



SOCIETY OF ACTUARIES

Article from:

Product Development News

December 2005 – Issue 63

Nontraditional Guarantees on Life and Annuity Products

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Editor's note: The paper "Nontraditional Guarantees on Life And Annuity Products" is the result of research sponsored by the Product Development Section. We have printed a portion of the introduction and the table of contents to tempt you to obtain the entire research paper from the SOA's Web site. You may find the paper in the life research area: <http://www.soa.org/ccm/content/?categoryID=328002>.

Introduction

"Nontraditional" guarantees refer to guarantees that are in addition to traditional mortality, expense and interest guarantees. Examples of such types of guarantees are death and living benefits on variable annuity contracts, and no-lapse guarantees on universal life or variable universal life products.

Many companies have greatly expanded their offerings of nontraditional guarantees over the past few years. While the resulting blocks of business are very large, most of these guarantees have not been in force for long enough periods to produce a solid basis for assumptions or projections of long-term results.

An insurance company offering such nontraditional guarantees faces a complex situation to analyze and manage, both when deciding to issue the guarantee and later in the management of the in-force block. Many decisions must be analyzed both at the product level and in a larger corporate, competitive and regulatory context. Third-party individuals or organizations dealing with insurers who offer nontraditional guarantees must often do similar analyses.

The purpose of this paper is to offer practitioners an overview of the various issues concerning the pricing of these guarantees, the many other issues which need to be analyzed and addressed in the determination of risks and the management of the block of



business, and the results of a company survey of practices. This paper is based on the working knowledge of the authors, a broad compilation of literature and the company survey results. At the end of most sections of the paper, we have provided a list of resources which we have selected as some of the best sources available for those practitioners interested in further researching the subject matter.

As part of the research for this paper, we conducted a survey of company practices for issues related to nontraditional guarantees. Participation in the survey was voluntary. The survey was distributed to major companies selling individual life and annuity products with nontraditional guarantees and to the members of the Society of Actuaries' Product Development Section for distribution at their companies.

This paper is organized into three sections. Section 1 describes many types of nontraditional guarantees and briefly lists some of the associated risks. Section 2

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discusses the risks and risk-control strategies. Practitioners familiar with product designs may want to jump directly to Section 2. Section 3 reviews the limited information on company experience to date.

Appendices are also included in the paper. Appendix 1 is an overview of the regulations relevant to products with non-traditional guarantees. Appendix 2 contains the company survey results and Appendix 3 is a copy of the survey.

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