

Hot Products in the US and Canada – Would they Sell Well on the Other Side of the Border?

Variable Annuity/Segregated Fund Guarantees

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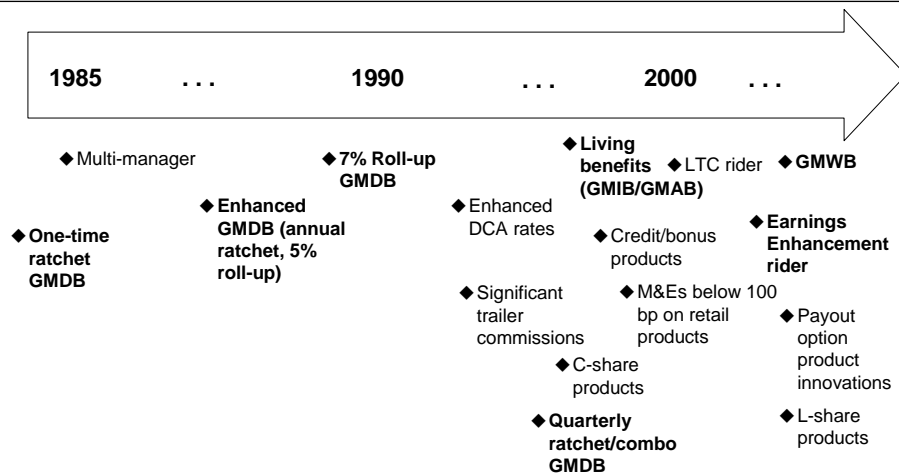
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UNITED STATES

Product has always played a key role in the VA market



Product innovators have captured market share and achieved a short-term market advantage

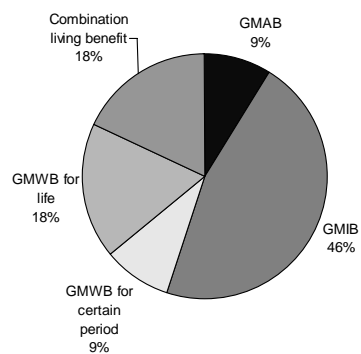
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Guarantees continue to be an important selling feature in the VA market

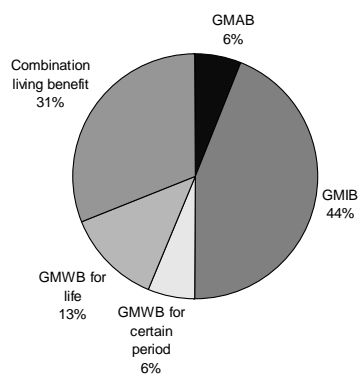
Type	Nature of Guarantee	"Standard" Feature	"Rich" Feature	Charge	Notes
GMDB	Lump sum on death	Annual ratchet or 5% roll-up, to age 80	Combination, or 7% roll-up	15 – 35 bp	Enhanced GMDB is standard feature
GMIB	Income at annuitization	5% roll-up	6% roll-up	50 – 80 bp	Relative purchase rates important
GMAB	Lump sum at end of specified period	Generally return of premium at end of 10 years	Available on equity funds	25 – 75 bp	Low end of range requires asset allocation
GMWB	Guaranteed amounts via partial withdrawals	Withdraw 7% of premium annually	Reset provision	50 – 80 bp	This feature has attracted considerable attention

Financial advisors at Merrill Lynch view living benefit guarantees as the reason variable annuities are more compelling today

Which LB is generally easiest to sell?



Which LB offers the best value for your client?



Source: Merrill Lynch Distribution Survey

The Guaranteed Minimum Income Benefit (GMIB) continues to attract the industry's attention

- The first US GMIB feature was introduced in late 1996, early 1997
- This was the first "living benefit" guarantee in the VA market and was a true product innovation that attracted market place attention
 - Up until this time, GMDBs played an important role in the VA market
 - Increasingly rich GMDB designs have evolved over time
- The GMIB increased VA sales particularly through independent distribution channels
 - Innovative feature — provided a means of differentiation for an increasingly commoditized product
 - Safety Net — provided an attractive "safety net" guarantee for contract holders wishing to lock-in equity market gains and reduce the effects of equity market volatility

