federal Reserve Board nullified a Delaware law which would have expanded insurance powers to the banks to include underwriting. So the conflict between federal and state law varies and it goes on in The National Underwriter month by month.

In summary, any insurance company going into the business should be aware of regulatory complexity. There was a seminar on bank annuities on the first day of this session, and there are a couple of points I wanted to make. First was that cultural differences existed in Europe, and second that the regulatory problem is somewhat unique to America because there's a high level of regulation here, and there is more of an open atmosphere in Europe; but the cultural problems, including the perception of the pushy salesman, I think, was somewhat common to both.

The fourth area we're going to get to is the product itself. My company, Federal Kemper, has been in the institutional marketplace for approximately three years, and I have followed various product trends, plus I did a little informal polling prior to this meeting of various competitors. I found some rather interesting and somewhat surprising results. The products in this marketplace are usually conventional single premium deferred annuities or flexible premium deferred annuities. The more sophisticated CDs and modified guaranteed annuities do not seem to be present. There are, I think, one or two variable annuities here.

Most have a typical interest guarantee, which is one or two years, policy or calendar. Some have a choice of one, three, or five interest years. Several of the larger companies that sell have interest bonuses; let's say 1% higher for the first year. However, my own agents of our own company tell us that what the banks are interested in is level and fair recrediting practices. They're very leery of high first year rates with a low next year rate, and a lower next year rate as the rates go south. They don't want that, but apparently, a one year kicker is acceptable and selling well.

Bailouts are not common in this marketplace. I looked at the surrender charges and they tend to be longer than your conventional single premium deferred annuity; maybe seven or eight years rather than five or six. My guess is this is probably due to higher initial commissions. Now, why would there be a higher initial commission? Remember, the banks somehow found out what sort of commissions we make in the annuity. They want to bring that income into the bank somehow and the marketing organization is usually the one that presents the insurance company's case to the bank; so they have marketing expenses, so this tends to raise the commission to be somewhat higher, so then I guess the surrender charges go longer. Again, there are some large and successful writers that may have shorter surrender charges, and my guess is, commissions are smaller.

A comment on the European market. The European market has lower commissions because they have a higher velocity of sales. The agent is expected to make, and I think in the seminar they mentioned almost one sale a day. This has not been an issue in the American market, so my guess is that the people still like the higher commission. There is one surprise. One popular feature which is somewhat unique to this marketplace is the return of premium guarantee. Now, what this means is after the free look period, if the annuitant feels like backing out of his annuity contract, he can just hand it in and get his full premium back. This means, in effect, you're waiving that surrender charge protection that you're so accustomed to with your normal single premium deferred annuities. Obviously, this produces a higher minimum reserve, but only in the first year because after that, the credit and interest is probably enough to compensate for the surrender charge. One company had an innovative approach of adopting the return of premium guarantee by administrative practice, thus avoiding the reserve problem.

The flex feature apparently is used because some of the agents perceive that they want to roll multiple CDs into one annuity and that's easier than selling several single premium deferred annuities; but this, again, is sort of a mixed feature. Some companies do it one way and some do it the other. There is something called trailer commissions, and that means you pay a percent of the assets on retained rather than up-front commissions, and this does not appear to be very popular in this marketplace. Surprisingly enough, the products are fairly simple and not that tough to design.

Let's look at what sort of clients you're dealing with. You're generally dealing with average income people. This is another thing that was pointed out in the European session; that the banks tend to relate more to the average income people. Some insurance companies go upscale in the marketplace. So you're dealing with average people who may not be financially sophisticated. So then having simple products should not be that much of a surprise. Now we're going to hear from Paul LeFevre, who will discuss another niche marketplace -- stockbrokerage annuities.

MR. PAUL H. LEFEVRE: I was thinking about what to say here in ten minutes, of which only two are left. I'm going to just describe what I think are the major trends that have been evolving this year in the stockbrokerage market. I'll concentrate on the major firms, even though the regionals are extremely important, and I'll explain why in a minute.

There's really five areas that I want to cover. The first one is proprietary products. There has been, mostly through mergers, a development in most of the major firms where they have proprietary product. That means a subsidiary, a sister company, some life insurance company in the organization that is providing annuity product through their system, and in many cases, to outside their system. In the case of Merrill Lynch and Dean Witter, it's mostly aimed at their own system. In the case of PruBache and Shearson, Prudential is selling in other places, as we all know, than just the PruBache system.

