SOCIETY OF ACTUARIES®

2019 ANNUAL MEETING & EXHIBIT

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Session 175: An Intro to Structured Indexed Annuity

Intro to Structured Annuities

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- Do not discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
- Do not speak on behalf of the SOA or any of its committees unless specifically authorized to do so.
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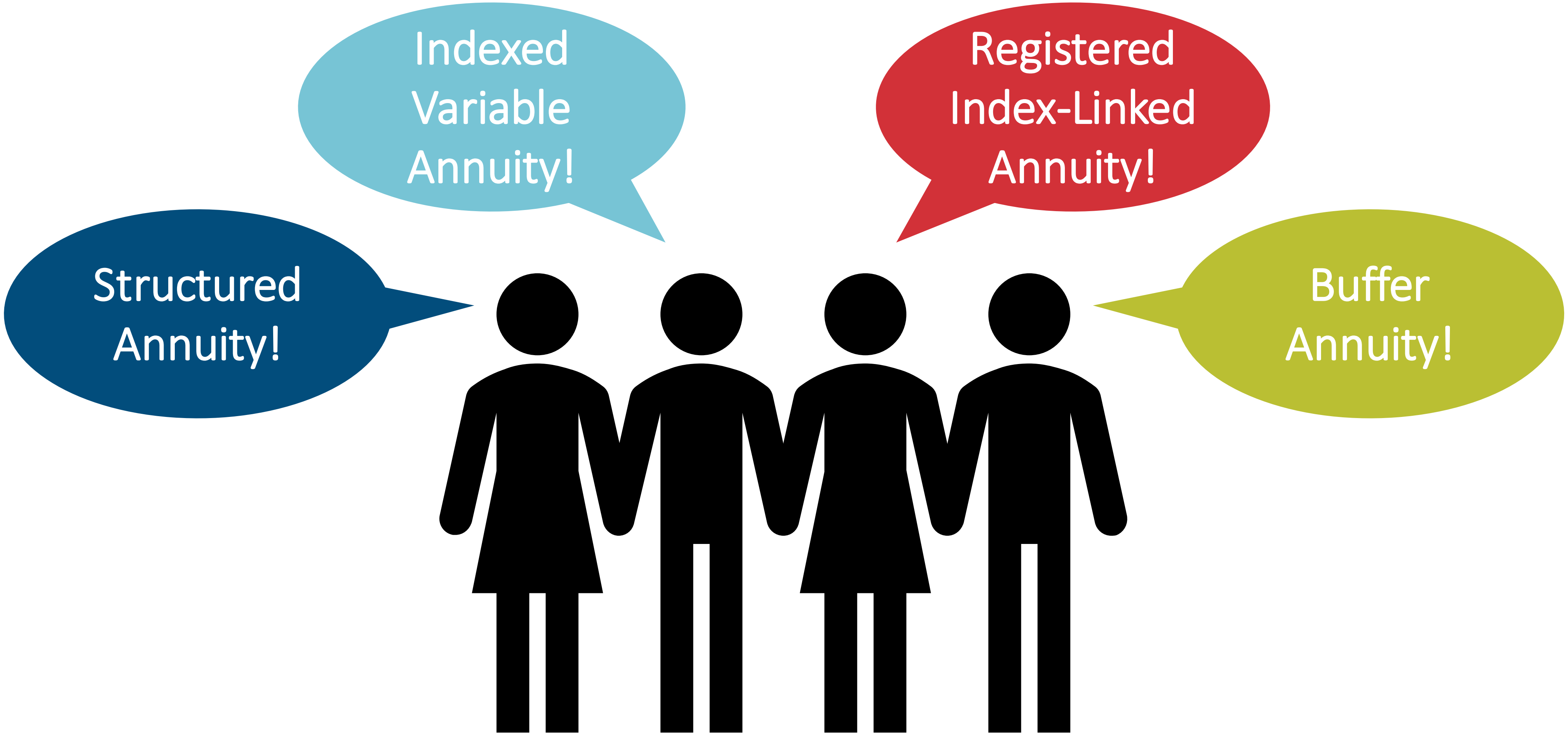
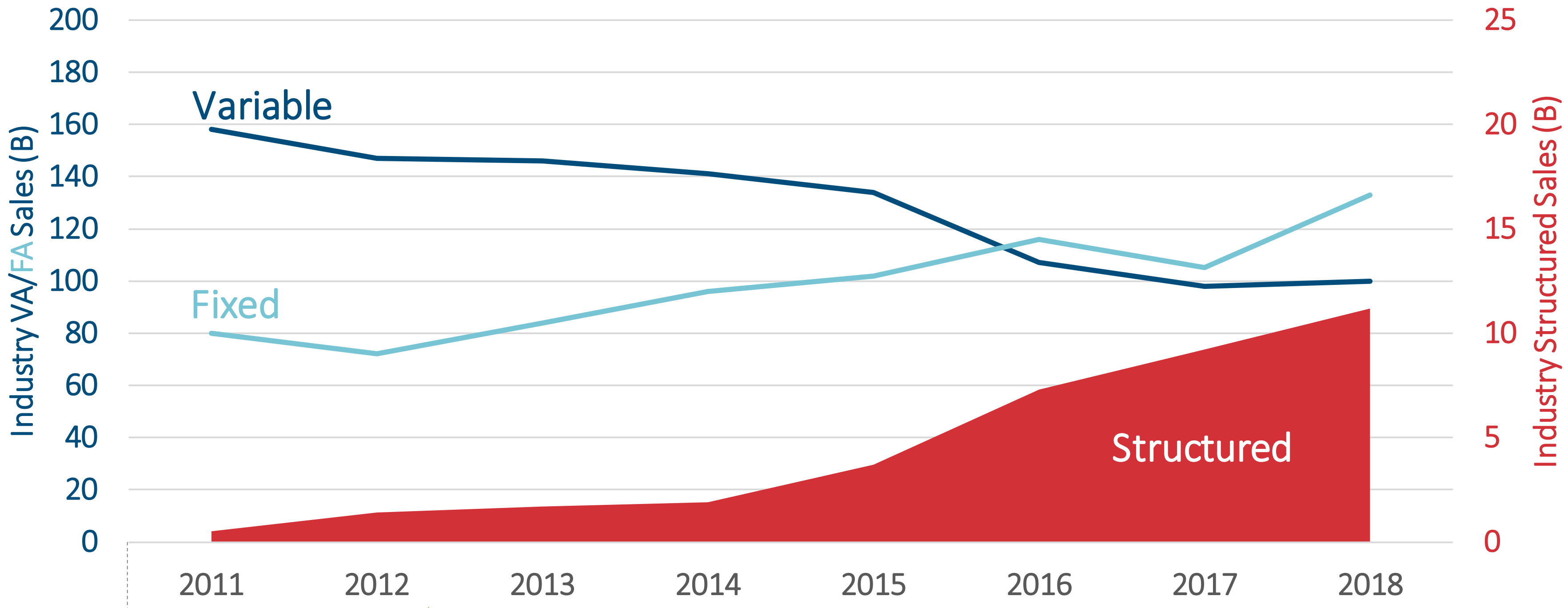
What is it called again?



