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REINSURANCE OF ANNUITIES

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Annuity reinsurance has become much more prevalent recently. Panelists will discuss how it is accomplished, what the inherent problems are, and whether or not it has achieved its desired results. Reasons for using reinsurance now, that may not have existed before will also be discussed.

MR. MELVIN C. MCFALL: Bob Buckner is from Employers Reassurance, and Melinda Willson is from Transmerica Occidental.

Annuity reinsurance conjures up a question. What would an annuity writer want with reinsurance? I'm going to try to answer a few of the most frequently asked questions about annuity reinsurance such as, why do companies buy annuity reinsurance in the first place? What reinsurance products are used? How does quota-share coinsurance work? What risks are transferred or assumed in a typical annuity reinsurance transaction? Bob will then come in to talk about the kinds of factors that must be present for one of these deals to work. He'll talk about the model reinsurance law, and then I'll wrap it up with a few parting observations before the question and answer session.

Before Bob and I get started, we should point out that what we'll be focusing on primarily is coinsurance of fixed, deferred annuities, and more on coinsurance of business as it's written, as opposed to reinsuring in-force blocks. There was a session on in-force blocks earlier. We're going to try to cover what we think has not been covered in other sessions, and that is primarily coinsurance of individual, fixed, deferred annuities.

Why do companies want to buy annuity reinsurance in the first place? The most common reason is to keep financial ratios at desirable levels. The most common financials would be the risk-based capital ratios used by the states and the quantitative financial ratios used by the rating agencies, such as Best's, Duff and Phelps, Moody's, and Standard and Poor's. Writing too much annuity business can cause your assets and liabilities to increase very rapidly, which can, in turn, throw your financial ratios out of whack fairly quickly, if you're not careful. Annuity reinsurance, then, is a way to keep the financial ratios in line while utilizing your distribution system to its full capacity. I'll say that again because it's really the primary benefit of annuity reinsurance in most situations. It allows you to utilize your distribution system at full capacity without disturbing your financial ratios. The alternative sometimes is to limit the amount of new business you write. Once you turn off the spigot, it is difficult to get it turned back on.

Second, some companies seek annuity reinsurance primarily as a way to gain access to the investment expertise of the reinsurer. Some types of annuity business cause surplus strain when the business is written, and the reinsurer absorbs that surplus strain on the portion of the business that's reinsured.

And finally, on occasion, and we haven't seen this often, a company will seek annuity reinsurance as a way to reduce a concentration of risks. For example, we dealt with one fairly large insurance company that was writing a lot of annuity business through one single large bank distribution system. It was concerned about having too many of its eggs in that one basket, so it sought reinsurance as a way to protect it from this one distribution risk.

Next we move to annuity reinsurance products. By far, the most common or the most popular product is quota share coinsurance of individual deferred annuities. A quota share is just a percentage. Coinsurance means that we step into the shoes of the original company. In other words, in a quota share coinsurance arrangement, we assume the risks on a percentage of each policy written by the original company.

Occasionally, we'll have an opportunity to reinsure investment products other than individual deferred annuities. Examples would be immediate annuities, structured settlements, pension buyout annuities, funding agreements, and the sort.

Quota share coinsurance is the reinsurance product of choice in the vast majority of situations, but every once in a while we may encounter a company that wants to reinsure on a modified coinsurance or, on a coinsurance funds-withheld basis. That enables it to maintain control of the assets and still reinsure some of the risks; however, that's an unusual situation.

We found that a number of smaller companies are interested in a turnkey program. Those companies can gain access to product and administration by working with a third-party administrator that the reinsurer has allied itself with. The reinsurer can then provide reinsurance and investment management, thereby enabling the company to get into the annuity business at relatively little initial cost and still gain some of the types of expertise that an efficient annuity company needs.

I mentioned earlier that quota share coinsurance is our most popular product for reinsuring annuities. The way quota share coinsurance works is the original company pays to the reinsurer a quota share of the premiums that it receives, less an allowance to cover its commissions and administrative expenses and acquisition expenses. Then the reinsurer reimburses the original company for its quota share of surrender benefits, death benefits, and annuity benefits paid, and the reinsurer is responsible for the quota share of the reserves.