The fact that there's proprietary product does not exclude other companies from being in these systems. As a matter of fact, all the FCs of all these brokerage companies have to have an element of independence. They have an element of independence. They have to have other products to offer, so it doesn't preclude the offering of products from companies such as ours and others in those systems; but it does create a situation where the providing of product is, in most situations, secondary. It's a secondary product. The compensation to the FCs might be different. They might get more credit of one form or another, either direct compensation or some kind of cross credits in their bonuses or qualifications for trips or things like that from the proprietary product. There is a very big market. Using us as an example, we write a substantial amount of business in the firms that do have proprietary product and there are other major writers which do as well.

The other thing that's happened this year is that the brokerage industry in general has suffered a little bit. Let me just say it that way so I don't make any enemies. There has been a cutback in services. There has been a cutback in personnel. In some cases it's just annuity and life products, and in some cases, it includes all kinds of external products, such as mutual funds and whatever. These departments have had drastic reductions. I remember visiting one of the major firms in New York this February, and it looked like they should be going into the furniture business. There were desks all over the place, but nobody sitting at them. That's changed things so that they are demanding more from the life insurance company with respect to selling services, wholesaling services, sales material, sales ideas, and communications to the brokers.

In many of the firms, there's been a real pick-up in the demands that they're placing on insurance companies, because what's happened is that a lot of the departments within these major firms are fighting for their very existence. They have been cut back in expenses, they've been cut back in personnel, but the expectations have not been cut back. In some firms it has created a real survivor type of instinct, a real fight for existence, a fight for sales, etcetera.

One phenomenon that's occurred in this process, hasn't occurred across the board, but has occurred in some of the firms, is what I call either the special offer or the syndication, but sitting down with a specific company and making a so-called special offer out to its agents. The general features of the special offers are that there's a limited amount, that there's a limited time; for example, the earlier of $50 million or one month. Normally, there is something attractive about it, be it product features or rate or both, and quite often, there are some special commissions, normally a reduction in exchange for the offer, etcetera. Sometimes the commissions are a little lower. The purpose is very simple. It's to create a lot of revenue into the brokerage firm quickly and help them hold their jobs a little bit longer. That's one way of putting it. It also, for the insurance company, creates an opportunity or an ability to either test market a certain approach, introduce some product features that might or might not take, or do some tax planning by using or not using bailouts on these special offers. So it gives an opportunity to quickly get on your liability side a specific type of liability that might be different from some of the others. It does create a great deal of confusion in the market. That's the down side of it. It's a confused annuity market already, and when these special offers are occurring and when they come and they go, it does create a bit of confusion as to why did the rate change so quickly.

The other thing that has always been there, but has really intensified this year, is in the area of 1035 exchanges; there has been reaction to adverse news about certain companies, and those reactions to adverse news have resulted in movement of annuity money from one company to another. There are two driving forces to that, and in most cases, I believe that a lot of it is client driven. We like to be cynical about the stockbroker. We like to feel that it's being driven by the companies and the brokers themselves. It's a great opportunity to rewrite business and get a new commission, and there's quite a bit of that involved; but when there are articles in public magazines, and in the press, that are concentrating on certain companies, companies where clients have their money, the first person they call is their broker. The broker calls his home office or his regional office and eventually gets back to the company, or the customer calls the company directly. Should I get out of this contract? Can you put me somewhere else? What are my tax benefits? So there has been a pick-up in 1035 exchanges. There's been a movement eastward of some annuity money, I guess we could say.

The other thing, and I'll take a hit on it and it combines the one I just mentioned, is product features. The stockbrokerage market has a love affair with five-year surrender charge periods. I feel there is a difference between seven years and five years. It is more than two years. In the minds of the brokers, in the minds of the home offices, and

I believe in my mind as well, that it has to do with how long brokers are around, and how long the memory is.