Structured annuity market is booming



(2010)

2019 Entrants

Source: LIMRA Secure Retirement Institute, US Individual Annuities: 2018 Year in Review

Fills a gap in existing annuity offerings

Annuity Product Risk Spectrum

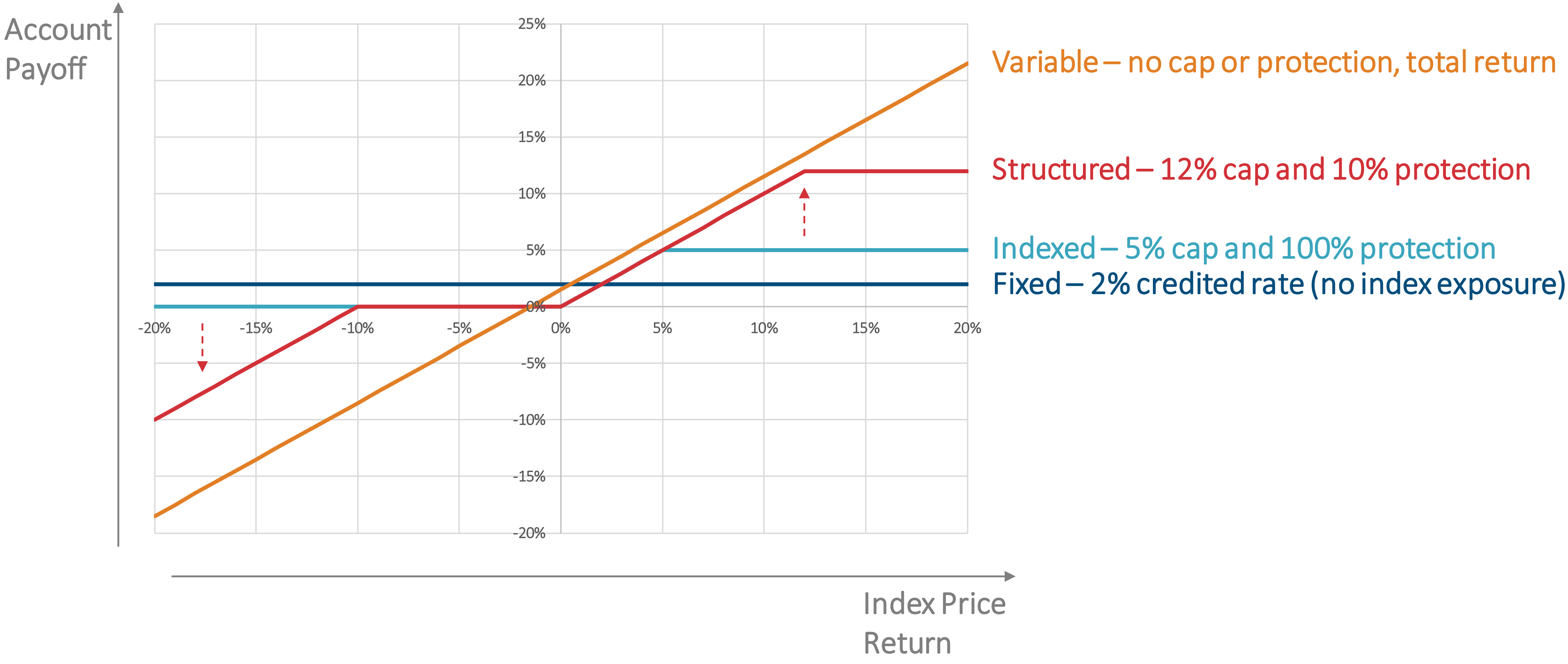
Low Risk ⟷ High Risk

Fixed	Indexed	Structured	Variable
Guaranteed crediting rate	Index-based crediting (e.g. S&P 500)	Index-based crediting (e.g. S&P 500)	Fund-based performance
Minimal upside	Limited upside potential	More upside potential	Full upside potential
No downside risk	No downside risk	Partial downside risk	Full downside risk

Can contain fixed, indexed, and variable accounts in same contract

Consumer value prop: stronger accumulation potential while providing solid downside protection

