



Life and Annuity Pricing Trends and Insights

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Agenda

1. 2023 WTW Pricing Methodology Survey
2. RILA Pricing Survey
3. Q&A



2023 WTW Pricing Methodology Survey

Amber Ruiz



Background and Scope

- The focus of the survey was on the profit objectives and assumptions used in pricing 2022 new issues of individual life and annuity products. Participants were asked about past practices not future plans.
- We have conducted similar surveys in the past and include comparisons where applicable.
- Note that participants vary from survey to survey, which can impact year-to-year comparisons.
- The survey covered the following products:

Life Products	Annuity Products
<ul style="list-style-type: none">• Term Insurance (TERM)	<ul style="list-style-type: none">• Fixed Deferred Annuity (FA)
<ul style="list-style-type: none">• Whole Life (WL)	<ul style="list-style-type: none">• Variable Annuity (VA)
<ul style="list-style-type: none">• Universal Life, with extended no-lapse guarantee (UL NLG)	<ul style="list-style-type: none">• Registered Index-Linked Annuity (RILA)
<ul style="list-style-type: none">• Universal Life, without extended no-lapse guarantee (UL)	<ul style="list-style-type: none">• Fixed Indexed Annuity (FIA)
<ul style="list-style-type: none">• Variable Universal Life (VUL)	<ul style="list-style-type: none">• Single Premium Immediate Annuity (SPIA) and Deferred Income Annuity (DIA)
<ul style="list-style-type: none">• Indexed Universal Life, with extended no-lapse guarantee (IUL NLG)	
<ul style="list-style-type: none">• Indexed Universal Life, without extended no-lapse guarantee (IUL)	

- Not all participants answered all survey questions; we have included all responses received.
- Responses are only summarized where a sufficient number of responses (≥ 5) were received.
- In some instances, companies did not respond for all applicable product lines. In other instances, companies provided multiple responses, in which case totals will not add to 100%.

Survey Respondents

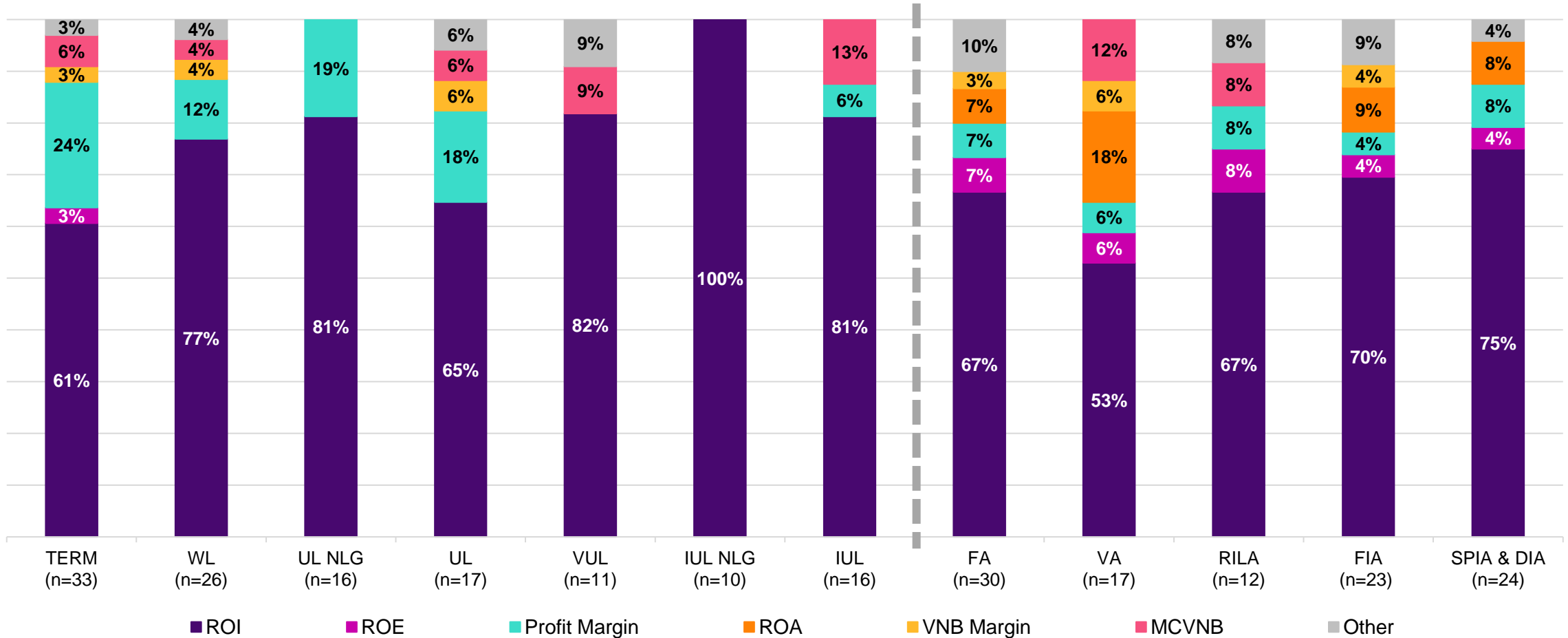
44 individual life insurance and annuity writers participated in the survey, 10 of which are mutual or fraternal organizations.

Stock Companies	
• Allianz Life Insurance Company of North America	• Legal & General America
• Allstate	• Lincoln Financial Group
• American Equity Investment Life Insurance Company	• MassMutual Ascend*
• American Family Life Insurance Company	• Nassau Financial Group
• Americo Financial Life and Annuity Insurance Company	• National Life Group*
• Athene	• Nationwide Insurance*
• Brighthouse Financial	• Ohio National*
• The Cincinnati Life Insurance Company	• Pacific Life*
• COUNTRY Financial	• Principal Financial Group
• Equitable	• Protective Life
• EquiTrust Life Insurance Company	• Sammons Financial Group
• Fidelity Investments Life Insurance Company	• Security Benefit Life Insurance Company
• Global Atlantic	• Southern Farm Bureau Life Insurance Company*
• Horace Mann Life Insurance Company	• Standard Insurance Company
• Jackson National Life	• Transamerica Life Insurance Company
• John Hancock	• USAA Life Insurance Company*
• Kansas City Life Insurance Company	• Western & Southern Financial Group*
Mutual / Fraternal Companies	
• The Baltimore Life Insurance Company	• Mutual Trust Life Insurance Company
• Guardian Life Insurance Company of America	• State Farm Life Insurance Company
• Knights of Columbus	• Thrivent
• MassMutual	• TIAA
• Mutual of Omaha Insurance Company	• WoodmenLife

* Mutual holding company

Primary Profit Measure by Product

Primary Profit Measure by Product
(Percent of Responses)