GMWB features have attracted significant market place attention

- The first GMWB was introduced in August 2002
 - All but one of the top 15 US VA writers now offer some form of GMWB
- The GMWB guarantees a minimum income stream equal to the return of the contract's principal, provided it is withdrawn over a period of time within specified limits
- "Benefit payments" or withdrawals may generally not exceed 5% – 7% of premium per year (non-cumulative)
- Withdrawals in excess of the maximum reduce subsequent benefit payments
- Withdrawals less than the maximum increase the length of the income stream
- Many riders offer an optional Benefit step-up after a specified time (e.g., year 5)
 - The Benefit amount is "stepped-up" to the then current account value
 - Step-up election may increase the cost of the rider
- GMWB riders are optional at issue (or subsequent to issue), but generally may not be dropped once elected
- Some riders require participation in an asset allocation program, but some allow 100% allocation to equity funds

GMWB features have continued to evolve, becoming richer and more complex

- GLWB - Lifetime payout
 - Originally 5% starting at age 65
 - Now 5% at age 60 becoming more prevalent
 - Also, payment amounts that vary by age
- Bonus
 - Base grows if postpone taking withdrawals, typically 5% per annum
 - Deferral helps pay for expensive withdrawals
- Benefit value resets or step-ups
 - Annual step-up becoming required (few products offer more frequent step-ups)
 - Some offer optional reset, while others offer automatic step-ups at specified intervals
 - Automatic resets are becoming more standard
- Asset allocation
 - GMWB often requires a specified asset allocation (to limit equity exposure), but a few companies don't currently enforce
- Spousal continuation – guarantees withdrawals for two lives

GMWB and GLWB designs continue to be popular

- GLWBs provide:
 - A minimum floor of protection for the contract owner
 - Guaranteed income payments that the annuitant cannot outlive
 - Flexibility – partial withdrawals are allowed and annuitants have the ability to stop and start payments, as needed
 - Liquidity – the cash surrender value of the contract is available, if needed
- GMWBs and GLWBs address the need for guaranteed income for baby boomers approaching retirement, while offering flexibility and liquidity – advantages which most payout annuities don't offer
 - Many see the GLWB as a viable alternative to a payout annuity
- We expect to see continued design evolution and enhancements
 - Indexed withdrawal guarantees
 - More flexibility in design
 - More value enhancements for delaying withdrawals

Brief History of Segregated Fund Guarantees

- Ontario Securities Commission (1970)
 - Insurance companies could offer segregated funds not subject to provincial securities regulations provided that they return at least 75% of deposits on death or maturity
- 1971 federal guidelines
 - Maturity element of guarantees effectively capped at 100% of the deposit with a term not less than 10 years
- Stronger segregated fund guarantees have been used by insurance companies as key product features in marketing segregated funds against mutual funds
 - Some insurers have strengthened death benefit guarantees by including ratchet or rollup provisions
 - Minimum 10-year maturity guarantees of 100% of the initial deposit are not uncommon
 - Some guarantees offer elective or automatic ratchets and resets provided the term is reset to a new 10-year term
 - GMIBs have been introduced
 - Insurance companies now provide wrappers to allow mutual fund companies to market these features

GMWBs in Canada

- Original GMWB was introduced in 2006
 - Provided guaranteed stream of annual payments of 5% of guaranteed amount for 20 years
 - Guaranteed amount could increase
 - Bonuses of 5% per year were available for 10 years after the initial deposit in years where no withdrawal has taken place
 - Automatic resets every 3 years
- Lifetime benefit introduced in 2007
 - Provides guaranteed stream of annual payments of 5% of guaranteed amount for life
 - Guaranteed amount can increase
 - Bonuses of 5% per year are available for 15 years after the initial deposit in years where no withdrawal has taken place
 - Automatic resets every 3 years
 - Payouts begin at age 65
- These features have received considerable attention in the marketplace
 - Other companies are/have followed suit