Fills a gap in existing annuity offerings

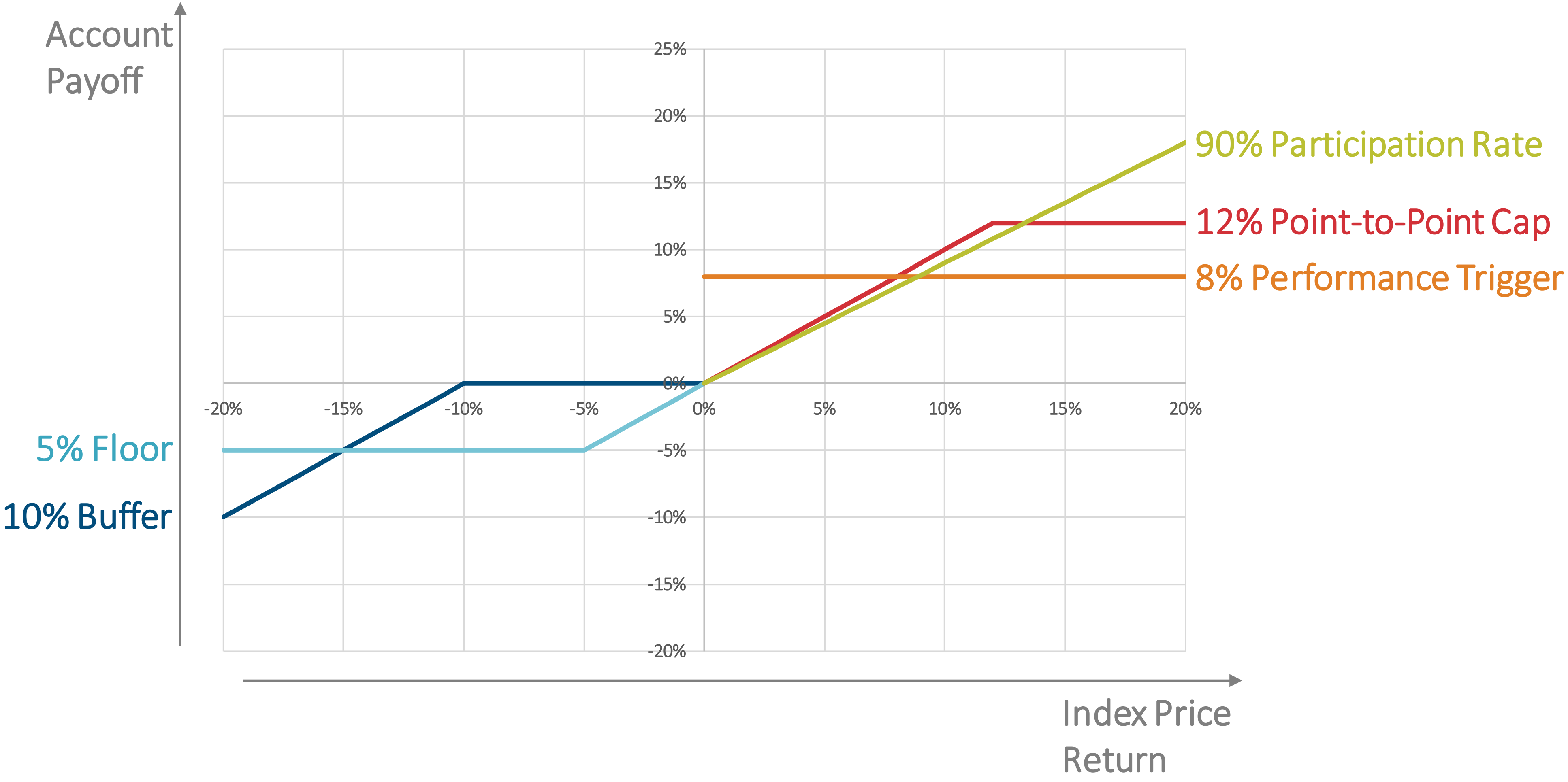


Caps and credited rates shown here are illustrative

Account characteristics are highly customizable

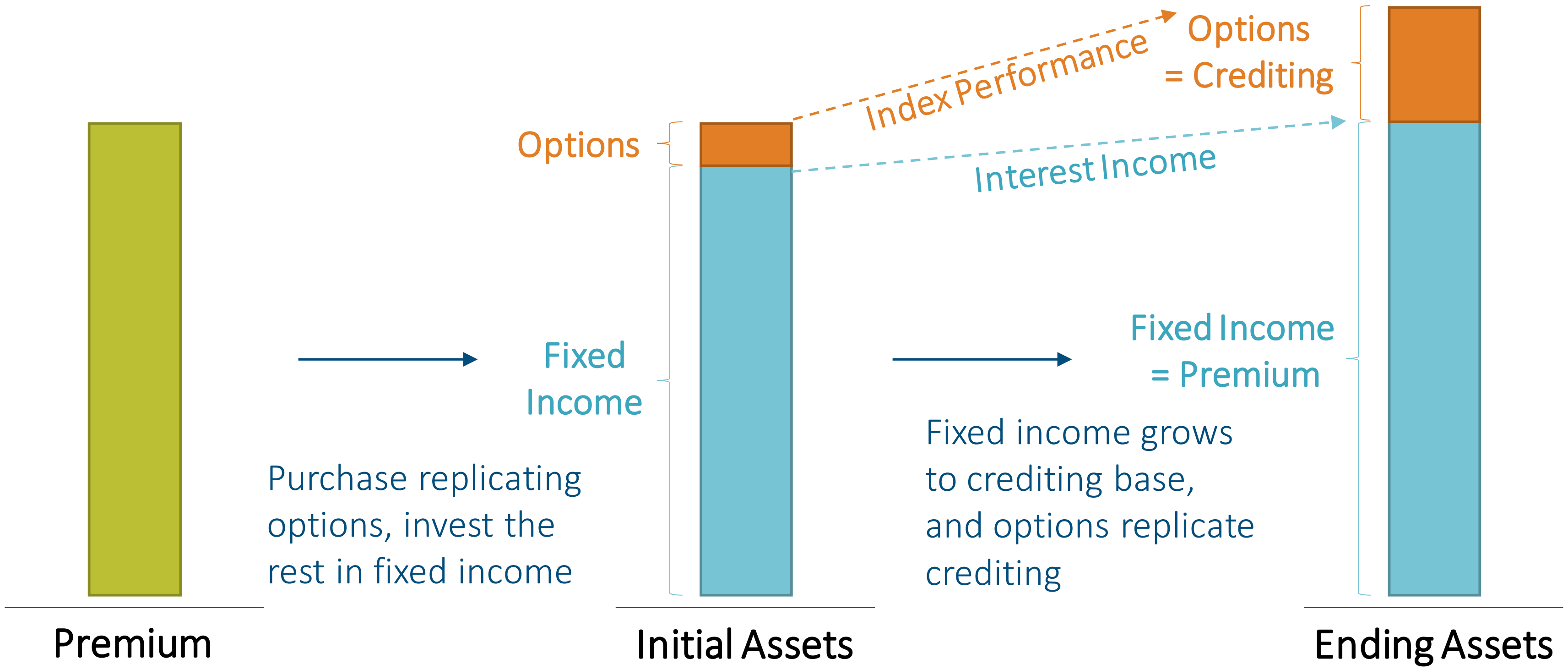
Term Length	Index	Protection	Crediting	Other Features
• 1-year periods • CDSC period (5-7 years) • Moderate terms (2-3 years)	• Mainstream equity indexes • Proprietary indexes • Alternative indexes	• Buffer (often 10 to 30%) • Floor (often 0 to 10%)	• Point-to-point • Performance trigger (binary) • Participation rate • Multi-year locks	• ROP Death Benefit • Fee vs. no-fee • Variable or fixed account access • Lock-in features

Account characteristics are highly customizable



Caps and credited rates shown here are illustrative

Basic economics similar to index annuities



Major differences:

- Option portfolio more complex
- Downside performance risk increases asset liquidity risk

Alternate asset frameworks:

- Hedge the payoff dynamically rather than statically
- Leave account performance un-replicated, as a hedge to VA business

AV during index term should reflect performance

Index annuity approach is inappropriate for structured annuities

Typical index annuity account values feature interest rate-based adjustment and ignore index performance
Insurer would be exposed to significant policyholder behavior risk in down markets

Structured annuity account values capture index performance, but no industry standard

Not exhaustive!

Index-Based Approach: uses index performance subject to adjustment for cap/buffer, often pro-rated by time elapsed

Option-Based Approach: uses change in market value of replicating option portfolio from account start date

Bond + Option Approach: adds in interest rate sensitivity to the crediting base (similar to indexed annuity MVA)

Account value calculation methodology is a key product design consideration

Is it confusing for advisors or policyholders?	How well does it align with supporting assets?
Is it fair? Can it be arbitraged?	Is it flexible for all protection/crediting types?

Structured annuities are considered securities

Implications*:

- **Filing**: filed as a variable annuity with the SEC
- **Distribution**: agent must be licensed to sell securities, similar to variable annuities
- **Stat Reserving/Surplus**: some VM-21 (variable), some AG33/35 (indexed)
- **GAAP Reserving**: FAS 133/ASC 815, similar to indexed annuities (for indexed accounts)
- **Reporting**: insurer discretion on combining with other products

**These are the presenter's understanding of typical approaches taking to managing structured annuities and are not true in all cases*

Recap

- Structured annuities have seen tremendous growth prompting more insurers enter the market
- Strong value proposition of high performance potential while partially protecting from downside risk
- Wide array of account types and term lengths with more innovation on the way
- Account values during the term capture index performance, unlike typical FIAs
- Structured annuities are considered securities and are often treated like VAs

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Thank You

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