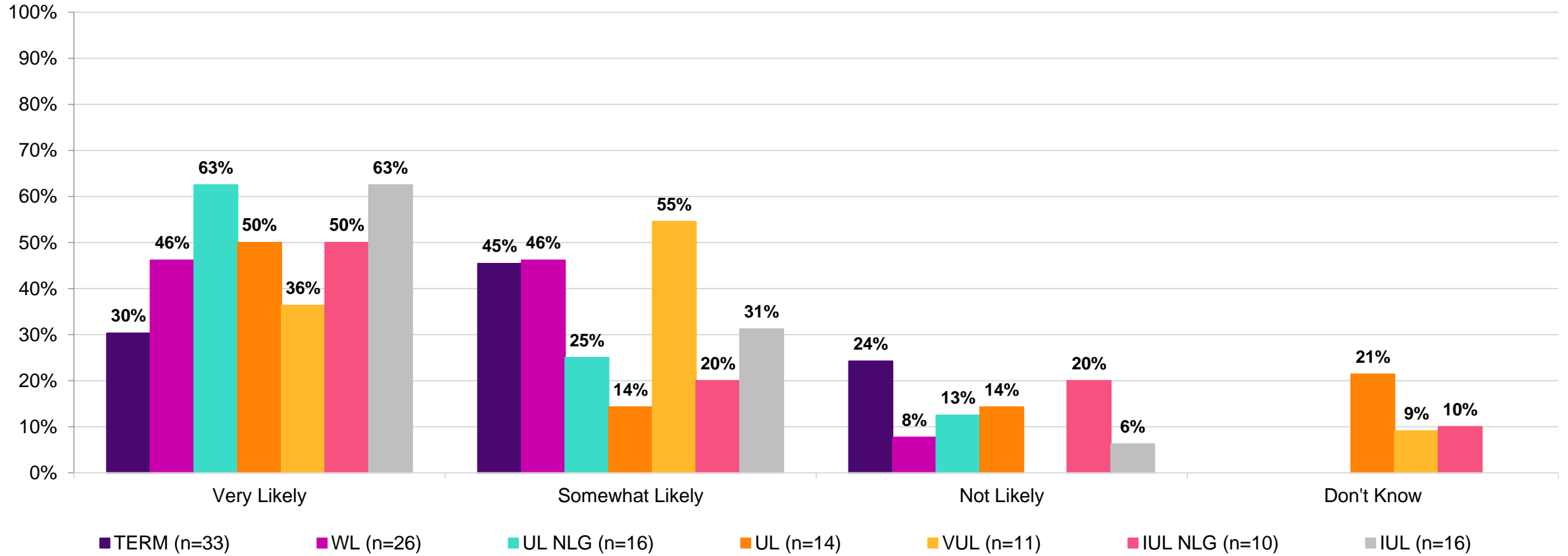
ROI Target Values

Product	15th Percentile	Median	85th Percentile
TERM	6.1%	8.8%	11.0%
WL	6.8%	8.5%	10.0%
UL NLG	7.0%	9.0%	13.1%
UL	7.5%	9.3%	12.0%
VUL	7.5%	9.5%	12.3%
IUL NLG	7.8%	10.5%	12.7%
IUL	7.1%	10.0%	12.4%
FA	6.7%	10.0%	12.0%
VA	10.4%	14.0%	16.0%
RILA	9.3%	11.0%	12.5%
FIA	8.0%	11.0%	12.0%
SPIA & DIA	6.4%	10.0%	12.0%

ROI = Statutory return on investment (internal rate of return)

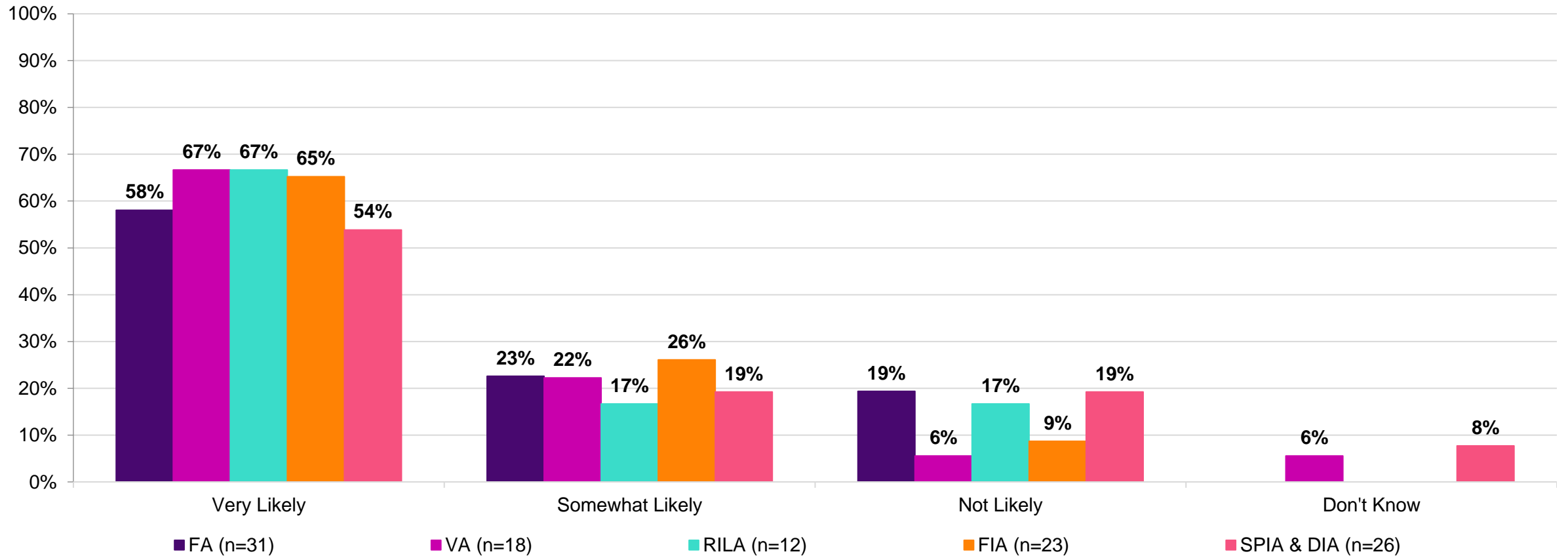
Likelihood of Achieving Aggregate Profit Targets – Life Products

Likelihood of 2022 Issues Meeting Aggregate Profit Targets
(Percent of Responses)



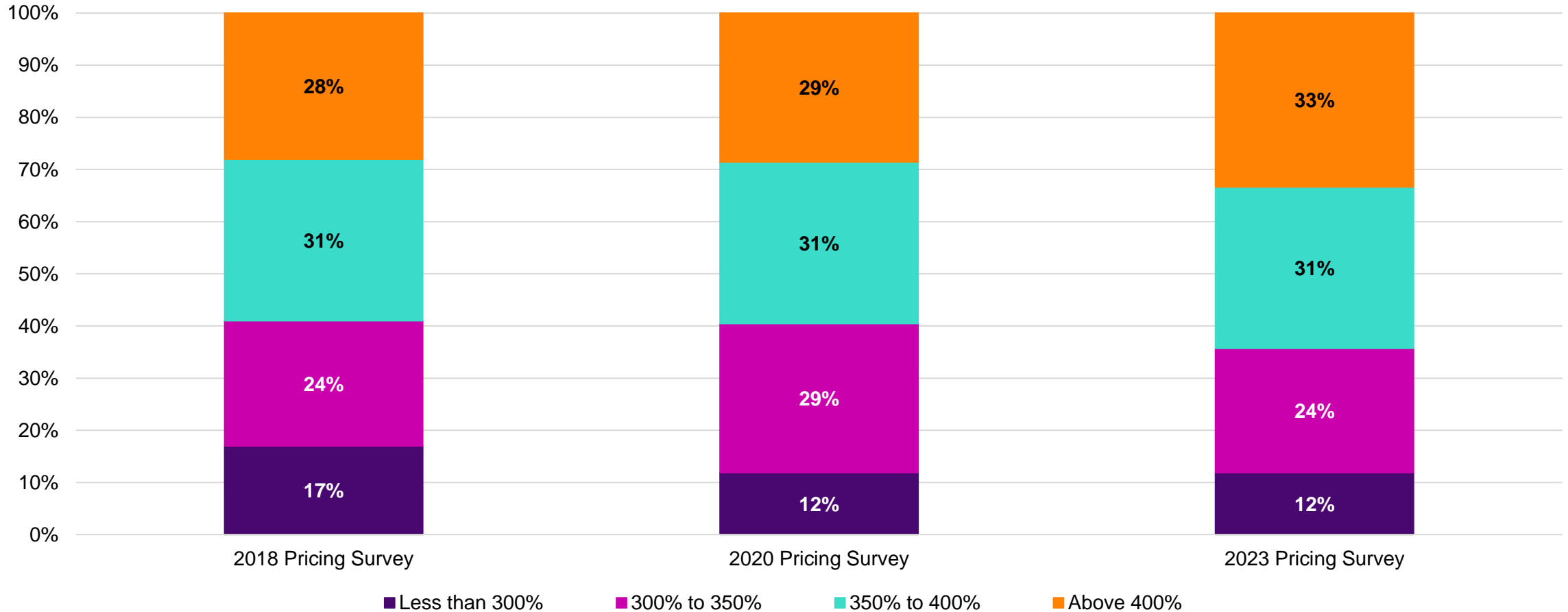
Likelihood of Achieving Aggregate Profit Targets – Annuity Products

Likelihood of 2022 Issues Meeting Aggregate Profit Targets
(Percent of Responses)