The popularity of short-term CD annuities Jim will spend time on. There was a popularity and it was a defensive thing. There was a use of short-term CD annuities, the one year CD annuity more in 1989 than currently. That was a defensive thing. It was parking money in CDs. It was the broker parking money somewhere where he still had control of it, where he could move when things made sense of where to get the customer to. Brokers sell CDs. Brokerage firms sell CDs, but they sell them at a very small commission compared to what they get on their CD annuity.

Many of the firms like to correlate what they're pushing and what their analysts are pushing, what their economists might be pushing through with their brokers with the annuity sales. If there's a feeling that interest rates are going to be going down, if they're pushing bonds, they like to push annuities with longer term guarantees. The industry, in some cases, has responded to that, but the surplus considerations combined with some of the newer reserve considerations almost point to the MBA type annuities being the major answer. That's one of the reasons that there are a couple of successes in the stock brokerage firms with the MVA annuity, which I'll cover a little bit in a minute.

There is another feature that's become very important this year in product, and it's more of an administrative feature. It's a feature that's very difficult to do with most annuity systems. Companies are sort of doing it with bandaids, and that's when you do a 1035 exchange, what rate do you pay to the customer. Do you pay the rate at the time the case was solicited or do you pay the rate at the time that the money comes in? Most major firms, in essence, are demanding that you pay the higher of the rate in effect when the money comes in or the rate when the application came in; but many companies are taking a hard stand on that and saying you can't have it both ways. We'll pay the rate when the money comes in or we'll pay the rate when the application comes in. Some companies give it a choice on the application, but that's a very important feature.

The last thing that I'll mention is what I'll call the due diligence considerations. The firms are very nervous. Their customers are very nervous. The press is making them nervous. Those of you that saw *The Wall Street Journal,* if you stopped at the article on annuities and their features, fine. If you kept going to page B5, there was an article about a Ralph Nader report that mentioned five property and casualty companies. The report that they were referencing was 145 pages long. The paragraph summary of it was these five companies could have severe problems in certain scenarios. Three of the companies mentioned were the parents of major annuity writers -- Liberty Mutual, our parent; Hartford, The Hartford Company's Hartford Life parent; and F&G, F&G's parent.

At Keystone Provident Life, the phones started ringing off the hook with customers calling, and agents calling. It's a very nervous market out there. This year, the due diligence concerns, the calls coming into our company and I'm sure the calls coming into your companies, junk, junk, junk, junk. Ninety percent of the calls coming in have revolved around junk. We spent the first few months of the year trying to educate people and asking back the question, "What do you mean by junk?" The educational process in comparing published tables with regard to any IC based definition of junk -- no bonds versus S&P and Moody related definitions -- the differences are very big. Companies can have 5% in no bonds and can have 15% in the better of Moody's and S&P, and how they deal with their unrated bonds can come into it. We spent an awful lot of time, as I'm sure many of you did, trying to get people to compare apples to apples. Then when you got them all ready, the NAIC goes ahead and changes the way they do the Mandatory Securities Valuation Reserve.

That is what I was mentioning before. It's driven. The article appears in *Fortune Magazine,* and wham, it starts a whole chain reaction. The article appears in *Money Magazine.* Jane Bryant Quinn says a certain thing. A life insurance company issues a white paper, a very long and involved white paper, and the press picks out what they want to pick out from here and here and then you've got another crisis. So due diligence has gotten down to the point where it's almost reactionary at this point. Major firms are asking us about junk, and they're not even asking about the asset liability matching structure. I think pretty soon, they're going to forget about junk and they're going to be calling and asking about real estate. They're going to be asking about commercial mortgages. It's like a constant evolution. I think I'll stop there because we're really getting tight on time and I think we should leave some time for questions.

MR. THOMPSON: One of the best definitions of the CD annuity comes from the annuity evaluation letter #8957 of the Illinois Department of Insurance. They are defined to be single premium deferred annuity contracts marked as individuals in which the contract guarantees the initial rate for a period of time with surrender charges applicable during that time. In effect, the policyholder has a window of full access to the accumulated value at the end of the initial period with the high interest guarantees. This window of full access is typically 30 days beginning on the policy anniversary, during which the individual can roll his money out of this annuity. If no action is taken, the annuity company rolls the contract forward for another N years; so if a person buys a five year guarantee, he gets it rolled forward to a five year, but he usually has a choice of interest guarantees.