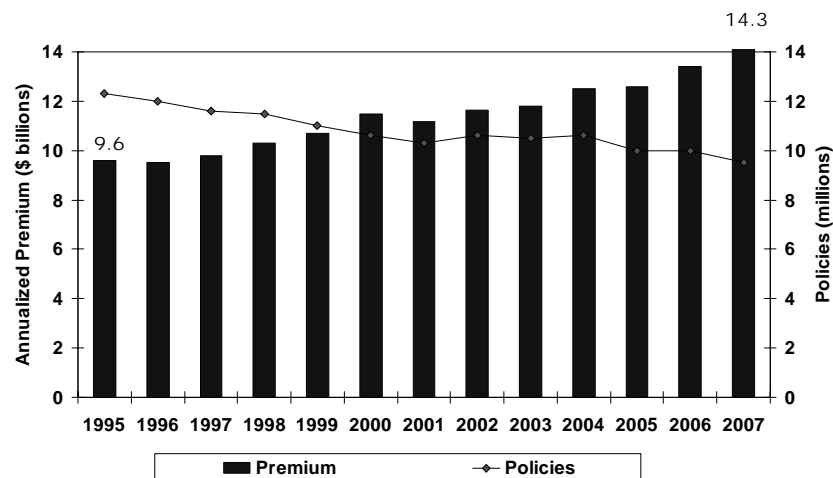
U.S. and Canadian Sales Trends

SOA Spring Meeting
June 18, 2008

Karen Terry
LIMRA International



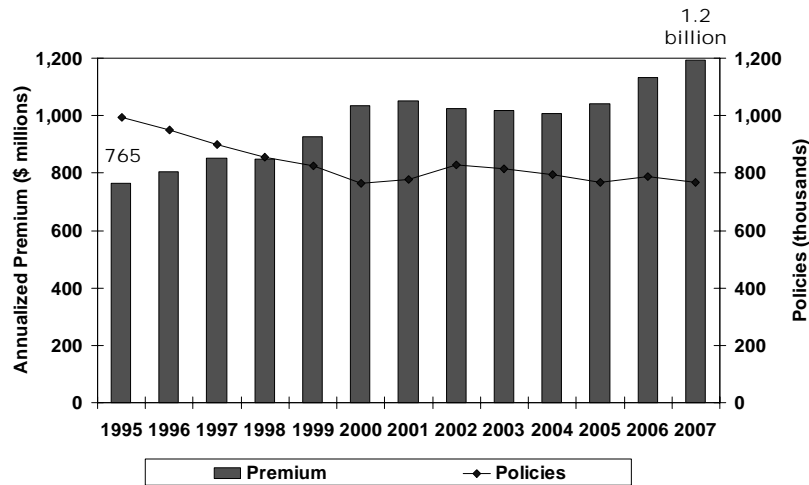
Individual Life Insurance Premium Written in the U.S.



Source: LIMRA's Individual Life Sales Survey and LIMRA Estimates



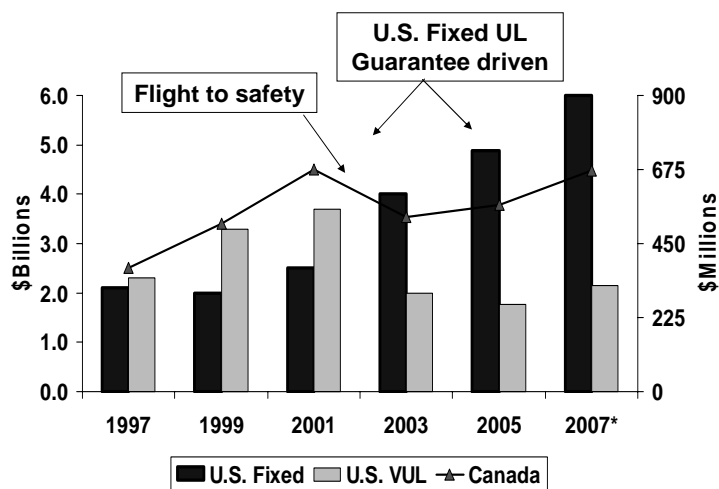
Canadian Individual Life Sales Trends



Source: LIMRA's Individual Life Sales Survey and LIMRA Estimates



U.S. & Canadian Universal Life Annualized New Premium



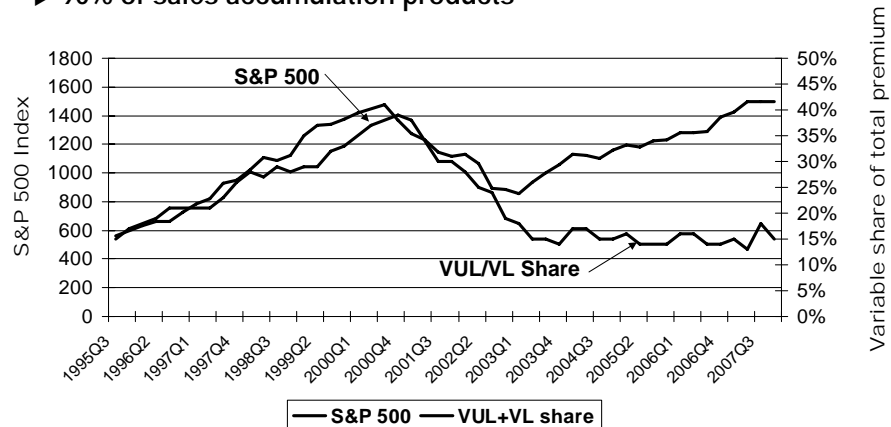
*Preliminary Estimates

Source: LIMRA's Individual Life Sales Survey and LIMRA Estimates



U.S. Variable Products and the Equity Market

► 90% of sales accumulation products



Sources: LIMRA's US Individual Life Insurance Sales, LIMRA estimates, Economy.com