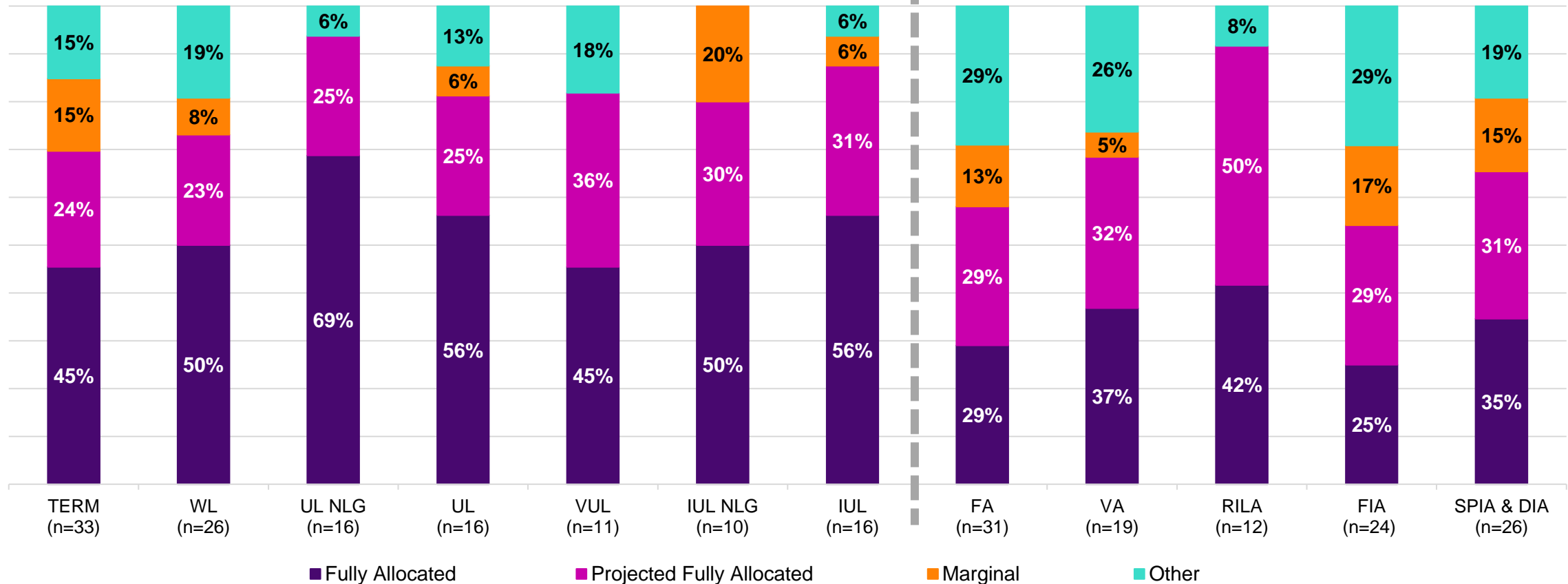
NAIC Company Action Level Risk Based Capital Trends

RBC Ratio Comparison



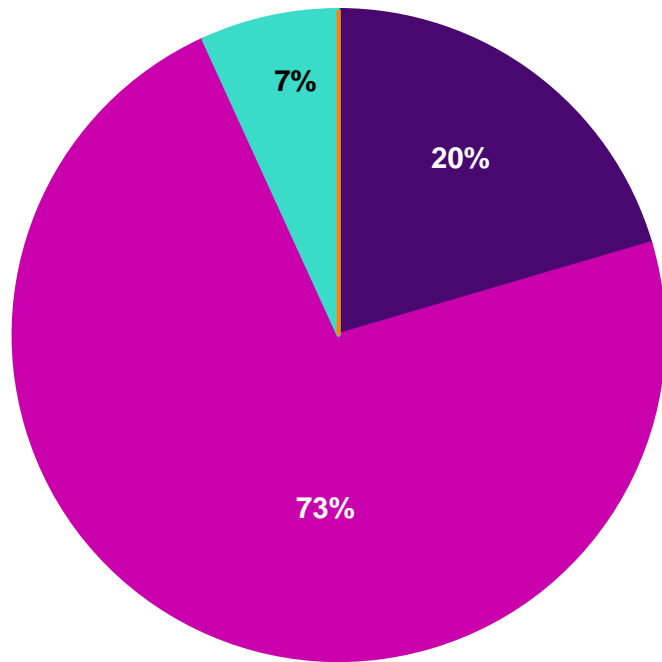
Type of Expense Assumptions in Calculating Expected Profit

Type of Expense Assumptions by Product (All Companies)
(Percent of Responses)



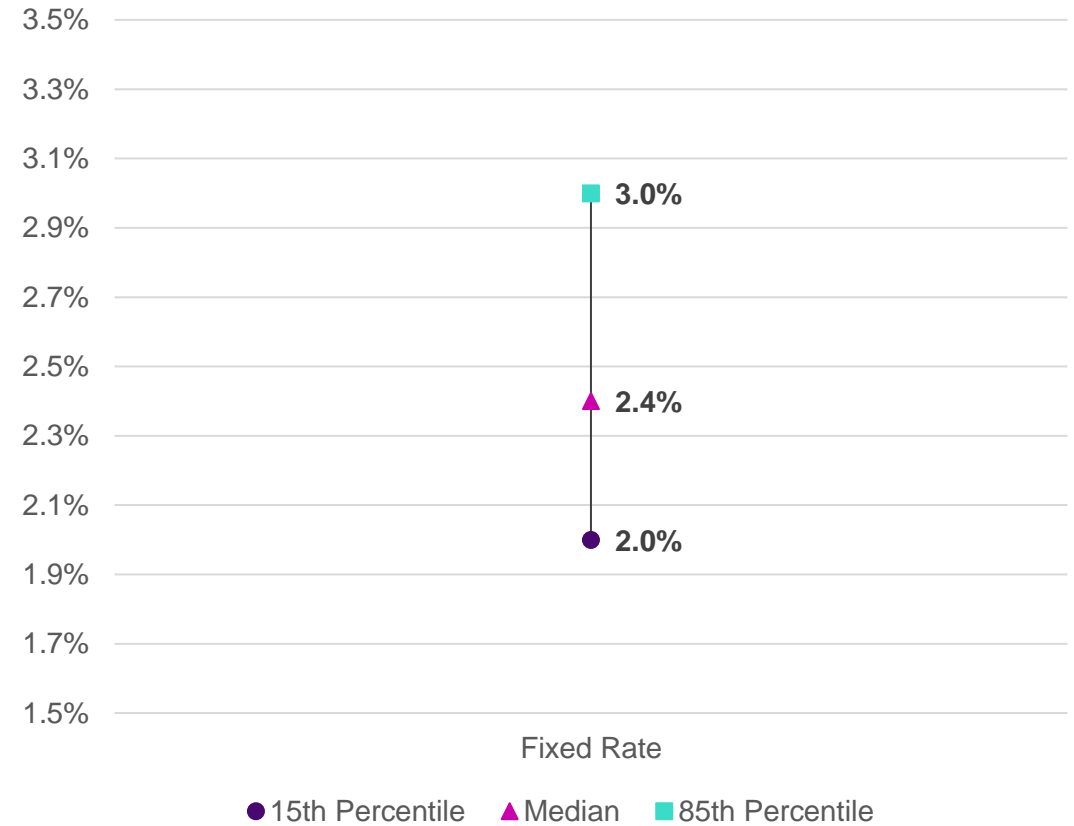
Maintenance Expense Inflation Assumption

Maintenance Expense Inflation Assumed
(Percent of Responses)