What risks are transferred in a typical annuity coinsurance arrangement? I've listed the risks in the order of importance:

1. Disintermediation
2. Lapse
3. Credit Quality (Default)
4. Reinvestment
5. Mortality & Morbidity

The one we worry about most is disintermediation or interest rate risk, the risk that interest rates will increase significantly and annuity policyholders will surrender their annuities to reinvest in other instruments, perhaps other annuities, at the prevailing higher-market interest rates. The annuity reinsurer also assumes lapse risk, the risk that annuity policies will lapse earlier than anticipated, giving the company less time to recover its acquisition expenses. The reinsurer also assumes its share of credit quality or default risk. That's the risk that investments will not perform as expected, and of course, credit quality risk is the main risk that caused the failure of some well-known companies in recent years. On longer-term annuity contracts, especially immediate annuities, there are risks that interest rates could go down in the future, and proceeds would have to be reinvested at lower rates out in the future at some point. That's the reinvestment risk. It's generally not a major concern, I would say, in deferred annuities, but it is a significant factor in immediate annuities. And finally, there is some mortality and morbidity risk associated with some annuities, those that involve, say, a nursing home waiver or a disability waiver. Those risks generally are secondary to the investment-related risks.

Before I turn it over to Bob, I want to just draw a distinction between experience refunding arrangements, which are typical in surplus relief reinsurance, and nonrefunding arrangements, which are more typical in annuity coinsurance. My understanding of the typical surplus relief arrangement is that the reinsurer puts upfront a conservative amount of profit on a block of business and then provides refunds if the profits emerge as expected. An experience refunding arrangement could be used in annuity reinsurance in special situations. One example would be if the profit objective of the ceding company is higher than that of the reinsurer. In that case, the reinsurer could price the business for its own objective and refund much of the excess profit, assuming it emerges as expected, to the ceding company.

Another possible situation in which you might be able to use an experience refunding arrangement would be if the ceding company and the reinsurer had different investment philosophies; perhaps you could then base the reinsurance terms on the more conservative investment philosophy and share any additional profits resulting from the more aggressive investment philosophy through a refund.

In many situations, an experience refund will not meet the need of the ceding company because the reinsurer will have to add conservatism to its pricing to cover the refund, and that means that the initial allowances may not be sufficient to cover the commissions and expenses of the ceding company. That's the main reason why most annuity coinsurance arrangements are nonrefunding. They are a true partnership in which the reinsurer steps into the shoes of the ceding company for the reinsured portion of the business.

MR. ROBERT L. BUCKNER: When a company is working with an annuity product, it typically is keeping in mind the interests of three different parties: namely the company, the producers, and the ultimate consumers. It's juggling the interests of each of these parties to come up with the ideal annuity product for its distribution system, for its targeted market, and of course, for its investors. When the company decides to coinsure, it adds a new party to the equation: the reinsurer. By adding the reinsurer to the equation, an entirely new set of difficulties and problems emerges.

I'd like to take the same approach that Mel did; namely, that we're looking at this as a partnership. With a partnership there will always be strains and stresses. The point of this is to identify some of them beforehand, so that being forewarned, you can be forearmed. So with that in mind, I want to go over several of the critical areas where the stresses and the strains can develop: the product design area, the compensation to the agents, the crediting strategy, and the investment strategy.

In the product design area, by the time the company comes to the reinsurer to asks it to coinsure, it's typically a take-it-or-leave-it proposition; namely, the product has already been designed, and as a result, there's little for the reinsurer to do. It basically will go along with this, or the company will have to find another reinsurer. Once this first product comes out though, and there is a good working relationship, then, when the second product comes along, assuming that it is a good partnership, the reinsurer typically then is allowed some kind of input into the product design process.

The next area is in compensation. Here the best solution is to have the reinsurer's allowances follow those of the ceding company to the best possible extent. Now I'd like to use a quick example on this. Let's say that a company has a product and it's paying a 5% commission in the first year, and a 25-basis-point trailer in years 2 through 10. The ceding company invariably comes to the reinsurer and says that it wants as much in the first year as it can get. I'm here to tell you why the reinsurer doesn't like to do that. Let's assume that the reinsurer does, in fact, give as much as possible in the first year. The reason that it doesn't like doing that is that it changes the company's profitability pattern. The company has designed this product with a particular profit pattern in mind. If the reinsurer then comes along and fronts the profits to the company, the reinsurer gets concerned about the persistency risk; whereas the ceding company may, in fact, have achieved all its future profits at the point of issue. Thus, you have the potential problems for a strain or a stress in the relationship. As an alternative, I would propose that the reinsurer pay less the first year and provide a trailer similar to what the ceding company is providing to the agents. This way, it's maintaining approximately the same profitability pattern, and the reinsurer and the ceding company then become equally concerned with the consistency of the business; that is, they both have the same kind of interest in that they want to maintain the business as long as possible.

