

The Current Status of the Fixed Index Annuity Marketplace

Bob Ozenbaugh

VP & Product Line Business Leader
Annuity Profit Center American General



Fixed Index Annuity History



- 1st policy sold in Feb 1995 by Keyport
- 1st design was 5 year pt to pt with 95% participation rate
- Policy grew from \$21,000 to \$51,779 over 5 years, a 19.8% compound growth rate
- A CD over the same time period would have earned approximately 5.6%

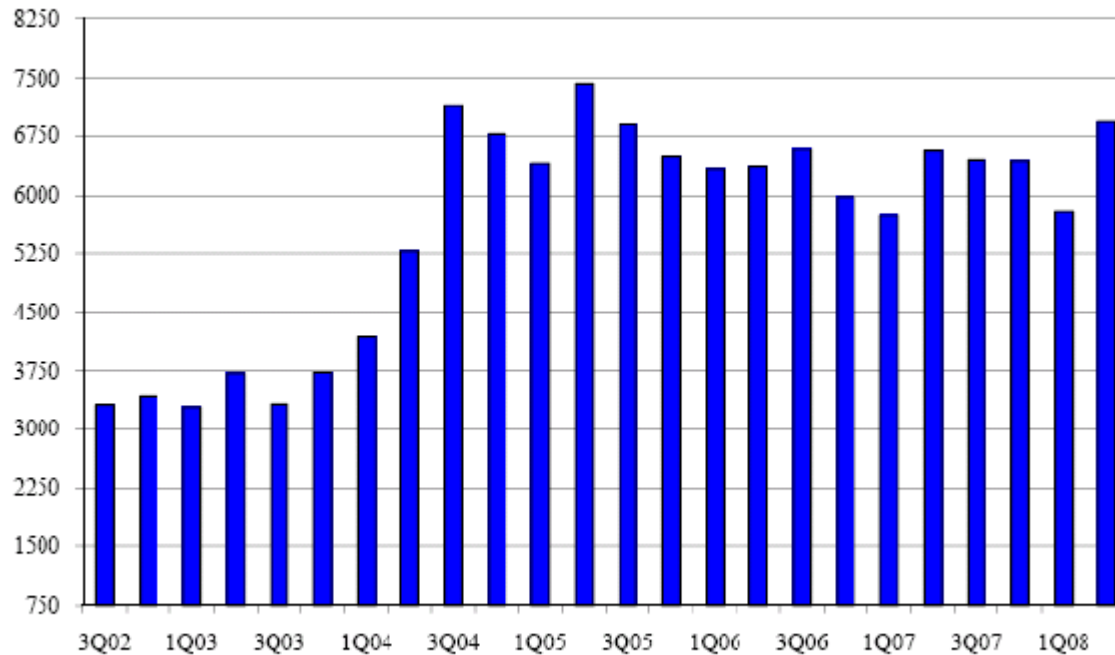
Fixed Index Annuity History



- Early designs were easy to understand
- Fairly transparent and uncomplicated
- Guaranteed protection plus growth potential
- Guaranteed 121% gain after 5 years
- Surrender charges 5,4,3,2,1
- 4% commission