■ No inflation assumed ■ Fixed assumption ■ Stochastic assumption ■ Other

Fixed Maintenance Expense Inflation Assumption

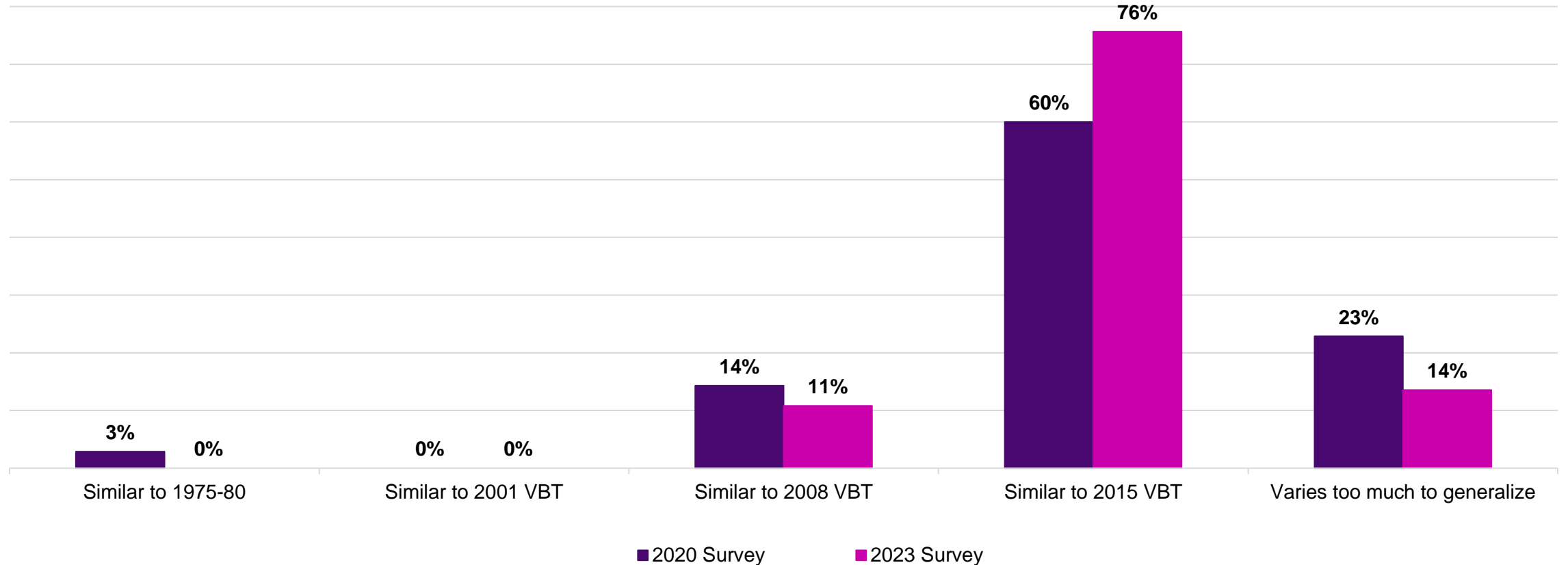


Base: n=44

Basic Durational Slope of Mortality Assumptions

During the Select Period for Younger Issue Ages

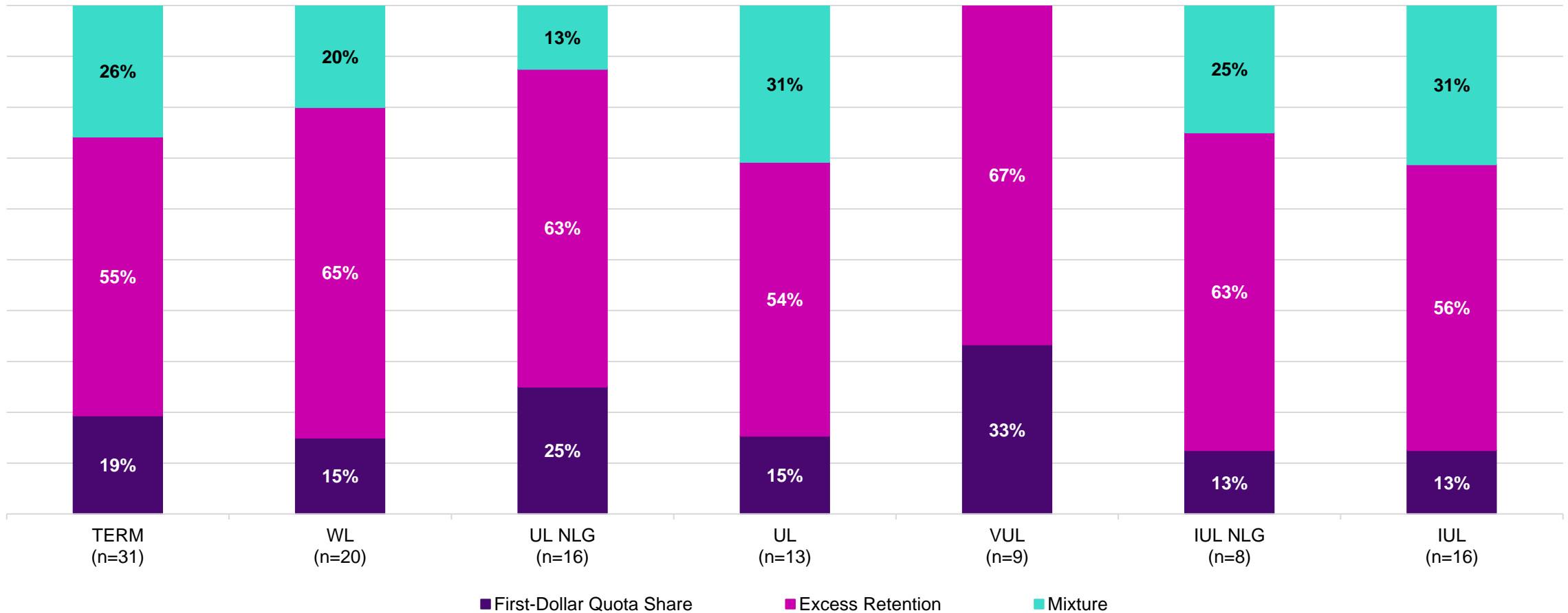
Life Products Basic Durational Slope of the Mortality Assumptions
(Percent of Responses)



Base: n=37

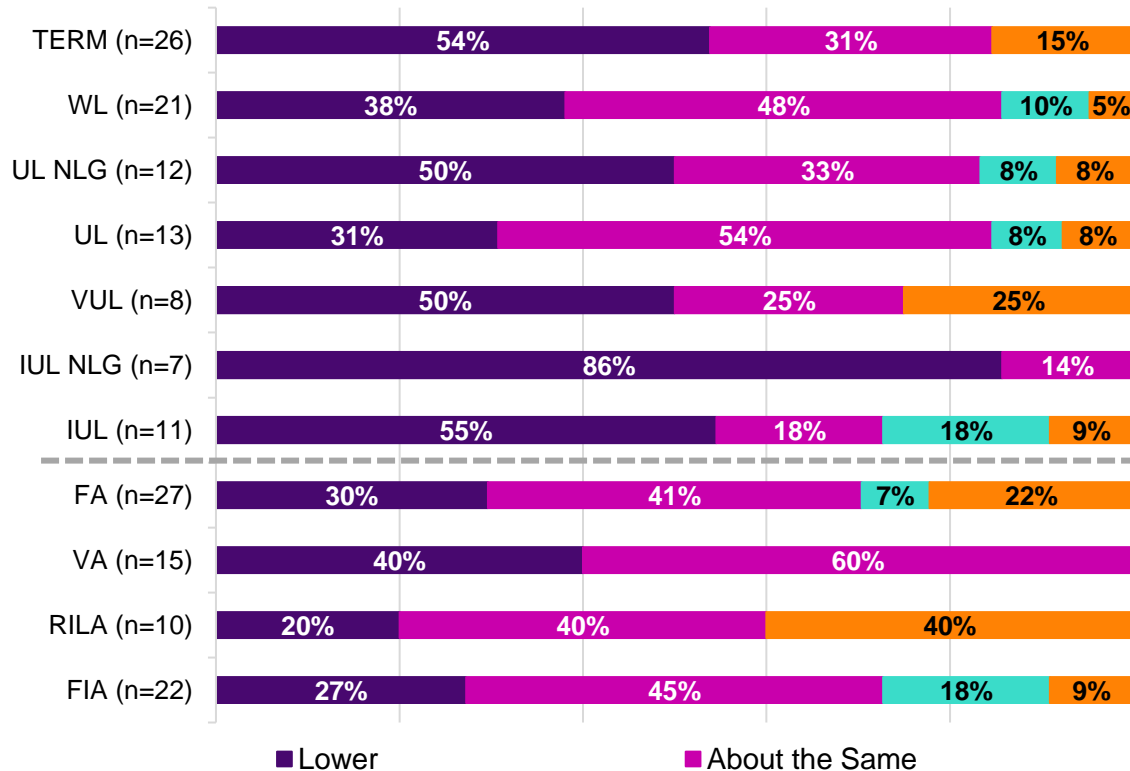
First-Dollar Quota Share and Excess Retention Reinsurance

Distribution of Reinsurance
(Percent of Responses)