The really critical areas get into the area of the crediting strategy and the investment strategies. The first two are very easy to deal with, but when you get into the crediting and the investment strategies, you're getting into the meat of the situation. One example of a very simple crediting strategy would be to use some kind of a fixed outside index, for example, the five-year Treasury rate less 50 basis points. The advantage of this strategy is that it's particularly easy. It's easy to understand; it's easy to implement; and it's easy to know if you're above or behind in the game. Unfortunately, I don't like this because it's also extremely inflexible. If you're writing annuity business, you don't even have to be coinsuring it or reinsuring it. If you're just writing annuity business, you know there are going to be times when your marketing area says that the company must be crediting more. There are going to be other times when the management area says that the company should credit less, perhaps interest rates are falling, and it doesn't need to have the rates as high as they are. If you've pegged yourself to some kind of an outside index, you basically are locked in, creating a very inflexible situation.

Similarly, what happens to the reinsurer if, in fact, the ceding company decides to violate the index that it has said it's going to peg its crediting rate to? The crediting rate is determined by the ceding company. And consequently, the reinsurer basically has to go along for the ride. So you get into the problems of what the penalty is for violating that. Because we're talking about a relationship or a partnership, we don't like to talk about penalties.

As an alternative, I prefer a situation in which you're negotiating rate changes. Now you can't just have it up as a whim, or not set some kind of strategy. But as an example, perhaps you could use something such as the lesser of the two portfolios, or the average of the two portfolios. You have sort of a basic rate, but you leave yourself with the flexibility where, if the marketing area says that the company really needs to increase sales and that it can be done by increasing the rate, you can say, "It's okay. We can do that. We can have a little flexibility there by increasing the rate and decreasing the spread that we're earning on the product, for a while." Similarly, if rates drop and you want to, say, capture a little extra profit, this gives you the opportunity to do that.

Of course, it is important to keep track of the amount of shortfall or the amount of the excess because you don't want that to become completely unlimited. If you run into a situation where it's just completely unlimited, perhaps you've priced it assuming a 200-basis-point spread, and because of the marketing area you basically are constantly agreeing to a 150-basis-point spread, you're not going to get the profitability that you had anticipated when writing the product. As a rule of thumb, an appropriate balance would be, for every $100 million of reserves, allow yourself about $1 million of lost interest or excess interest earned before you have some kind of mandatory shift in the crediting rate. Once you've hit that million-dollar mark, then you say, "Okay, it's time now to drop the crediting rate. Or, we've earned excessive profits, we need to push that back to the policyholders." Of course, this situation does require close communication. An interesting variation I've heard on this is one in which you basically are negotiating crediting rates, and if the two sides fail to agree, you then have a fallback position to some kind of a fixed index, such as the five-year less 50 basis points.

As for investment strategy, a very simple strategy is that everybody goes his or her own way. This would allow the ceding company or the reinsurer to exploit a particular area of expertise that it has, perhaps in the junk bond market or in the mortgage or real estate markets. It allows each company to decide how much credit risk, how much liquidity risk, how much mismatch risk or even prepayment risk it can take. This works particularly well with a fixed index or a known, desired result, but I would argue that that would tend to cause additional stresses and strains as one side is pulling one way and the other is pulling another. If I'm making my spread and my partner is not making spread, I'm going to be quite happy to possibly increase the crediting rate. Whereas he's going to be saying, "Wait, I made some bad bets and we need to recoup that." You're causing some stress in that relationship.

The alternative that I prefer is one in which the investment guidelines are agreed upon in advance. Everyone decides to invest in say, publicly traded securities. They'll say, "We're going to invest only in investment-grade." Or perhaps there is a 5% bucket of junk that anybody can put anything into. Or they claim, "We're going to have an average portfolio rate, say, of A or AA," or something along those lines. Or perhaps they are going to match duration of assets and liabilities. By providing this kind of investment guideline, the various parties will then be investing in the same direction. Obviously, the easiest way to do that is to have just one investment advisor investing the whole pool of money. But even if you don't have that situation and you have separate advisors, if they're operating under the same guidelines, then at least they will have, if not exact portfolios, at least very similar portfolios. Consequently, if one is doing poorly, the other one is also probably doing poorly. Together they'll manage the business for a better result. If both are doing well, then they will again manage it and perhaps be able to give policyholders a slightly better return.