U.S. VUL Challenges

- Producer fear of client backlash
- Consumer desire for guarantees
- Cost of guarantees
 - Companies introducing, but few takers



UL Products

U.S.

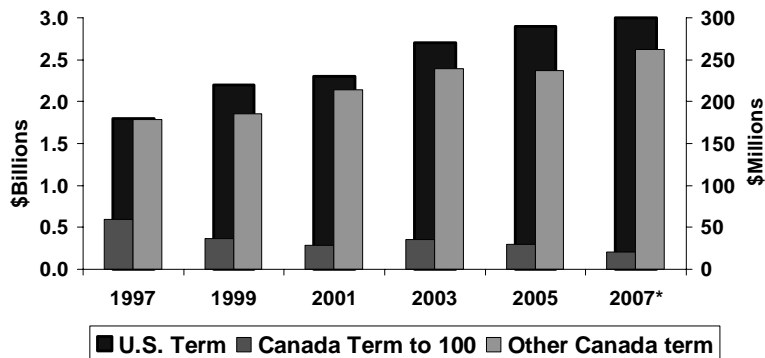
- ▶ Secondary Guarantees
 - drove growth, but slowing
 - replacement activity down
- ▶ Cash accumulation growing faster
 - IUL 2007 annual growth = 34%
 - SOLI/IOLI

Canada

- ▶ Indexed UL dominates
- ▶ Level COI about 2/3 of sales
- ▶ Segregated UL – dead?



U.S. & Canadian Term Sales Annualized New Premium



*Preliminary Estimates

Source: LIMRA's Individual Life Sales Survey and LIMRA Estimates

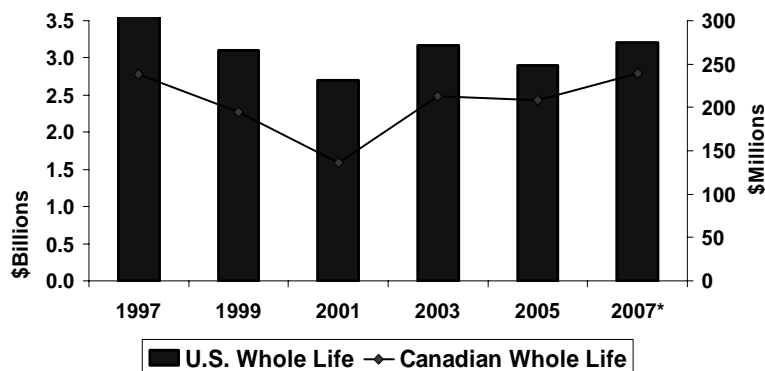


Term Trends

- ▶ Term successes based on guarantees
 - Longer level premium periods
 - U.S. ROP – popular, but growth has slowed
 - Premium cost?
- ▶ Term to 100 in a decline
 - Profitability