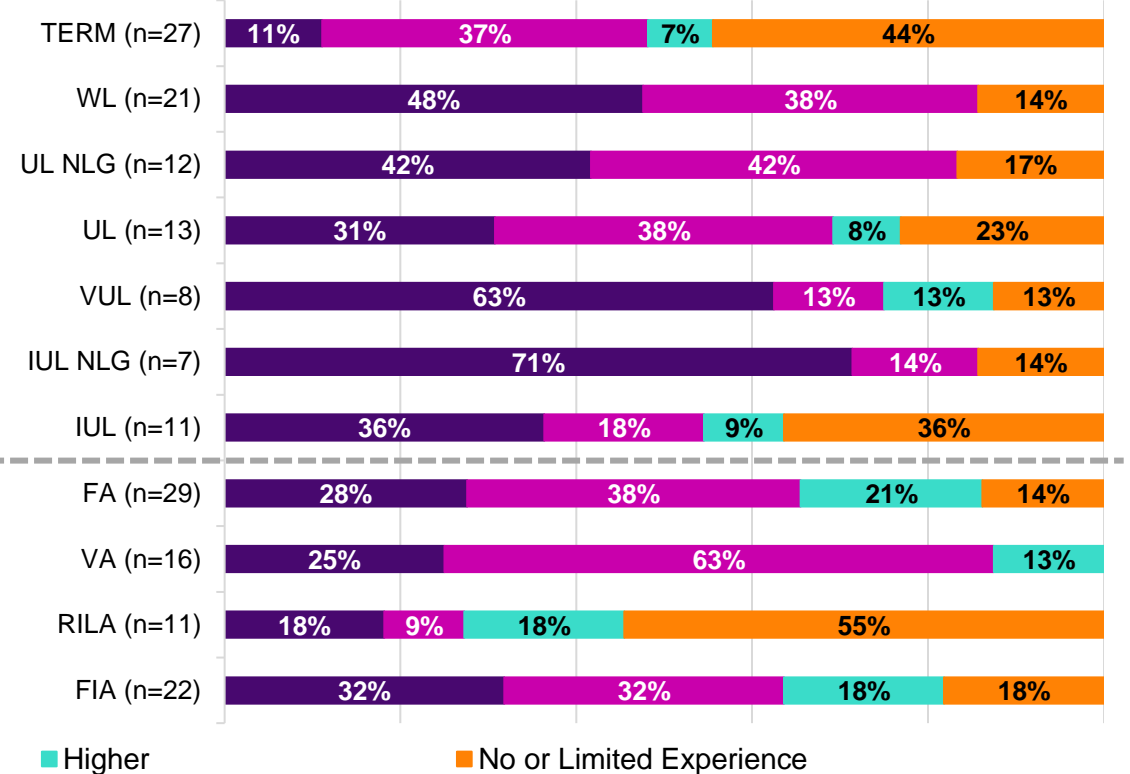


Inforce Surrender Experience Compared to Expected

Early Duration*
(Percent of Responses)



Later Duration**
(Percent of Responses)

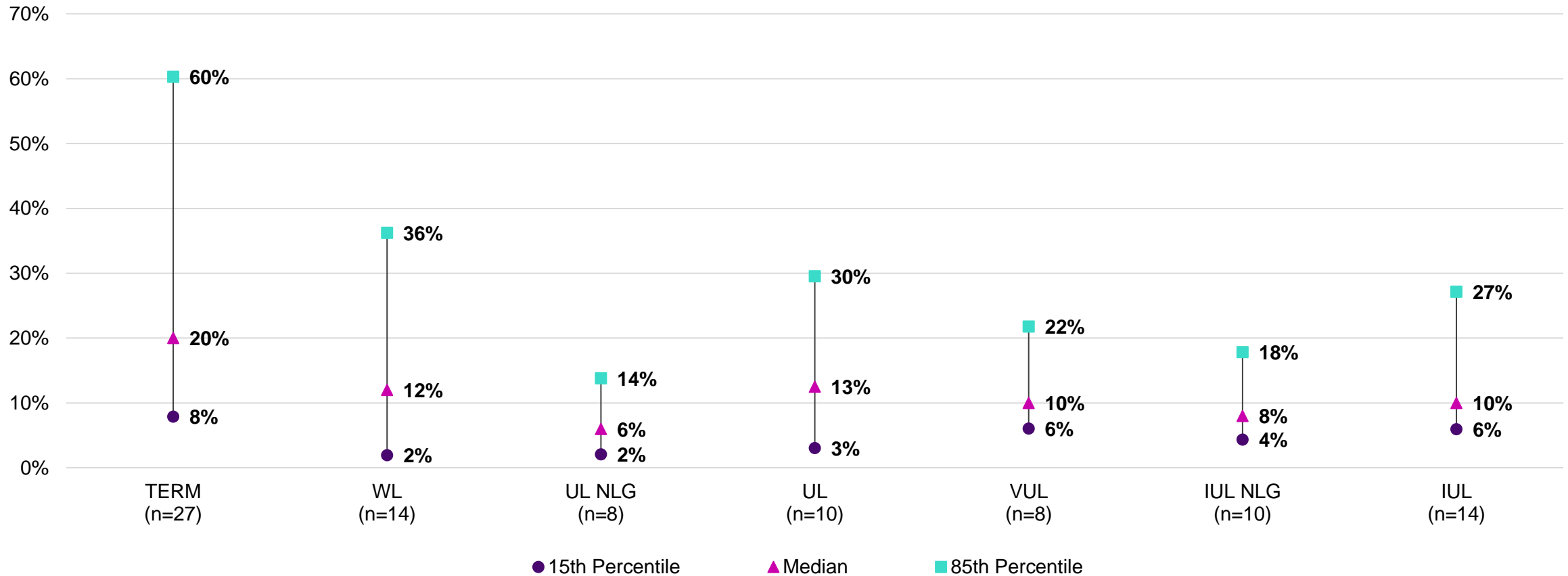


* Early Duration (Term: During level term period; Annuity: During Surrender Charge Period; All other products: Policy Years 1-5)

** Later Duration (Term: After level term period; Annuity: After Surrender Charge Period; All other products: Policy Years 6+)

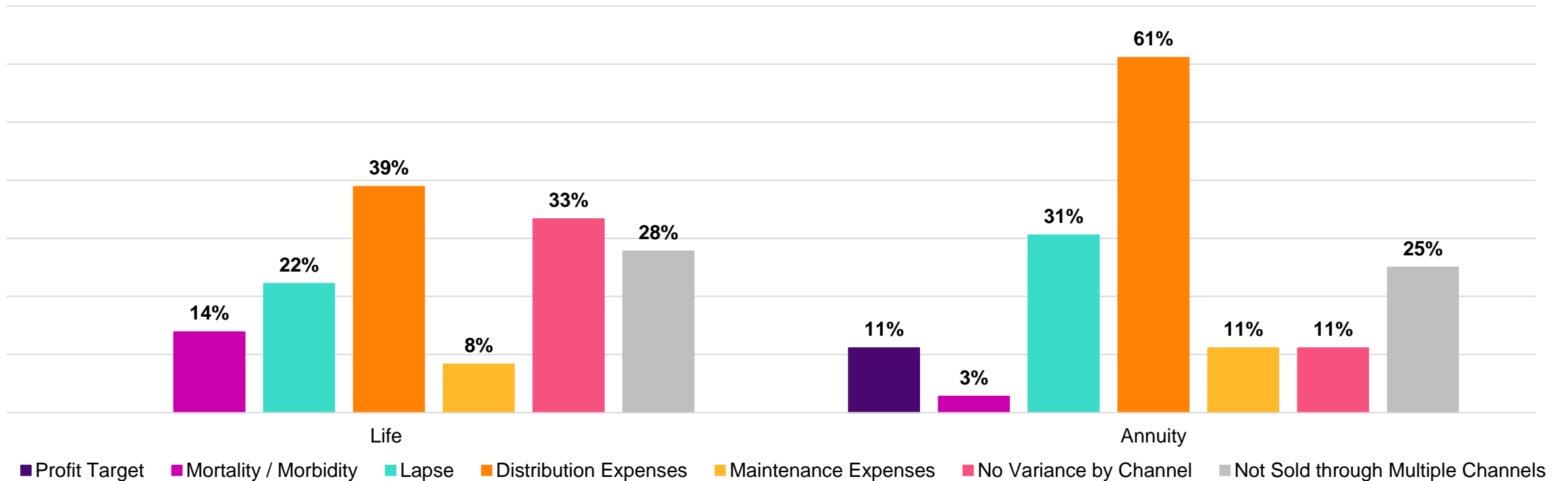
Percentage of Issued Face Amount Done via Accelerated Underwriting

Percentage of Issued Face Amount Done via Accelerated Underwriting
(Percent of Responses)



Pricing Assumptions that Vary by Channel (Multiple Distribution Channels)

Pricing Assumption Varied by Channel
(Percent of Responses)