In either event, this situation requires even more communication; everyone is working together as closely as possible. As I've been saying throughout this, there's a great deal of communication needed. What we propose, typically, is conversations at least once a month, and depending upon the volume of business, weekly communication could be necessary. You need to have the lines of communication open. You know that there will be stresses and strains. Consequently, if you can keep everybody's interests in parallel, then the reinsured and the reinsurer can work together toward profitably managing the block of business.

Now I'd like to discuss the model regulation for life and health reinsurance. The regulators have taken a great deal of interest in reinsurance of late, and rather than providing some kind of carrot, as is their habit, they have provided a stick. The stick that they have is one where they deny the reserve credit if certain conditions are met. Basically, this reserve credit is denied if the renewal allowances are insufficient. There are some exceptions to this, and I'll try to go through them rather quickly. Basically, if the ceding allowances are less than the expenses that the ceding company is actually experiencing, then reserve credit is denied. There is a provision within the model regulation, where if the ceding company sets up a reserve for the present value of the amount of the shortfall, then it can take the reserve credit for the remainder. Typically, that is what companies do if they can't get, for whatever reason, the reinsurer to increase the allowances. That's not true, however, in all states. I believe California still has the provision where, if the renewal expenses are insufficient, then all reserve credit is denied. I believe Washington also has passed that. In New York though, I'm sure that it does allow, as the model regulation does as well, you to just set up the reserve for the shortfall.

Similarly, there are some other conditions where reserve credit denied: if the reinsurer can deplete surplus in the event of insolvency, if there is an automatic reimbursement of loss to the reinsurer, or if there's a scheduled termination of the reinsurance agreement. If the reinsurer requires unreasonable payments from the reinsured, that is typically more appropriate for a YRT kind of reinsurance, then reserve credit denied. If significant risks are not being transferred then reserve credit is denied. Now just in case you don't know what the significant risks are for annuity reinsurance, the regulators have been kind enough to tell you. And you'll be interested to know that, although Mel pointed out that there is a possibility of morbidity risk to the regulators, that is not one of the significant risks for annuity reinsurance. For deferred, it's the lapse, the credit quality, and the reinvestment and disintermediation risks. For the immediate annuities, it's mortality, credit quality, and reinvestment risk.

In addition, there are a few other situations in which reserve credit is denied: (1) if the assets are not transferred or segregated; (2) if settlements are less frequent than quarterly (although I must say that we have been able to have annual settlements with quarterly estimates, so we've been able to at least get that with the regulators), (3) if the reinsured makes current or future representations and warranties, or (4) if it provides significant relief without significant risk transfer. The commissioner can override many of those. In other words, the commissioner can say whether you get reserve credit. There are some filing requirements and some income statement treatments, but I won't go into those in detail.

MR. MCFALL: Just a few more things that I hope will complement some of the things Bob said. Regarding some of the factors that a company might consider in choosing a reinsurance partner, the first one, financial strength, is fairly obvious, and that has become increasingly important in recent years. I can't overemphasize the importance of compatible investment philosophies. As Bob suggested, that's important even if both parties are investing their own share of the assets. Consistent profit objectives are another key. If we've told you nothing else, I hope we've expressed the idea that annuity reinsurance is a partnership or a joint venture, and it's more likely for one of those to be successful if both parties have similar expectations. The emphasis is on partnership. That's true more of annuity coinsurance than most types of reinsurance. It's particularly important to have that partnership philosophy when establishing a crediting strategy. I mentioned earlier that some companies may seek annuity reinsurance to take advantage of the investment expertise of the reinsurer. In those situations, the investment expertise and/or asset/liability matching expertise of the reinsurer can be a very important factor.

Bob covered the possibilities for investment strategy very thoroughly. There are at least three alternatives for how to handle the investments. One I didn't mention is that a third party could manage all the investments. It's not likely that would be a popular choice, but it's a possibility, obviously.

Another possibility would be that each party invests its share. The advantage of that approach is that each company controls its own assets. The disadvantage is that it's going to be difficult to keep the investment portfolios in sync. If the portfolios diverge, the desired crediting rates may diverge, and that could lead to conflict.

