

Upcoming RCL Industry Experience Studies

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Surveyed Company Desires

After completion of VA Mortality Study

Top two needs clear:

- VA Surrender Study

- VA Benefit Utilization Study
(GMWB & GMIB)

Third need – Payout Annuity Mortality Study

Session Goals

Your input in design of studies

Identify what's of greatest value to you

Goal of Studies

**In depth analysis
followed by
ACTIONABLE
results**

Surrender Study

Full surrenders

Does owner surrender or not?

What impacts the decision?

VA Surrender – Basic Analysis

- Age
- Sex
- Duration
- Surrender charge level and period
- Distribution Channel
- Policy size
- Qualified status

VA Surrender Influences

Does the mere existence of GMDB's and GMLB's impact persistency?

How is persistency impacted by In-The-Money levels?

VS

How does favorable base policy performance affect persistency?



VA Surrender Influences

Do Trail Commissions reduce surrenders?

At what level?

For what distribution channels?

VA Surrender Influences

Do subsequent deposits improve persistency?

Does the utilization of a systematic withdrawal right improve persistency?

Deterrence Measurement

Is surrender charge scale and policy duration the best measure of deterrence?

Will investigate “Effective Surrender Charge”
= $1 - \text{Cash Surrender Value} / \text{Account Value}$

VA Surrender Interactions

Distribution channel is known to have significant impact on persistency. Is there an interaction between distribution and

- Policy performance
- ITMness of GMDB and GMLB
- Effective surrender charge levels

VA Surrender – Environmental Factors

What is the impact on persistency of:

- Equity market conditions
- Fixed rate conditions
- Whether or not policy was a 1035 exchange
- Issuing company financial rating
- Month of year



Monthly analysis is key

Decision to surrender based on current circumstances

- ITMness
- Investment performance

Calendar year or contract year analysis unable to capture impact of these decision drivers

Dynamic Surrender Formula

Use analysis to recommend a dynamic lapse formula supported by facts

Use industry results for greatest credibility

Comment on how each participant's results compare to aggregate industry

GMWB Utilization Study

Main Questions:

When do people first start taking withdrawals?

What percentage are taking withdrawals?

What impacts decision to utilize benefit?

More GMWB Questions

What percentage are withdrawing the maximum allowed?

For those withdrawing less than the maximum allowed, what proportion of maximum is being withdrawn?

What proportion keep withdrawal amount consistent from year to year?

GMWB Challenges

Benefit designs are complex and varied

Withdrawals can be either systematic or ad hoc

Difficulty identifying withdrawals in excess of the maximum allowable benefit amount

Contract year analysis needed

GMWB Utilization – Basic Analysis

- Age
- Sex
- Duration
- Distribution Channel
- Policy size
- Qualified status



GMWB Utilization Influences

What is the impact of incentives to defer?

GMWB Utilization Influences

How does utilization vary between ROP and Lifetime designs?

Single vs. joint utilization on plans that offer both

GMWB Utilization Influences

How does In-The-Money-ness of the living benefit affect utilization?

GMWB ITM Calculation

Formula: NAR / AV

NAR:

1) Remaining GMWB base – AV

Use for lifetime GMWB with no withdrawals to date
and for all non-lifetime GMWB

2) PV(Maximum Monthly Benefit) – AV

where PV based on RCL determined current mortality
and interest for industry

Use for all GLWBs

GMWB Utilization Influences

Do higher election rates at point-of-sale result in lower utilization rates?

At ages where the RMD exceeds the maximum allowable withdrawal amount, are people taking it?

GMWB Utilization Interactions

Is there an interaction between distribution channel and the ITMness of the GMWB?

Is there an interaction between age and the ITMness of the GMWB?

GMWB Utilization Environmental Factors

What is the impact on benefit utilization of:

- Equity market conditions
- Fixed rate conditions

GMIB Utilization Study

What percentage of contracts eligible to annuitize do so?

What impacts decision to utilize benefit?

Basic analysis and influences very similar to other studies

GMIB ITM Calculation

Formula: NAR / AV

NAR

1) $GMIB - AV$

2) $PV(\text{IB monthly benefit}) - AV$

where PV based on RCL determined current mortality and interest for industry

Timing of Studies

Surrender Study completion targeted for 9/30/2008

Benefit Utilization to follow – date TBD

Single Data Submission

Surrender

Benefit Utilization

Mortality

Ideas after conference

Please!!

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