What do you do if there's a surrender penalty between these guaranteed policy anniversaries? Sometimes there are infinite surrender penalties; namely, you cannot surrender it. Now, this would violate the nonforfeiture law, but such contracts are filed as group contracts in certain states which have a rather lax attitude for defining groups. Otherwise, there's typically, let's say, a flat 5% surrender penalty if you have a five year annuity or a flat 1% if you have a one year guarantee.

When talking to your marketing people, you will find that the CD annuity is often taken to be the short terms, like one or two years; but according to this Illinois definition, the guarantees can be N years or N is anything. Surplus strain considerations, as well as the stockbrokerage perception which Paul LeFevre mentioned, generally limit this to about five years. So you typically have a range of one to five year guarantees.

What do you do with partial withdrawals? Well, if you have an infinite surrender penalty, you don't allow them; but some companies will allow loans. However, the general tendency is for companies to have the usual 10% free-out which you have for other features. Pour-ins. There's at least one company out there which has a CD annuity with a pour-in. Now, we as actuaries know that if you pour in more than one premium you actually have a flexible payment deferred annuity. That's the way it legally is filed. This company, I think, also has surrender penalties which are based on when the premium is paid, so it's not from issue. The marketing people will say this is a single premium deferred annuity with a pour-in.

One of the obvious points is that if you have a five year guarantee of interest, then you should be investing in five year investments; because then when the whole contract matures, you want to be able to have your investment maturing so you can reinvest them in the current interest environment and then keep current so that you can offer competitive interest rates so your policyholder sticks with you instead of taking his option to roll the money 1035-wise out of your company and into another company. So the policyholder feels happy because he knows the company he's with should give him the current rate.

Now, there are certain problems with this marketplace besides investment strategy, and they are commissions, persistency, and surplus. What sort of compensation do you have? Generally, the shorter the interest guarantee, the shorter the commission. Now, do you give renewal commission? In other words, do I have a two year CD annuity and give the agent a commission every time he rolls the account value forward? This is a jungle issue. It's also an antitrust issue. All I'm saying is that you have to be aware of the fact of what your competition is doing and don't necessarily believe what the agents say, because they'll tell you what they want. I've heard all kinds of statements, and as I said, this is an issue you have to nail down within your own company. Some companies do not offer renewal commissions. In other words, they pay the up-front commission. If the annuity rolls forward, some companies do.

There's also persistency. As you might suspect, if you don't have any commission, you probably are going to get some rollovers out of your product. Then the other issue is surplus strain. That Illinois letter I mentioned dealt with valuation and we know in CARVM you discount based on contract year ends. So if I have a 5% surrender charge and I guarantee 8% interest five years from now, my CARVM is supposed to be discounting that, but at the contract year end, which means I have a surrender charge. By the Illinois interpretation or valuation letter, you have to go forward with the full 8% to the account value and come back and this raises your surplus strain. This is a very serious issue.

Has the Illinois regulation had any effect on people? Well, I know that I have watched the competition in this marketplace and I've seen two or three competitors drop out of the market. They suddenly say, "Oh, our re-crediting rate is in the sevens," which essentially means that they're dead in the water and they're not going to make any new sales. Is that a reaction to surplus considerations, to investment, or to something else? I'll leave that for you to speculate. There's an interesting new product I saw filed this year which was a CD annuity, but it had certain, interesting features. One was the renewal rate. Now, remember that the idea and the power of this is you say, "Well, I'll give you, Mr. Annuitant, N years from now when you re-up, you stay with me and I'll give you a current rate," whatever the current rate is for the new issues. This contract says the renewal rate will not exceed the rate at issue of this contract. So if I issue you an 8% guarantee and in three years from now I'm issuing 8.5% on new money, your contract gets a maximum of 8%.

Another point is this contract has one and three year guarantees, but no five year guarantee, which is traditional. In effect, it shortened the N years, which shortens the surplus strain, but yet, by implication, my guess is that they have a longer investment horizon. They may have a five year investment horizon, and therefore, their investments are locked in. That's why they have these two features. Now, this is just a guess. My guess is this is a reaction to the Illinois regulation or to the general perception from the valuation actuary's viewpoint that he ought to be holding the increased surplus strain type of approach just because he wants to hold good and sufficient reserves.