The third possibility is that one party does all the investing. This is the cleanest. The advantage is that both parties are working from the same investment performance for setting credited rates. The disadvantage is that the one party loses some control over the assets.

You must agree on a carefully defined investment philosophy statement. Credited rates can be set jointly. Maybe you can meet weekly or monthly or however often you change credited rates. I agree with Bob that it's not the most desirable way to do it. We try to agree on a crediting strategy upfront, preferably with a formula that defines how credited rates will be set, so as to minimize arguments over credited rates in the future. Another way to do it is to base credited rates on the performance of a hypothetical portfolio. Each party can invest its own share, knowing that if it deviates from the hypothetical portfolio, it can pay the consequences, or reap the rewards, depending on which way it goes. Finally, in this partnership, it's very important for both parties to be flexible.

What have we learned in the few years that we've been doing annuity reinsurance? Well, investment compatibility and consistent profit objectives are very critical, almost essential to make it work. Another thing we've learned that surprised us is that there has been a fair amount of interest in the turnkey program, a way for smaller companies to get into the annuity business. I've taken a shot at estimating the size of the market. Remember, we're talking about the market for reinsuring annuity business as it's written. So this doesn't include the potentially very large multibillion-dollar in-force blocks of annuity business that might be reinsured. I would guess the current market is \$1–2 billion a year, and I'd probably lean toward the high end of that range right now. And it can, fairly quickly, get to a \$5 billion-a-year market or more because the fixed annuity market is growing fairly rapidly. With risk-based capital requirements, I think that more companies will look to annuity reinsurance to address any risk-based capital needs.

FROM THE FLOOR: Can you talk about recapture provisions?

MR. MCFALL: Typically, recapture provisions in annuity coinsurance arrangements are fairly long. We usually use 15 years, possibly 10 years, which is fairly long for annuity business because it's probably issued at average ages in the 60s. But it's really necessary for the reinsurer to have time to recover the acquisition expenses.

MR. BUCKNER: I would concur with that. If you have a long recapture period and you need to recapture earlier, the reinsurer would probably be flexible on that. But there probably would be some kind of a charge as a way of recouping some of the ceding allowances that were provided initially, probably looking at the GAAP reporting and perhaps having to repay whatever the deferred acquisition cost (DAC) was on the business, as a way of recapturing it early.

FROM THE FLOOR: A lifetime claim for workers' compensation is very similar to two annuities on the same person. The wage replacement is just a fixed annuity, but the medical cost is some sort of variable annuity and it varies as to what the true medical costs are. Do you think there's a market for reinsuring already-existing lifetime medical claims in workers' compensation along these same lines?

MR. BUCKNER: Frankly, I don't know. I have just been transferred by Employers Reassurance from the home office to New York. And part of my charge is to look not only at life and annuities, but also at some of the health lines; in particular, I'll break out of the box and work with the property and casualty side of the operation and look at workers' compensation and medical malpractice. At this point, frankly, I don't know enough to comment intelligently on that. I would suppose that the answer to your question is, yes, there's a market for almost anything at the right price. That's not much of an answer, though.

MR. MCFALL: My response would be that that product falls outside the boundary of what we're talking about today, but it's done to some degree. But it probably is not done to a large degree, at the present.

MR. BUCKNER: Yes. Certainly on the wage replacement side, there's a market for that. When you start getting over to the medical side, that gets quite a bit trickier.

MS. MONICA HAINER: I was just interested in knowing if either of you have heard anything from New York about annuity coinsurance that would be of interest to us, particularly in light of the dividends. It seems to apply to annuities, in terms of the crediting rate. New York seems intent on getting involved in that, too, I'd say.

MR. MCFALL: We haven't done very much annuity reinsurance with companies that are in New York, but my understanding is that one of the roadblocks is that New York insists that the ceding company have complete autonomy in establishing the credited rates. And as we suggested in the presentation, we like for the credited rates to be kind of set jointly, either by agreement between the two parties or through a formula. We haven't had much actual experience dealing with New York, but we do understand that that is one major roadblock that makes it very difficult to do an annuity reinsurance arrangement in New York. It's almost as if the state doesn't like annuity coinsurance and is trying its best to discourage that.

MR. BUCKNER: Denis, do you want to comment on that?

MR. DENIS W. LORING: I have two comments on the model regulation. First, with regard to New York, it does not permit the setting up of any present value of short for liabilities. If you fail with respect to renewal allowances in each and every period, the contract fails the model regulation.