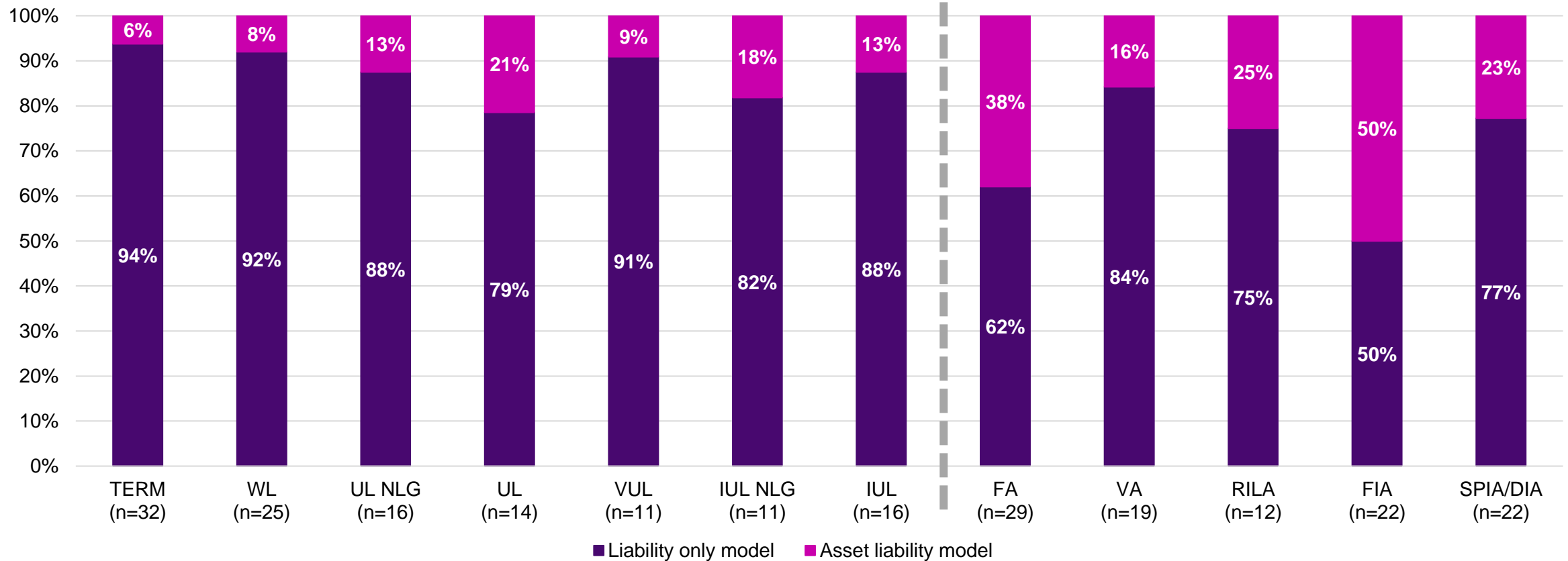


Base: Life (n=36), Annuity (n=36)

Totals shown do not total to 100%, since some companies selected more than one response

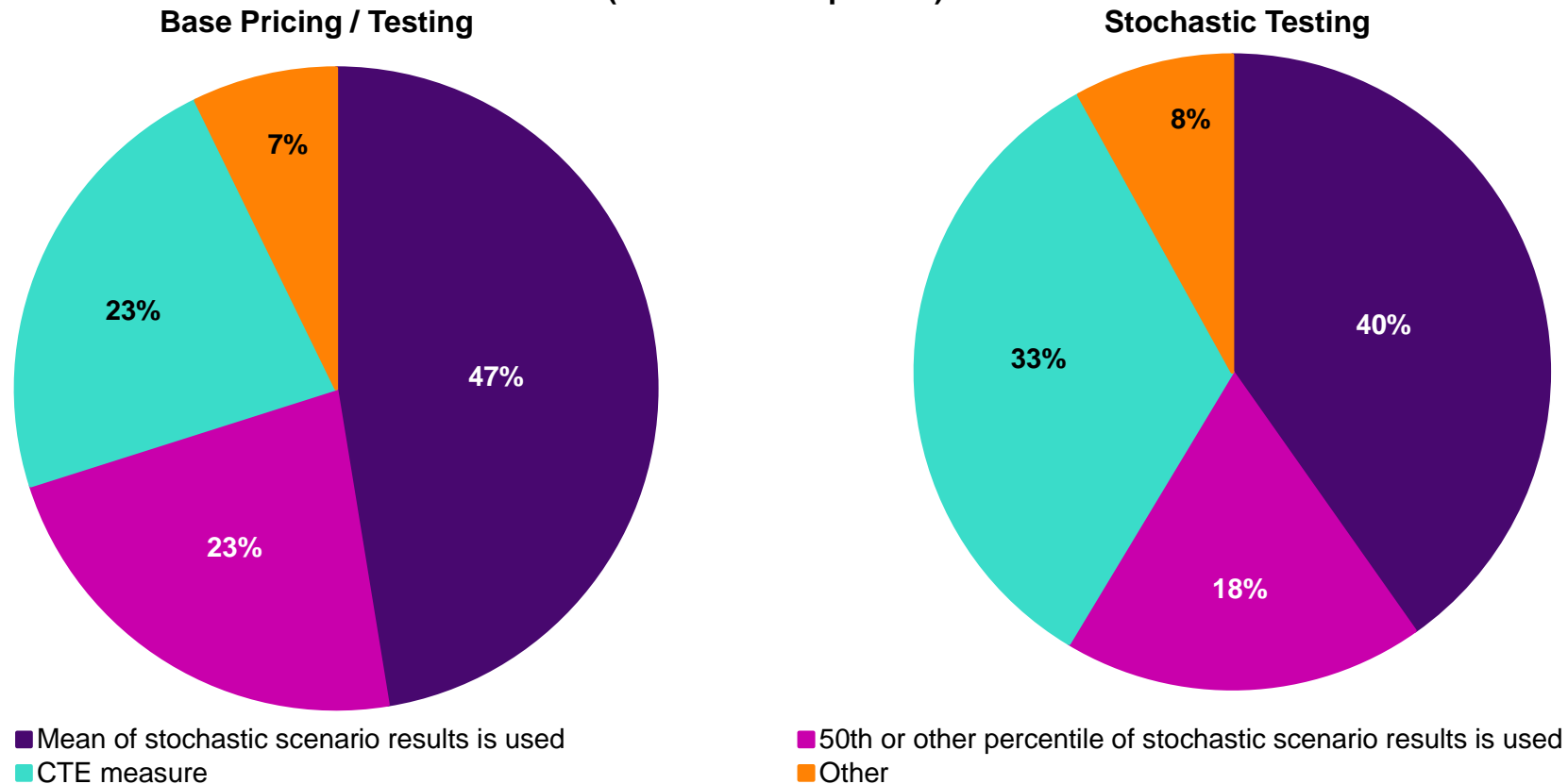
Type of Model Used for Pricing

Model Type by Product
(Percent of Responses)



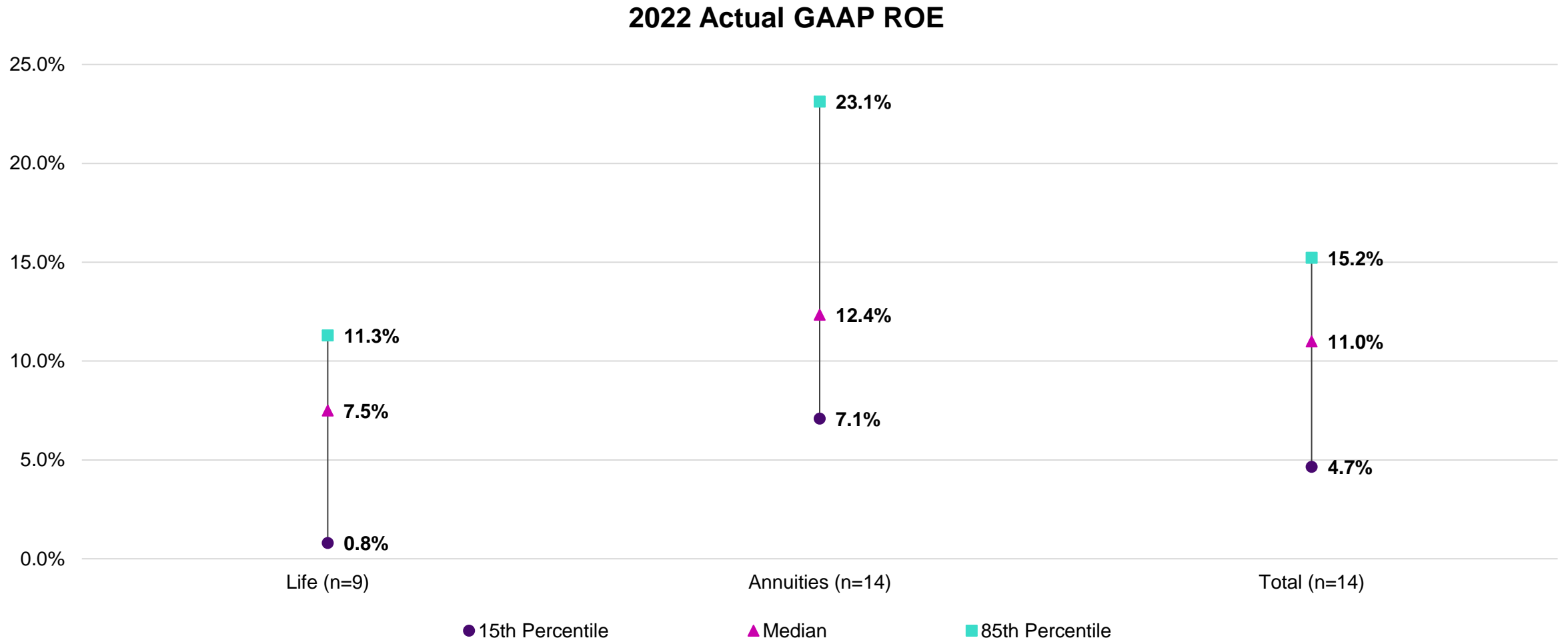
Use of Stochastic Testing for Reporting Profit Objectives