Also, within the first six years, this contract says there is an interest penalty on the window and this interest penalty is something like six months worth of interest, so it's a small, little nick. It's not like a full surrender penalty. So this is a deterrent to rolling your account value out during six years. It means that the contract has to stick. So all these seem to me to be reactions to surplus strain and the perceived persistency problems within this marketplace. There's also another feature this contract has called the confinement waiver ride; namely if you're confined to a nursing home, you can waive the surrender charge and have access to your full account value. So this product appears to me to be a very intelligent reaction to the perceived surplus strain and persistency problems of this marketplace.

I want to go to another subject of confinement riders in general, and these mean that you waive the surrender penalty on an annuity if you're in a nursing home for 30 days or you have a terminal illness or catastrophic illness or whatever. These come across my desk from competitive studies and usually they're divided into two types. They are administrative procedure or policy rider. Then they can be for what's the event -- nursing home or convalescence, specified illness, or hospitalization. Most of these are tailored for older people, but hospitalization could be tailored for anybody and typically there's an elimination period. You have to be in this type of confinement for 30, 60, or 90 days and obviously, the more days, the less pricing consideration, the more chance it's negligible pricing-wise. These can be associated with CD, as well as nonCD annuities, and they do offer the company the rationale that they're offering something other than a mere certificate of deposit.

We're going back into morbidity or contingent events and maybe this will help us in our lawsuits with the comptroller of currency. Now we will hear from Paul LeFevre, who will discuss a more sophisticated product called the modified guaranteed annuity.

MR. LEFEVRE: I want to hear what Paul Bourdeau has to say about the tax sheltered annuity market, so I want to give him some time. Let me make this very brief. I'm not going to go through definitions. The typical modified guarantee annuity currently is being actively and successfully sold by two companies. It's a registered product. I should add a third company because one company recently is doing a great deal of selling of a fixed account and a variable annuity, which is a true MVA product.

It's a registered product. One of the major driving forces for the product is that it's a way of providing long-term guarantees with minimal surplus strain. The regulatory environment hasn't improved a great deal. New York has a law, Connecticut has a law, and recently Wisconsin and Missouri have passed a form of the model law. Other than that, companies in this market are having to use the group approach to avoid the nonforfeiture implications on the individual annuity nonforfeiture law. I think some companies are having some success just filing the thing individually in states, and if it gets approved, it gets approved.

But the major two companies, I think, are Merrill Lynch and Hartford. They're selling in the stockbrokerage regional and New York Stock Exchange market mostly, and I think they're happy with their success. I think it's good that companies are being successful. In the Merrill Lynch situation, it's got a lot to do with a captive product and a proprietary product and a very large, captive field force. Hartford, I'd say they've just been good and persistent.

I want to mention five things that I call evolutionary aspects of the product, things that have changed from the early design, things that have been forced upon or people have had to adjust to in the design of these products. The first one is the death benefit. The common sense approach is to say if somebody dies, they get the account value and it's adjusted up or down by the market value adjustment. That makes sense if you compare it to buying a bond. It makes sense if you compare it to what the basic purpose of the contract is. Unfortunately, it's also an annuity and annuities traditionally, on death, have had favorable aspects.

In the major product that's been sold out there, the product has evolved from what I would call the common sense approach, which says account value plus or minus market value adjustment, to account value plus or minus market value adjustment, but with a minimum death benefit of the original premium increase at a rate of interest so some kind of simulated accumulative minimal rate of interest; to finally account value plus or minus nothing. I think that's what the marketplace has demanded. It's one of these emotional issues that you end up caving on because it's not worth the fight. It has to be administered though, because depending on the way the distribution of death provisions is set up in the contract, it does provide an opportunity for antiselection; because the person could, in a sense, keep the contract. The beneficiary could keep the contract at the market value just when it's positive and keep it by exchanging it to somewhere else if it's negative. So there is an element for antiselection. That's more theoretical than has emerged yet.

The other one which I'll just mention quickly is the one I mentioned before, which is the rate hold on a 1035 exchange. It gets a little more difficult with a market value adjustment product. If it becomes a big problem, they do have to monitor it and run your investments accordingly, because you have money coming in at which you're paying a rate and basing your market value adjustment on a previous rate.

