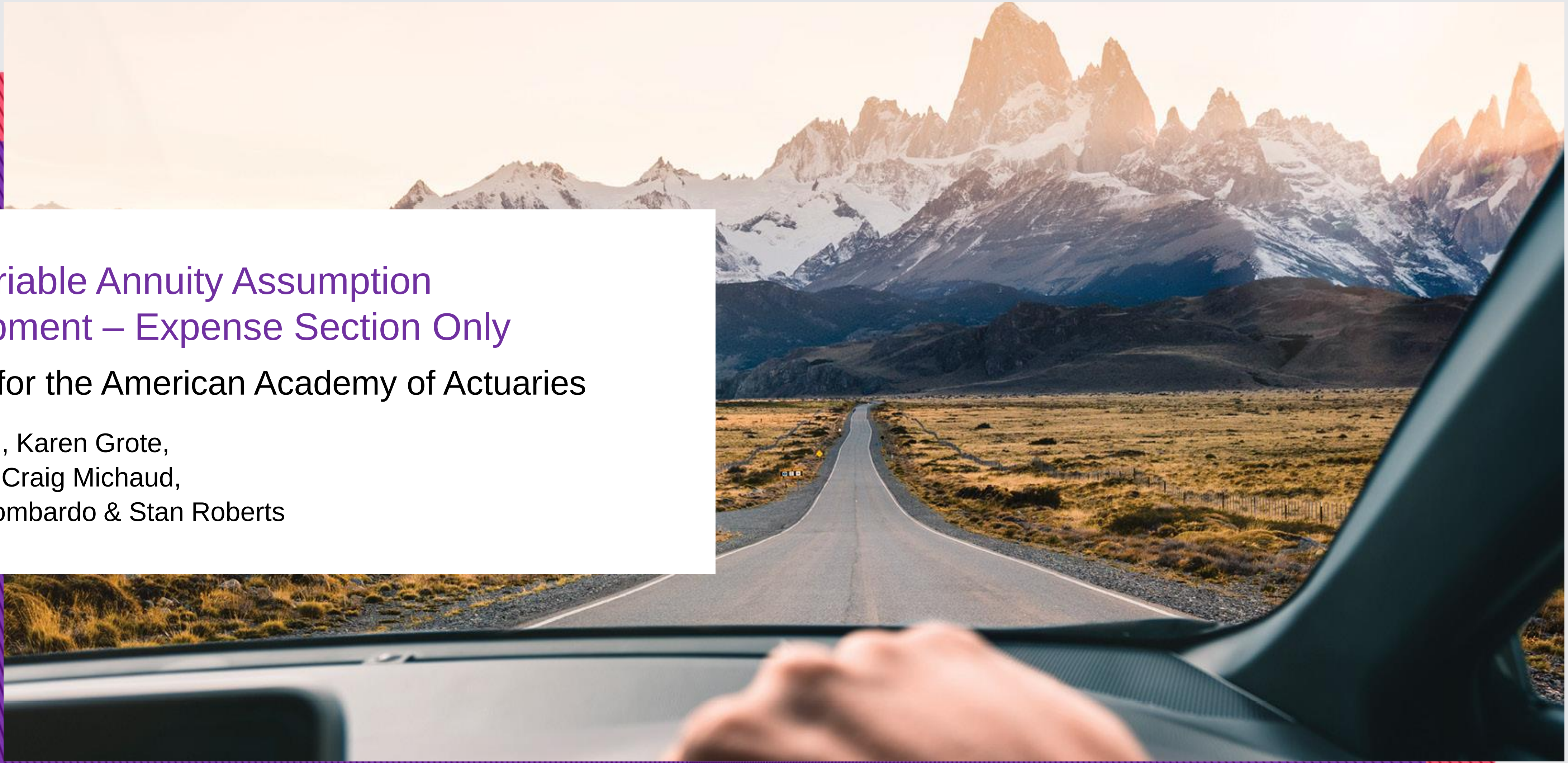
WTW

Non-Variable Annuity Assumption Development – Expense Section Only

A report for the American Academy of Actuaries

Ji Eun Choi, Karen Grote,
Lori Helge, Craig Michaud,
Kendrick Lombardo & Stan Roberts

May 2022



Background

- The Annuity Reserves and Capital Work Group (“ARCWG”) of the American Academy of Actuaries (the “Academy”) is developing a proposal for a framework for non-variable annuity ("non-VA") Principles-based Reserves ("PBR") for the following products:
  - Fixed Deferred Annuities (“FDA”) - including Fixed Indexed Annuities (“FIA”)
  - Pension Risk Transfer (“PRT”)
  - Structured Settlement Annuities (“SSA”)
  - Payout Annuities (“PA”) – including Single Premium Immediate Annuities (“SPIA”) and Deferred Immediate Annuities (“DIA”)
- The Academy engaged Willis Towers Watson US LLC (“WTW” or “we") to assist the Work Group in providing an assumption framework for non-VA PBR, specifically as it relates to the Standard Projection Amount
- This document provides a range of values and/or best estimates for key assumptions along with the rationale based on experience we have reviewed. For those complex assumptions (e.g., SSA mortality), we provide a framework for developing the assumptions
  - For any assumptions provided, we have provided a typical range. Specific circumstances may dictate assumptions outside that range
  - We have prepared this report as input to the Work Group, and it is not meant to suggest any specific drafting of the regulation
- Please note the reliances and limitations on the following page

Reliances and Limitations

- This document is provided solely for the internal use of the Academy and Work Group members in connection with the assumption development for non-VA PBR. It is subject to the terms and conditions in our Statement of Work dated June 14, 2021
  - It is not intended or necessarily suitable for any other purpose
  - However, the Academy may reference and include this document in connection with communications with the National Association of Insurance Commissioners (NAIC) or publications related to the intended purpose
  - Any draft deliverables will not be shared with the NAIC, or be distributed beyond the ARCWG
  - This report is intended for use by persons technically competent in the areas covered and with the necessary background information
- WTW relied on publicly available industry data (e.g., SOA studies, LIMRA study, Social Security Administration data)
- Our approach is to recommend a reasonable range (or guidance when a range is not possible) for each assumption for non-VA PBR, based on the latest industry data and our general knowledge and experience with life product valuation. Thus, it should not be viewed as WTW's actuarial opinion on the assumptions
  - Any guidance provided has inherent uncertainty, since future experience may not be well represented by past experience
  - Specifically, the long-term impact of Covid-19 on assumptions, mortality and morbidity assumptions specifically, is unclear

Expenses

Expenses

- For most FDAs maintenance expense costs typically are consistent with overall VA expense levels
  - Product complexity is very similar (FDA with enhanced benefits), which will translate into similar policy administration expenses
  - We expect increasing hedging/ALM needs (with increasing index account complexity and variety), as well as expected increasing sophistication of Asset Liability Management (ALM) due to increased risk and regulation support
  - We would suggest the same $100 per policy per year (100% of VA) is used for FDAs, except simple FDAs without optional benefits.

- For Payouts, SPIAs, Structured Settlements and PRT are much simpler to administer
  - We would suggest $50 (50% of the VA VM-21 level), based on comparable benchmarks for direct and TPA expenses

- For other simple annuity products, costs are typically less than VAs
  - For traditional fixed annuities (FDAs without optional benefits) & DIAs, administrative and hedging/ALM complexity is lower than for VAs
  - We would suggest $75 (75% of the VA VM-21 assumption), given surrender and other product features that need to be managed