U.S. & Canadian Whole Life Sales Annualized New Premium

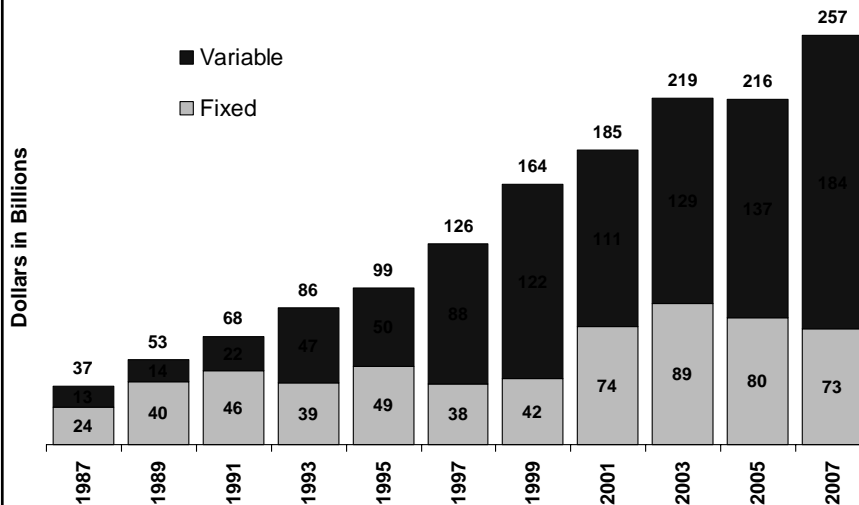


*Preliminary Estimates

Source: LIMRA's Individual Life Sales Survey and LIMRA Estimates



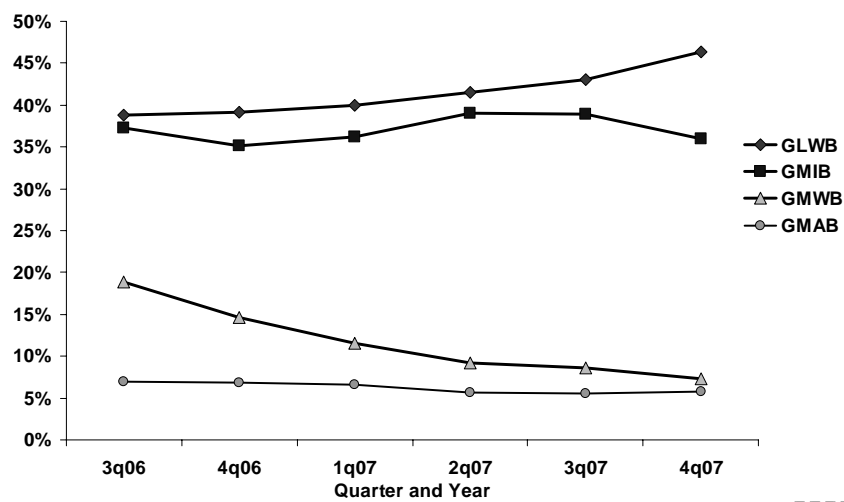
U.S. Individual Annuity Sales (Billions)



Source: LIMRA International, *Individual Annuity Market: Sales and Assets*.



VA GLB Election Rates by Quarter



Note: Each series based on a constant group of companies, including companies that began to offer a GLB type during this time period. Source: LIMRA International, *Variable Annuity Guaranteed Living Benefit Election Tracking, Fourth Quarter 2007, 2008*.



U.S. Annuities

Guarantees drive variable increases

- ▶ Original recovery driven by GMWB
- ▶ Majority of VAs (70%) now sold with guarantees
- ▶ Consumers prefer longer guarantees most popular now
 - Guaranteed annual amount for life (GLWB)
 - Guaranteed minimum income benefit (GMIB)



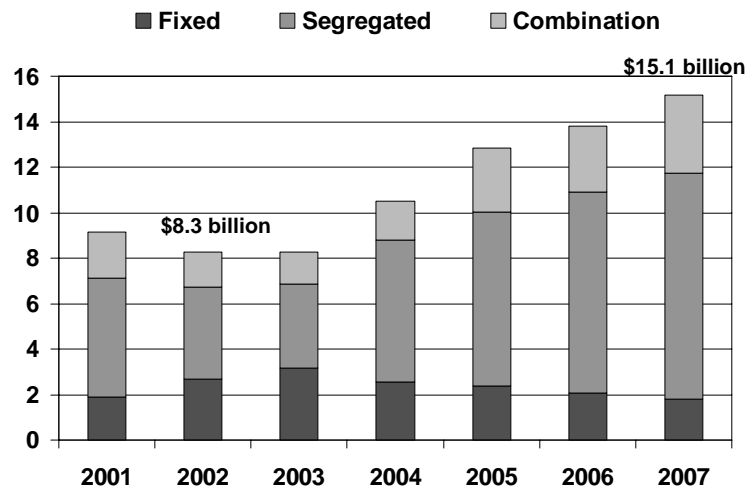
U.S. Individual Annuities

Other positive trends

- ▶ Indexed annuities continue to grow
- ▶ Qualified plans – primarily IRA rollovers