The third one is transfers, which has been an administrative issue with many of the companies and yet adds a product enhancement that makes the product much more marketable. In general, it does not get used an awful lot once it's there. It's one of these things that is more flash than use and that is the ability to, in essence, take your gain and move from a 10 year to a one year or a three year or whatever; to do something that would simulate a transfer between funds on a variable annuity; to change your mind; to change from guarantee period to guarantee period.

The one problem on that, again, that needs to be watched is that some of the products available, or the two major products available in this market do, to varying degrees, grade commissions by the amount of the guarantee period. There will be a higher commission paid on someone who comes in and locks up their money for ten years than for three years. So there is that administrative implication of you paid a higher commission for the 10 year and the person then transferred to a three year. What do you do with the commission?

The other thing that's coming along is generic to the entire annuity market. It's the latest fad. The latest fad is how can we all get together and destroy the tax benefits of annuities by selling people the ability and creating the administrative ability to take out your interest month by month. That's become a very popular feature, a very popular capability that companies have to demonstrate. It's called systematic withdrawal, a check a month or whatever. If you pick up any cynicism on me on this feature, you're picking up the right thing. To me, it's an indicator that there is something really wrong when we're selling a product that can still be attractive if you destroy the tax benefits; because it might indicate that our rates are a little high compared to the rest of the alternatives available to people.

The fifth item is the one I had already mentioned, it is the dealing with commissions. It's a product like a CD annuity. I think that the MVA product is a CD annuity. It typically ties the money up for a given period. Most of the products, at some point, have windows where you can get out without a penalty at the end of guarantee periods. It is a product that has the ability to pay a commission for what you get and that is coming along in some of the products. Since we've only got 15 minutes left, I'm going to let Paul go on to the world of tax sheltered annuities.

MR. BOURDEAU: Moving quickly, I'll highlight what the core of the tax sheltered annuity market is -- the almost six million teachers we have, including the support personnel and public and private schools, but there are other nonprofit organizations such as hospitals. The teachers are conservative, usually dual income families. The average premiums we're seeing on the flex products is like $3,500 a year and higher in some more experienced agencies. It's serious, stable retirement money. Near as we can tell, the tax sheltered annuity is about 15-20% of the new annuity premium market and we see, industry-wide, the reserves growing 20-25% a year and policies in force increasing 8%.

You'll find that the companies that are successful in tax sheltered annuities have a very narrow product line. Many companies have simply a fixed flexible premium and a companion single premium. If they're in the variable end, they also have a variable product line. Companies can do quite well without the variable. A lot of companies specializing in this have only a fixed product line. Someone always asks me the question, "Well, how much variable fix do we sell?" I would say that companies that have both in the fixed and variable business will sell about 8-10% of their new premium in variable in a bear market and then in a bull market, they might sell 10-15%, and year-in and year-out 10-12%. I don't particularly see that trending one way or another.

What kind of a fixed product does it take? Obviously an attractive current interest rate. You need a decent, but not heroic guaranteed rate. The long feature is a must and surrender charges should ultimately disappear. More and more you're seeing surrender charges being waived if the product is annuitized and then the famous 10% free-out.

What trends do we see? One trend I see is that surrender charges are tending to be more ample. There is not necessarily a bank account mentality where you've got to get your money in and out. This makes sense and it works in the sales situation. Of course, the higher surrender charges protect the company and it enhances persistency and it's consistent with retirement goals and the tax law. I think we see this trend, particularly since there is a penalty since the 1986 TEFRA, on taking money out of tax sheltered annuities. I see annuitization bonuses now starting to be used. They're not widespread, but that's where if you've been in the program X years and you annuitize over Y years, we will take your annuity value and increase it 2-5%.

We're seeing asset trailers being negotiated in more recent contracts. Where they are negotiated, they're all over the place, but they probably average 20-30 basis points. Tax sheltered annuities are marketed, as they have been, through many channels. There's the broker of personal-producing general agents who specialize in tax sheltered annuities and companies cater to that. You have big specialists, national marketing organizations. Those are increasing. You continue to have an occasional sale by traditional agencies and you have special marketing situations like taxable income adjustments that I mentioned.