MR. BUCKNER: I stand corrected. Thank you, Denis.

MR. LORING: With respect to your comment, you are correct. New York does not like annuity coinsurance.

MR. FREDERICK S. TOWNSEND, JR.: A number of primary writers are shying away from the fixed deferred market, preferring to write variable annuities instead because of the risk that they perceive with a large block of fixed annuities. What's the reinsurance market like? Are the reinsurers interested in the fixed deferred business, and is their interest growing, waning, or staying constant?

MR. BUCKNER: Speaking for myself, we are interested in it. We frankly see more than we can handle. As you commented, many primary companies are looking to perhaps divest the line, or expand into other lines, and use that as a source of raising some capital or at least improving some of their ratios. As a company, we are interested in it, and we see more opportunities, frankly, than we can give appropriate attention to.

MR. MCFALL: My response would be similar to that. Some companies are gravitating toward variable annuities—Lincoln National is one example—they tend to be larger companies that wouldn't need reinsurance anyway on their fixed business. The medium-sized companies or smaller companies, where it's more likely that there would be a need for annuity reinsurance, are more likely to be in the fixed market. There's a vigorous market out there for reinsurance of fixed-deferred annuities.

FROM THE FLOOR: Both panelists have addressed the theoretical ways of handling the conflict between the ceding company and the assuming company on asset management policies and setting crediting rates. But in practice, what are the most common ways to handle those conflicts? How have they been resolved in practice?

MR. BUCKNER: Speaking from experience, as a company, we tend to, in addition to underwriting the product, underwrite the company and the individuals whom we'll be working with. Thus, we establish the relationship and feel comfortable with the relationship before ever entering into a transaction. As a result of that, we have been able to effectively negotiate changes when we have been unhappy. So in this particular instance, for us, theory and practice have come together.

MR. MCFALL: We try to address that by trying to negotiate a formula for credited rates. If we're not successful in doing that, we hope to foster the partnership philosophy. If there is a conflict, we can work it out amicably between the parties. As a last resort, there's always the arbitration clause in the reinsurance agreement, but we'd hope that would be used rarely.

MR. ROBERT J. JOHANSEN: I'm Chair of a Society Task Force looking at the ways of funding or reserving for variable annuity guaranteed minimum death benefits. We're going to send a questionnaire to primary writing companies, of which we have knowledge. We don't have any source of reinsurers that write this benefit, and I'm wondering if either of you reinsure the benefit, and if you would be willing to give us the benefit of your ideas. We're trying to get as much information and as much help as we can from everybody so that we can supply a reasonable method, we hope, by the end of the year.

MR. MCFALL: We've quoted on that benefit a number of times so far, without success. We don't have any actual reinsurance arrangements in force. I think the methodology we use to price it must be different than what is used in the market in general because our quotes just haven't been attractive to potential clients. I could provide some information on how we've gone about that. A *Reinsurance Reporter* article a couple years ago told how we priced that benefit and that might be of some value.

MR. BUCKNER: We also have been looking at the benefit internally, in terms of how we would reserve it. Although I don't want to see this as the statutory requirement, we basically said we would have to hold all premiums because we would virtually never release any profits until the business was actually gone. That's the extreme case. On the other hand, with that particular benefit, it's very difficult to know how much of a loss you could have in the future. We also have not written any as of yet. Another part of my charge in moving to New York is to figure out how to do that. So it is something that I am actively looking at.

MR. JOHANSEN: I have another question, too. My opinion is that the 1983 table may not be adequate, and there seems to be increasing interest in using projected tables. Do you look at projected tables, or at the use of projection.

MR. MCFALL: For immediate annuities?

MR. JOHANSEN: Yes.

MR. MCFALL: Yes, we would. We would probably insist on them.

MR. JOHANSEN: Okay. There seems to be some confusion in what I've been reading as to how these projection rates should be used. And so I'm considering writing something, maybe an actuarial note, explaining how Projection G ought to be used and what some considerations are in how long the projection should be allowed to run. I was the principal writer of the report of the committee that produced the 1983 Individual Annuitant Mortality (IAM), so we'll see what happens.

MR. MCFALL: I think that would be a welcome addition. Right now, immediate annuities relative to deferreds are a small percentage, but one would think that, as time passes and more deferred annuity owners reach retirement age, we'd have more annuitizations in force, and we'd need better guidance for mortality.