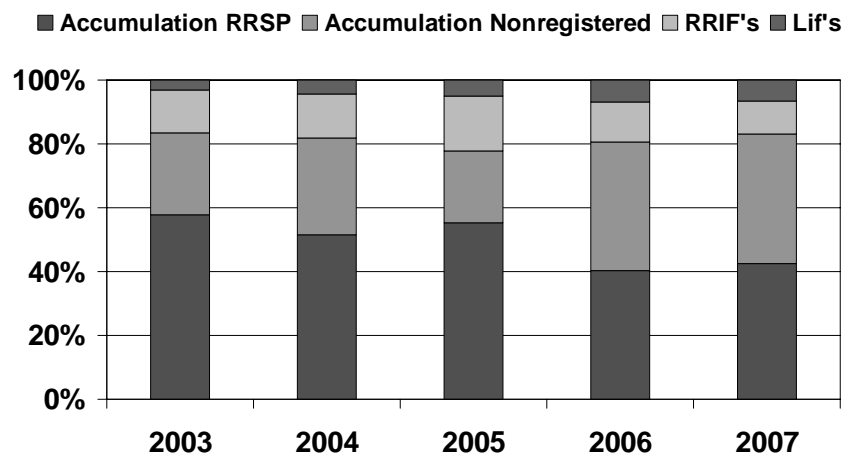
Canada Annual Individual Annuity Sales (Billions)



Source: *Individual Annuities in Canada* survey



Canada Segregated Annuity Sales By Product Type



Source: *Individual Annuities in Canada* survey



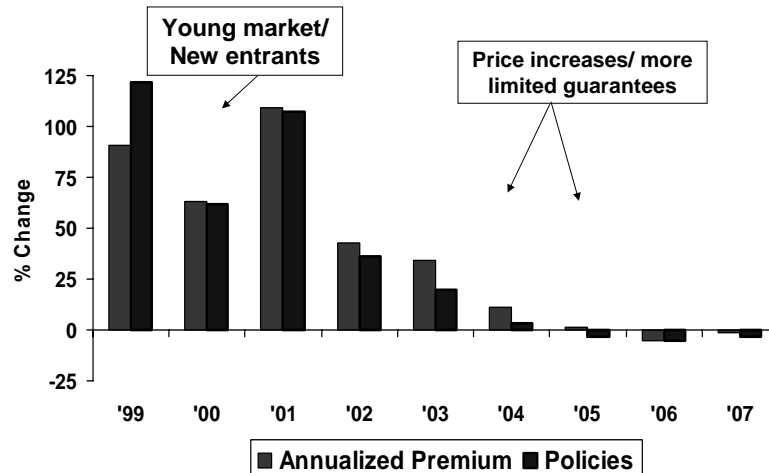
Canadian Individual Annuities

Hot Products

- ▶ Segregated accumulation products
- ▶ Combination products growing (87% seg)
- ▶ Introduction of GMWB/GLWB
 - 1Q08: Fixed up, seg and combo down



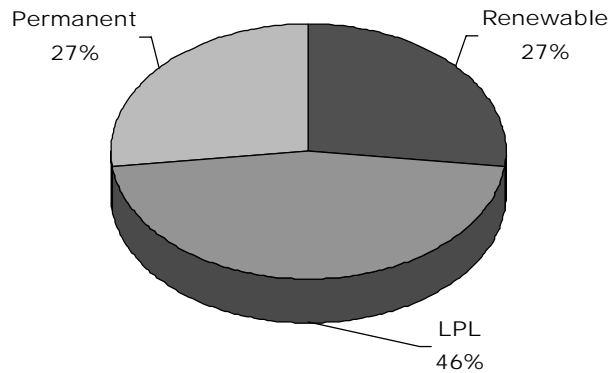
~ Canada ~ New Individual Critical Illness



Source: LIMRA *Canadian Individual Critical Illness Insurance Survey*



~ Canada ~ New Individual Critical Illness Premium Market Share



Source: Canadian Individual Critical Illness Insurance Survey



Canadian CI challenges

- Price increases
- Stringent Underwriting
- Consumer awareness

"Let's face it, we're in the business to make money. CI pays a lot less than a lot of life insurance products, so going through twice as much work and getting not nearly as much pay. Then on top of that, if it gets rated, I have to re-sell. So I'm doing two sales for the same thing and getting a small amount of money. I mean that is a selfish way to look at it, but it is the truth. I'm in it to make money, not just to sell product."

Advisor, Vancouver



U.S. Critical Illness

Not much information

In 2006:

165,684 policies/certs

\$47 million in new premiums

- ▶ Mostly worksite
- ▶ Less than ¼ traditional individual sales

Source: LIMRA International - Gen RE LifeHealth/NACII 2007 Critical Illness Insurance Market Survey Extract



U.S. CI challenges

- ▶ Lack of awareness
- ▶ “Dread disease” stigma
- ▶ Share of wallet
- ▶ No driving force
 - National health care
 - Mortgage requirements