There's clearly a trend away from the casual producer towards the producers who specialize in this business. Recently, several relatively large companies have set up parallel distribution systems exclusively for the taxable income adjustment business and essentially totally divorced from their other operations.

I've been asked to mention one minute's worth on the two-tier annuity. Howard Kayton, who's in the audience, is chairing a committee for the NAIC subcommittee to look at this two-tier annuity. I think we have to make clear what a two-tier annuity is. That's where there's a difference between the cash surrender value and the annuitization value. Because initially, the only two-tier annuities you had were those using dual interest rates -- one interest rate for the cash value and one for the annuity value -- there's a tendency to equate them; but it's a mistake to equate them. They are different. You can have a two-tier single interest product and you can have a two-tier dual interest product. So one can lead to as many abuses as the other. They're not inherently more abusive or more holy than the other.

I think the real issue is to disclose the interest rates for the cash values. They should be disclosed, and the surrender charges should be disclosed. Another issue is to avoid the lock-in and provide a fair alternative for withdrawing monies, and that applies to both type of annuities.

A quick summary is it continues to be an attractive market. A company that's successful with a very narrow product line, the product line may be narrow, but the successful companies have a really focused marketing approach and through a specialist distribution system.

MR. THOMPSON: My comments on the split annuity are fairly brief. This annuity was popularized years ago when you sold an immediate annuity for N years certain and single premium deferred annuity with an N year guarantee for a certain premium and you got income and then at the end of N years, the single premium deferred annuity gave you your full initial premium back. This got its blessing from an IRS revenue ruling 8720011, whereby this unitary contract was split into two for the sake of tax purposes, and this revenue ruling was recently revoked. So in the ambivalence surrounding this, we don't know whether we have a good product, a valid product. Most companies have pulled out of this market. A couple are still selling it and telling people that they may be in trouble.

One company came out with a revolutionary new product. Essentially, what do you have here? You have an income stream, but you don't have it fully locked into an immediate annuity. You've got to have some accumulation value. So some company devised a revolutionary product, which is a 15 year certain immediate annuity participating, and it has a low interest guarantee around 3%, and the dividend buys you extra years of income, not extra income. It's all spelled out in the contract, so there is some interest rate credited. Well, if this interest rate credited falls below some rate in the first six years, you can get your money back. After six years, you can take out your full present value of benefits or you can keep it in and hope that the crediting rate keeps on buying you years of income. What has the IRS done about this? So far nothing. Apparently it's a valid contract and it caters to the idea of having less lock-in to your money than a regular immediate annuity. So this may be a product of the future.

MR. LEFEVRE: Let me just make a couple of comments. The thing that amazed me about the growth in the annuity lines that Paul Bourdeau described at the beginning was that during the period of time when that growth was most occurring -- towards the end of that period -- it was a period of time when the tax benefits of annuities were seriously changed and cut by a series of tax laws starting with TEFRA. Again, I would say that somehow or other, we've managed to sell more and more annuities at a time when they're becoming less and less attractive from a tax standpoint. They must be becoming more and more attractive from another perspective.

I think that the thing that I would like to say is, and maybe the easiest way to say it is to make a plea, that I think it's a very difficult thing to do within the structure of most of our companies and that is that you have to start using or continue to use or be able to communicate option pricing type of approaches and option pricing type of results to senior management. Why is it very difficult? I guess what I'm saying is the reason it's very difficult is because the accounting either stat or gap isn't set up to in any way support what you might or might not find out from an options pricing basis. But it's an early warner. It's something that tells you what's really going on here.

Everything that we've talked about with regard to product features, as minor as they might seem, cause an element of imbedded option in the product. They cause something that could have an effect. The other temptation, and this is the other plea I would make, is that people have a tendency to hide behind, "Well, we don't really know how people are going to behave." And we don't. We don't. I can make arguments in certain markets that the interest sensitivity is going to be extremely different. I believe that if you design your products for the worst case, you're going to get the worse case; because you're going to do your rates and you're going to manage the product in a way to manage to the worst case, and you're going to get a self-fulfilling prophecy.