Reporting Stochastic Profit Testing Results (Percent of Responses)



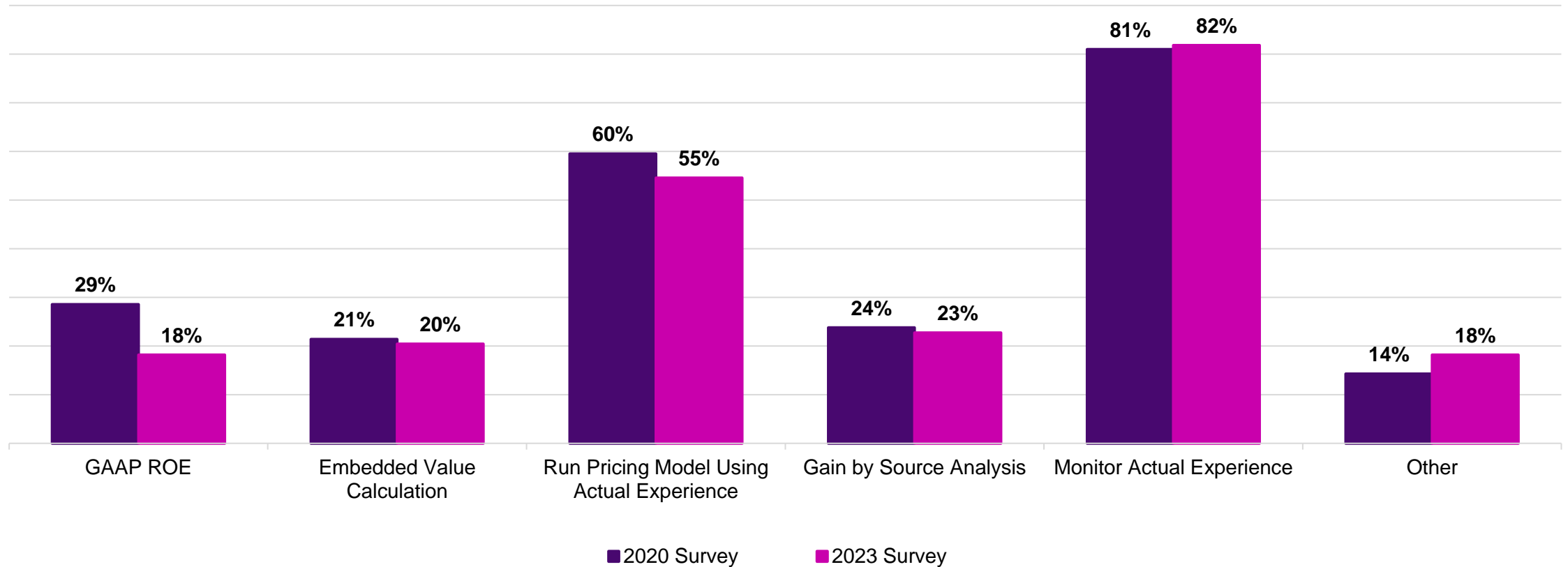
Base: Base Pricing / Testing (n=27), Stochastic Testing (n=20)

Actual 2022 GAAP ROE for In-Force Business



Measurement of Actual vs. Targeted Profitability

Method Used to Measure Actual vs. Expected Profitability
(Percent of Responses)

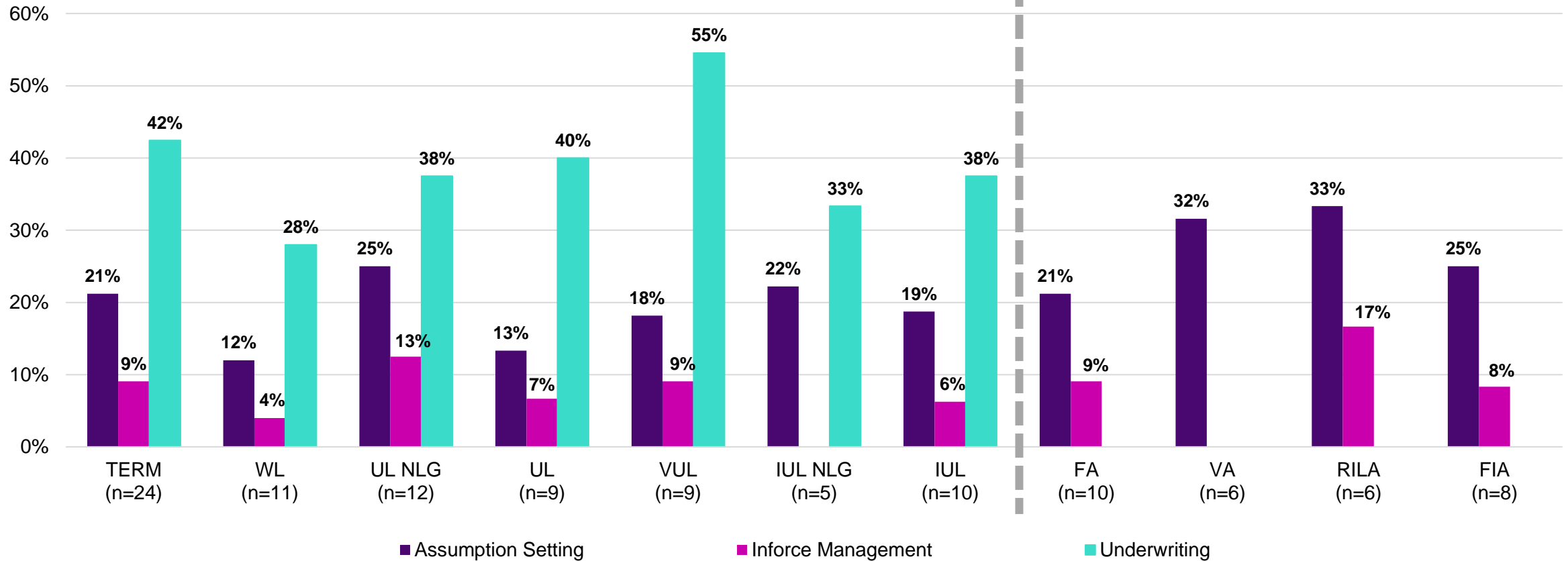


Base: n=44

Totals shown do not total to 100%, since companies selected all metrics used to assess profitability.

