MILLIMAN RESEARCH REPORT

Multi-year guaranteed annuities

2019 survey

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Background

Milliman conducted a new broad-based survey on multi-year guaranteed annuities (MYGAs), capturing historical data for key industry competitors, as well as company perspectives on a range of issues pertaining to these products into the future. Survey topics were determined based on input from a group of co-sponsors of the survey as well as Milliman consultants. This survey summary provides carriers with competitive benchmarking to evaluate where they stand relative to their peers.

The survey was sent via e-mail to MYGA companies on November 4, 2019; 16 companies submitted responses. According to Wink, Inc. These companies represent over 35% of the MYGA industry, based on YTD 9/30/19 sales. Six survey participants are ranked in the top 10 according to Wink, Inc. and accounted for over 45% of sales reported by the top 10 companies.

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Survey Information

Survey responses included information about the following five key drivers of MYGA pricing:

1. Investment yields
2. Policyholder behavior
3. Profit targets
4. Target surplus
5. Expenses

INVESTMENT YIELDS

Survey participants were asked to report the net earned rate (net of investment expenses and default risk charges) achieved based on actual investments during the first three quarters of 2019 in their MYGA asset portfolio. A summary of the responses for the five-year interest guarantee period (IGP) is shown in Figure 1. This information was also collected for the 3-year, 7-year, and 10-year IGPs.

FIGURE 1: NET EARNED RATES ACHIEVED

IGP	NET EARNED RATES ACHIEVED				
	Number of Responses	**Average**	**Median**	**Minimum**	**Maximum**
5-year	10	3.78%	3.76%	2.92%	5.00%

The investment strategy (benchmark) for MYGA new business as of September 30, 2019 was reported by 15 of the 16 participants. With the exception of the 10-year interest guarantee period (IGP) (only four responses), the average targeted allocation percentages are generally very similar among IGPs. Using the 5-year IGP as a benchmark, the biggest differences are seen in the allocations to Treasuries and high yield bank loans. The average overall duration of the investment strategy for a 5-year IGP is 5.4. Survey participants also reported the average overall duration for a 3-year, 7-year, and 10-year IGP.

POLICYHOLDER BEHAVIOR

Lapse rates

Separate base and shock lapse rates were reported by MYGA IGP. For comparison purposes, for each MYGA lapse assumption reported by survey participants we determined the average lapse rate during the surrender charge period (SCP), the shock lapse rate, and the average lapse rate after the shock lapse year. Figure 2 shows the median base lapse rates for a 7-year IGP. As the IGP lengthens, we would expect to see the pattern of increasing base lapse rates during the surrender charge period and decreasing base lapse rates after the shock lapse year. We would also expect to see an increasing pattern of shock lapse rates as the IGP lengthens.

FIGURE 2: BASE LAPSE RATES – 7-YEAR IGP

MEDIAN BASE LAPSE RATE	TIME PERIOD		
	Average During the SCP	Shock Lapse Rate	Average After the Shock Lapse
7-year IGP	2.89%	50.00%	10.63%

Dynamic lapse rates

Dynamic lapse multiples for representative differences between current crediting rates and market crediting rates were reported separately by IGP. The patterns of average dynamic lapse multiples are fairly consistent between those reported for the 5- and 7-year IGPs, which is not surprising since the same group of eight participants reported these multiples. Multiples reported for the 3- and 10-year were very different from the other IGPs and were based on fewer responses.

When looking at the 5-year average dynamic lapse multiples, as an example, multiples are highest at three years after the end of the SCP, followed by those in the year following the end of the SCP, and then those at three years before the end of the SCP when the current rate is below the market crediting rate. When the current rate is above the market crediting rate, then dynamic lapse multiples are generally highest in the year following the end of the SCP, followed by those at three years after the end of the SCP, and then those at three years before the end of the SCP.

Partial withdrawal rates

Partial withdrawals assumed in pricing non-qualified (NQ) MYGAs ranged from 0.20% to 6.00%, with an average of 1.83% and median of 1.60%. For qualified (Q) plans, partial withdrawals assumed in pricing were higher than those reported for NQ MYGAs.

Profit Targets

When pricing MYGA products, the most common profit metric used by survey participants is statutory IRR. The statutory IRR target ranges from 4.00% to 15.00%, with an average of 10.19%, and a median of 10.50%. Of those participants using statutory IRR as a profit measure, 77% achieved their profit target in calendar year 2018.

Survey participants reported how their MYGA returns compared to the returns achieved on certain other products. Figure 1 shows a summary of the responses indicating if MYGA returns were higher than, lower than, the same as, or not applicable, compared to the returns on other products.

FIGURE 3: MYGA RETURNS COMPARED TO OTHER PRODUCTS

PRODUCT	NUMBER OF PARTICIPANTS WHERE MYGA RETURNS ARE:				
	Higher than	Lower than	the Same as	Not applicable	Total Responses
Single premium immediate annuities	4	4	3	5	16
Fixed indexed annuities	4	6	3	2	15
Deferred income annuities	2	2	4	7	15
Pension risk transfers	1	5	0	8	14
Funding agreements	1	1	0	11	13
Variable annuities	0	7	0	7	14

TARGET SURPLUS

The average level of National Association of Insurance Commissioners (NAIC) risk-based capital (RBC) relevant to pricing new MYGA sales equals 357%. A summary of participant responses is shown in Figure 5. The survey also includes a summary of the earned rate assumed on capital in MYGA pricing by survey participants as of September 30, 2019, as well as average C-1 charges for assets backing capital.

FIGURE 4: MYGA TARGET SURPLUS/CAPITAL

METRIC	AVERAGE	MEDIAN	MINIMUM	MAXIMUM
NAIC RBC	357%	375%	200%	450%

EXPENSES

The majority of survey participants responding reported issue/acquisition expenses assumed in MYGA pricing for all distribution channels combined, indicating that these assumptions do not vary by channel. The average issue/acquisition expense assumed in pricing for all channels combined is $179 per policy, and 0.67% of premium. Survey participants also reported maintenance expenses assumed in pricing MYGAs, as well as the average per policy size assumed, which is an important element relative to expense assumptions.

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