What I would plea is that in order to deal with that is that when you do option pricing type of models, you do sensitivity testing. You take your lapse algorithm, whatever it is, and you double it and you have it and see how much effect it has on the results, see if it's major. But unless we all succeed in going in that direction, we're taking pretty big risks, as Paul indicated by the session yesterday, which was a very narrow universe. It's the companies that are rated by Moody. There's a very big difference in the capital ratios in companies that are in the annuity business versus companies that aren't. The annuity companies happen to have lower capital. I think the market is heading in a way . . . and it's a very confused market, as I said earlier. I think that things that are coming down the pipe or could be coming down the pipe in all the markets -- a tendency that more and more of the public becomes aware of annuities, and they're becoming aware of them. It's a big word. There's articles in *Money Magazine*, *Changing Times* and *Consumer Reports*. It's a product that has a great attractiveness today.

You might be getting in the direction where people are going to be trying to buy at wholesale or trying to buy at a discount. That's the biggest prediction I would make. You're going to start seeing a solution to the inroads in the mass marketing. You're going to start seeing discount brokerage firms figuring out a way to make the annuity look more attractive, and what you would pay to the major firm will be passed on to the customer.

The bank market is heading that way. As the bigger banks get into it, the compensation is coming down and the products have to become more competitive. Well, you've got five minutes or three minutes for questions, but we'll hang around as long as you want.

MR. ROBERT H. DREYER: Recently, we've seen a marketing program for nonqualified annuities largely aimed at the college education fund market; that is, claiming to avoid the 10% premature tax penalty by using a 1035 rollover. In other words, you take a deferred annuity and at the time college expenses are needed, you make a 1035 exchange into an immediate annuity and avoid the 10% tax penalty on the immediate annuity. Have any of the three panelists run into this yet? I'd like to hear your comments. I think it's a looser and will be short lived at best.

MR. LEFEVRE: I'm aware of it, I've run into it, and I sent it to our legal department. On the surface, it doesn't seem right, but I'm not a lawyer. That's about all I can say. Anybody else?

MR. GARY W. PARKER: I guess it's a question primarily for Paul LeFevre. In the stockbrokerage marketplace, what kind of lapse rates can we expect at the end of the five year surrender charge period?

MR. LEFEVRE: Somewhere between 10-100%. Let me expand on that just a little bit. We have had about 350 million of primarily stockbrokerage business passed through that stage. This was a product that had a five year surrender charge. It was a product that had a level five year surrender charge with a cliff. We lost approximately 7% of that business when it hit the end of the first surrender charge, in the year following the surrender charge. We lost on the stuff that's made it to the second year. In the second year, we lost around 10%. Having said that, I will state that business was renewed at rates that were between 25-50% above what new money rates were on comparable products.

Would I use that in pricing in today's market? No. I sat at dinner with a broker of one of the major firms, and they're nice people I found out. He was very candid with me. He said that we have a tough job keeping the business. He said that it was a battle between him and me, and he hopes we win the battle, but we're going to have to figure out how to win it ourselves. If we give the brokers any opportunity to move that business, they're going to move it. So what do you depend on? You depend on the broker not being around. You depend on being able to have some degree of customer loyalty. I know some people are using numbers in the 35% range. I think some companies have experienced that much.

The other comment I'll make on persistency is we have been in both the bank business and the stock brokerage business. During the penalty period, our stock brokerage business has about one-third the surrender level than does our bank business during the penalty period. I suspect afterwards it will reverse a little bit. We had another question right up front here. There's nothing after this.

MR. ROBERT J. JOHANSEN: It's not a question. It's just an observation. I recently reviewed a tax sheltered annuity with an annuity guarantee based on a 1983 table without projection. With the volume of annuities increasing all the time, I think the 1983 table is out of date, and I think any guarantees should take projection into account. There isn't any recent experience. There is certainly none on individual annuities. We have population and mortality rates up through about 1987 or 1988, and on a sample basis, up to 1989. I think Scale G is probably still good, but I think I would tend to look at projected mortality rates with a cut-off of 2010; because who knows what's going to happen that far out. There are questions on Medicare. We may reach a point where if you're over X years, no treatment that will extend your life will be permitted. We seem to be getting that way. There are some limitations in Medicare, so I would cut it off at 2010. But I think it could be a real problem in the future.