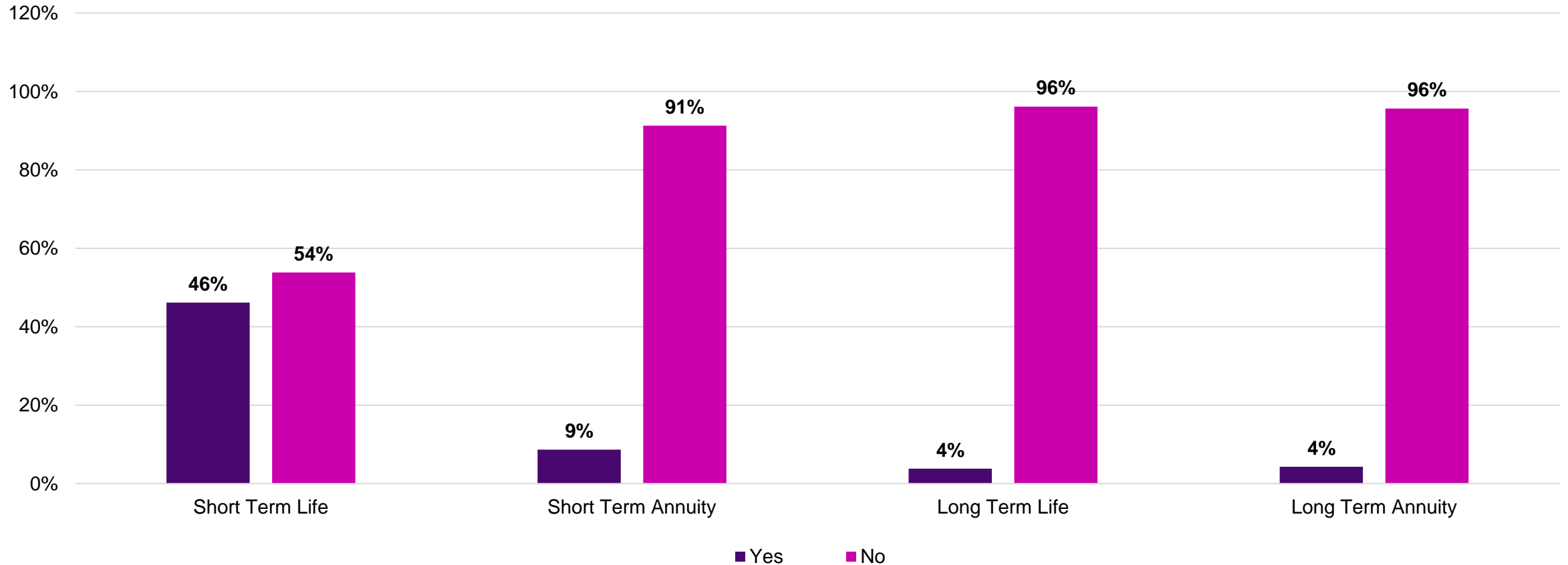
Use of Predictive Analytics

Use of Predictive Analytics
(Percent of Responses, N = Companies Reporting Sales by Product Type)



Mortality Assumptions Updates Due to COVID-19

Mortality Assumptions Updated for COVID-19
(Percent of Responses)



RILA Pricing Survey

Rick Hayes



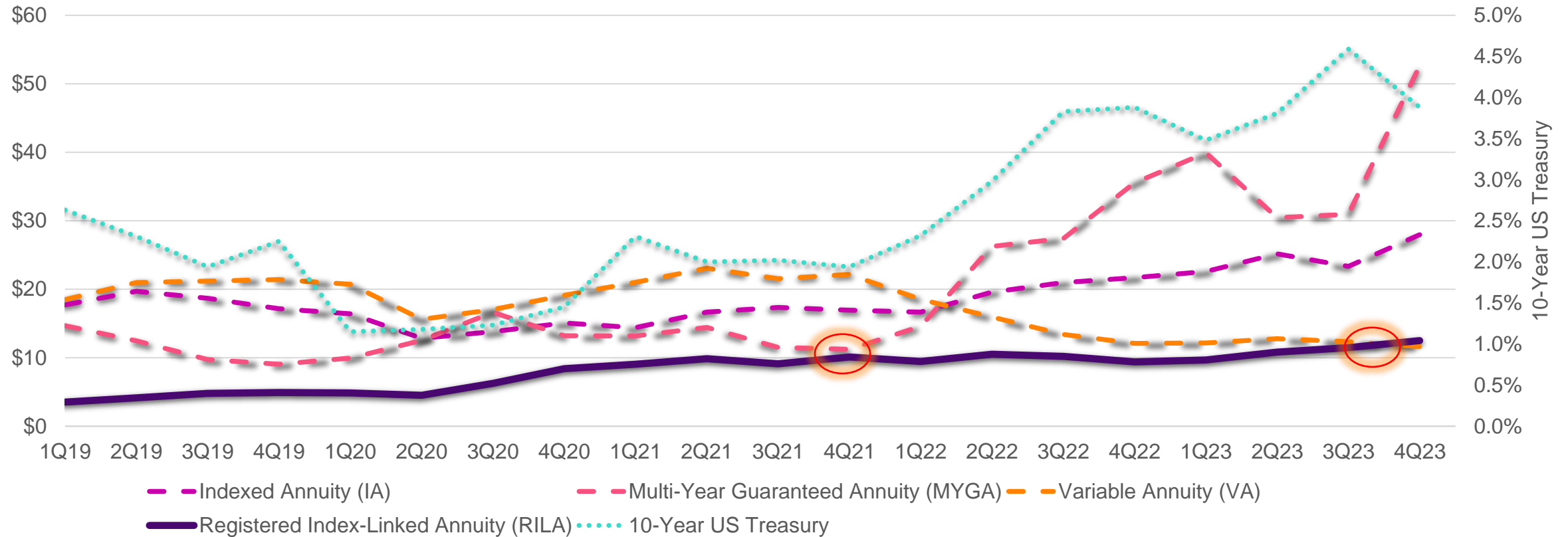
RILA Market Continues to Grow

- **RILA sales continue to grow** while new players continue to enter the market, with more expected to come
- **Q4 2023 sales figures topped \$12B** for the first time
- The RILA value proposition has potentially lost some ground in the high interest rate environment, as MYGA and FIA growth has been greater, but **the overall sales trend is still positive and recently overtook quarterly variable annuity sales**
- **With more participants, competitiveness will likely increase** and lead to new crediting strategies, perhaps more guaranteed living benefits, pricing sophistication and scrutiny.
- **We performed our 2023 RILA Pricing Survey to gain insight from 2022 practices**, but remain interested in our client's most recent practices and efforts related to pricing

Deferred Annuity Sales Trends

Sales Trend

Annuity Sales by Quarter (in billions)



Data source: Wink's Annuity Product Report

RILA Survey Background and Scope

- Information was requested on pricing practices and methodologies as of **6/30/2022**
- The survey covered 10 main topical areas:
 - Context of Survey Participants
 - Product Features
 - Surrender Assumptions
 - Partial Withdrawal Assumptions
 - Investment Assumptions
 - Scenarios & Options
 - Crediting Methodology and Cap Setting
 - Pricing Methodology
 - Sensitivities
 - Dynamic Surrenders
- 12 RILA writers participated in the survey
- Participating companies comprised approximately 75% of the RILA writers in the marketplace (12 of 16 significant players)

Summary of Key Results

Context of Survey Participants & Product Features

- The vast majority of sales are for a product with a surrender charge term of 6 years
- No participants indicated an available enhanced GMDB and only one company indicated an available GLWB
- GMDB sales were concentrated in products with a death benefit equal to premium
- Buffer crediting methodologies based on the S&P 500 comprise the majority of sales

Surrender Assumptions

- Base lapse assumptions can vary significantly by company for shock and ultimate levels. The variation between respondent values is similar from what we have seen from our FIA pricing surveys, but notable that, on average, rates in the SC period are lower than the FIA equivalent yet higher for shock and ultimate values
- Given the relative immaturity of the RILA market, most respondents had not revisited their assumptions since product launch, but high interest rate environment has cause additional scrutiny recently

Summary of Key Results

Partial Withdrawal Assumptions

- Companies are split in terms of varying assumptions by policy characteristics such as duration, age, and tax status
 - Age based assumptions are mostly attained age based as opposed to issue age based
- Most allow for Required Minimum Distributions even if they exceed the free partial withdrawal amount

Scenarios

- The majority of companies are split between using either a level deterministic scenario or real-world stochastic scenarios for base pricing, with many using the other for sensitivity testing
- Most use current market prices to price initial index options and then project consistent with economic scenarios. Companies with deterministic pricing tend to also assume static option prices

Pricing Methodology

- Of the companies surveyed, only four used a full asset liability (ALM) model, with the rest using a liability-only model
- All companies indicated they use new money rates for initial rate setting, but respondents were split on using a new money rate, a portfolio rate or a mix of the two for renewal rates
- Respondents are generally validating models every three years or less and typically rely on internal teams for the validation, often the pricing team themselves
- Most are sensitivity testing investment yields, base and dynamic surrenders, option returns, and a combination of policyholder behavior and economic conditions

Summary of Key Results

Index Crediting

- Point to point crediting strategies based on the S&P 500 are offered by essentially all participants, with some also offering participating rate, multi-year and some fixed investment options
- In projecting caps, most are assuming a fixed spread, but many still take a fixed rate and cap approach instead. Just about all strategies offered are being modeled directly in pricing

Investment Assumptions

- Allocations by asset class varied considerably by company, with allocations to private placements, high yield, mortgages, structured assets and real estate often driving high yields
- Some companies tend to focus on investment grade bonds, other mortgage products and others more structured and other more complex assets
- Spread achieved on shorter and private securities can vary considerably by company
- Asset durations invested in also vary dramatically by company

Dynamic Surrenders

- Only about half of companies reflected dynamic surrenders in base pricing results
- Views on surrender charge dynamic adjustments vary significantly for those that use them
- If used, most project significant surrenders for very uncompetitive rates, even with surrender charges present
- Views on post surrender charge dynamic surrenders vary considerably by company

About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organizational resilience, motivate your workforce and maximize performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at [wtwco.com](https://www.wtwco.com).



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