

# The World of Annuities: Regulation, Consumer Protection & Taxation

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# American Academy of Actuaries

The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.



# Many Forces Challenging the Life Insurance Industry

- Demographic (graying of the population, retirement crisis)
- Economic (low interest rates, market volatility, slow economic growth, unemployment, general uncertainty)
- Regulatory (state regulators, new federal oversight)
- Political (monetary policy, national debt, entitlement spending, health care reform, budget deficits, possible tax reform, Washington gridlock)



# Insurer Responses: Derisk & Adapt

- Reduce risk in their blocks of variable annuities
  - Reduce policyholder investment options in VAs
  - Limit new deposits to existing VAs
  - Increase charges for the guarantees on existing VA contracts
  - Exit the market; sell inforce blocks of VA business
  - Offer new VA contracts with higher fees, less flexibility in product/fund options
- Adapt product offerings to respond to consumer demands and insurers' tolerance for risk
  - Offer to exchange existing VAs for enhanced surrender benefits
  - Contingent deferred annuities
  - Combination products (e.g., annuity/LTC)
- Increase sophistication of risk management



# Regulator Actions: Strengthen Oversight

- Increase consumer protection
  - Strengthen suitability requirements
  - Strengthen sales practices
  - Evaluate fiduciary standard for insurance agents
- Evaluate effectiveness of existing regulations in a global marketplace
- Adapt regulatory oversight to a more complex insurance marketplace through more risk-focused regulation
- Minimize another financial crisis/recession
  - Federal government now involved in the insurance sector
  - International regulators and standard setters have greater influence on US insurance business



# Consumer Actions: Take Responsibility

- Recover losses from recent financial crisis and continuing lackluster economy
- Seek greater financial security
- Accumulate assets for retirement
- Secure an income stream for lifetime



# Agent Responses: Adapt

- Adapt to insurers' changing product offerings
- Adapt to more stringent regulations governing sales
  - Suitability
  - Illustrations
  - Fiduciary standards



# Academy's Response: Lifetime Income Initiative

- The Academy's lifetime income initiative is part of its continuing effort to provide objective, unbiased information to serve the public and the United States actuarial profession
  - Promote meaningful discussions both within and outside the profession
  - Actively engage with the public policy community
  - Host discussion symposia on longevity, longevity risk, and lifetime income
  - Develop actuarial policy statements



# Lifetime Income and Longevity Risk

- Longevity risk reflects the challenges of living longer, e.g., poor health, reduced ability to manage investments, difficulty living on your own, depletion of assets, lack of a lifetime income, etc.
- Lifetime income risk, the risk of outliving your assets, is one specific longevity risk
- Lifetime income should be structured to cover basic needs



# Why is Lifetime Income Risk an Issue?

- Americans are living longer
- An increasing number of baby boomers reach retirement age
- Migration from defined benefit plans to defined contribution plans has reduced the source of predictable retirement income
- Many retirees have invested inadequately or lost significant savings in the market slides since 2000
- Retirees are not converting savings into lifetime income
- Uncertainty about the direction of Social Security magnifies the problem



# Time to Act

- Workers and retirees need to be better prepared to manage their lifetime income needs in retirement
- A number of actions need to be taken to change the dynamics and provide much needed financial education
- The problem cannot be solved with a single solution, but rather with a number of approaches that address lifetime income from different directions
- The support and efforts of employers, lawmakers, and financial product providers will be necessary



# Time to Act

The Academy's new discussion paper, *Risky Business: Living Longer Without Income for Life*, focuses on the issue of ensuring retirees secure income that lasts their entire lifetime and discusses potential solutions through changes in education, plan design, and federal retirement policy:

- Emphasize Financial Literacy and Education for Prospective Retirees
- Refocus Plan Design on Lifetime Income Needs
- Implement Federal Retirement Policies to Support Lifetime Income Needs



# Additional Resources

- Lifetime Income Initiative Webpage  
<http://www.actuary.org/content/lifetime-income-initiative>
- *Risky Business: Living Longer Without Income for Life* (June 19, 2013)  
[http://www.actuary.org/files/Risky-Business\\_Discussion-Paper\\_June\\_2013.pdf](http://www.actuary.org/files/Risky-Business_Discussion-Paper_June_2013.pdf)
- Written testimony for a Senate Special Committee on Aging hearing on retirement savings (June 11, 2010)  
[http://www.actuary.org/files/AAA\\_for\\_6-16-10\\_Senate\\_Aging.4.pdf/AAA\\_for\\_6-16-10\\_Senate\\_Aging.4.pdf](http://www.actuary.org/files/AAA_for_6-16-10_Senate_Aging.4.pdf/AAA_for_6-16-10_Senate_Aging.4.pdf)
- Letter to the departments of Labor and Treasury regarding lifetime income options for participants and beneficiaries in retirement plans (May 3, 2010)  
[http://www.actuary.org/files/Lifetime-Income-RFI\\_Comments\\_May-3-2010.pdf](http://www.actuary.org/files/Lifetime-Income-RFI_Comments_May-3-2010.pdf)



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