Current Design: Sales

Index Annuity Sales By Quarter



■ In Millions

2nd Quarter Market Share

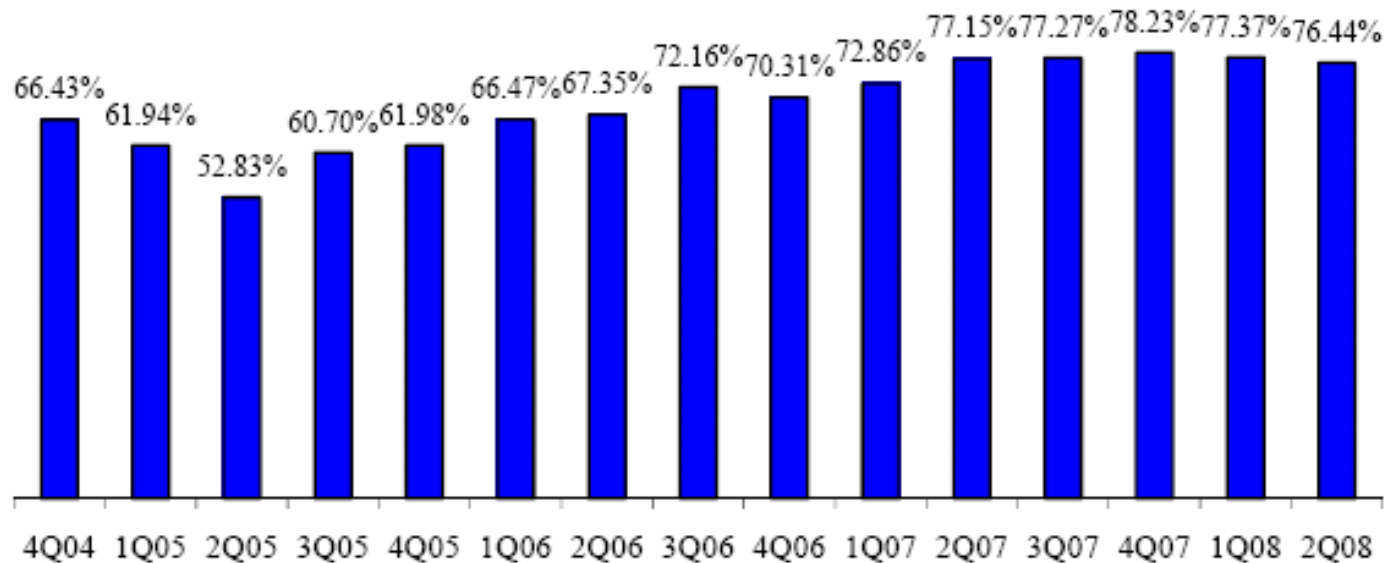
Top 3 Companies 47.69%

Top 5 Companies 60.85%

Top 10 Companies 82.66%

Current Design: Premium Bonus

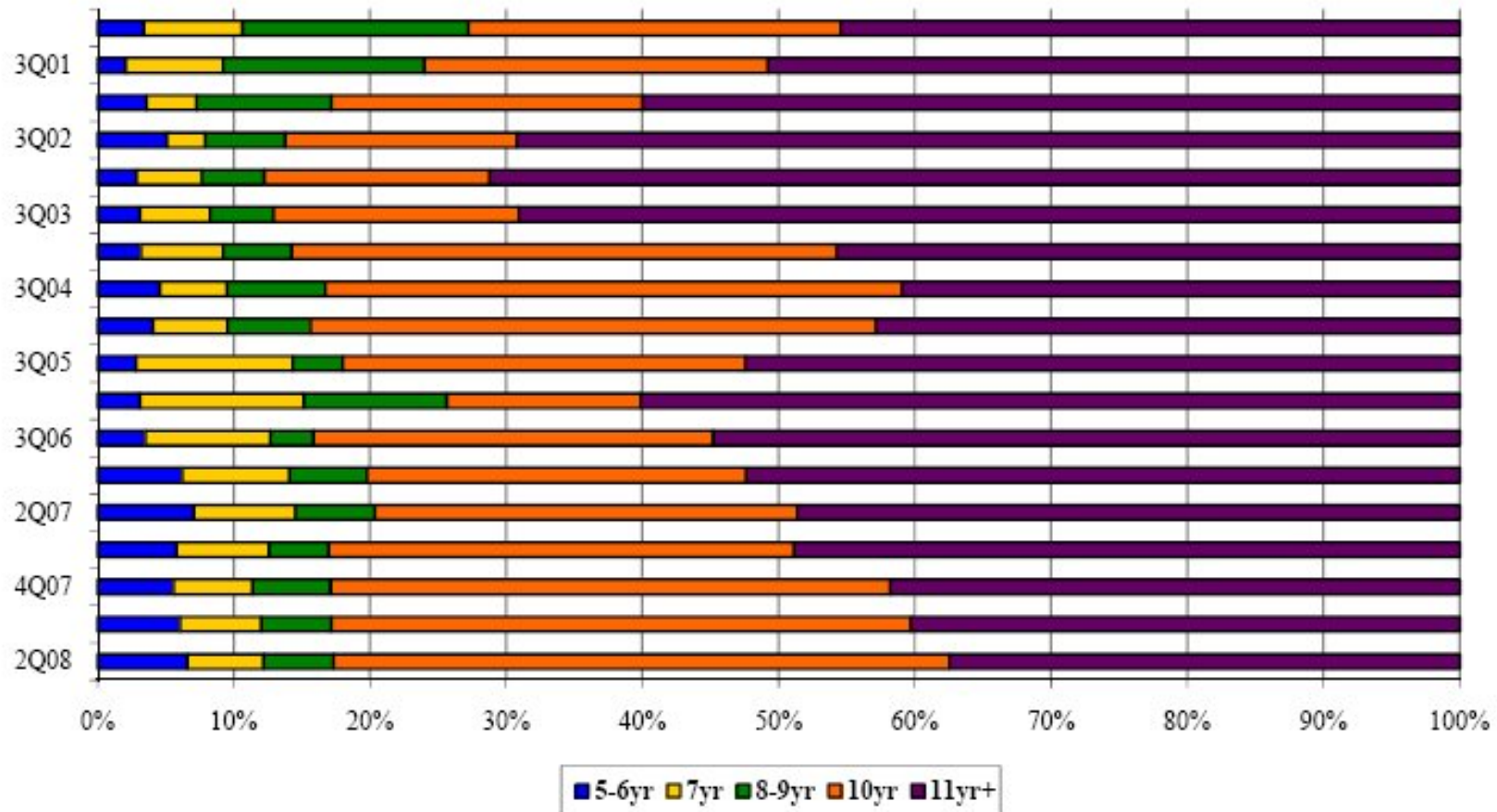
Market Share of Bonus Annuities



5 of 6 most popular products have premium bonus 10% or higher

Current Design: Surrender Charges

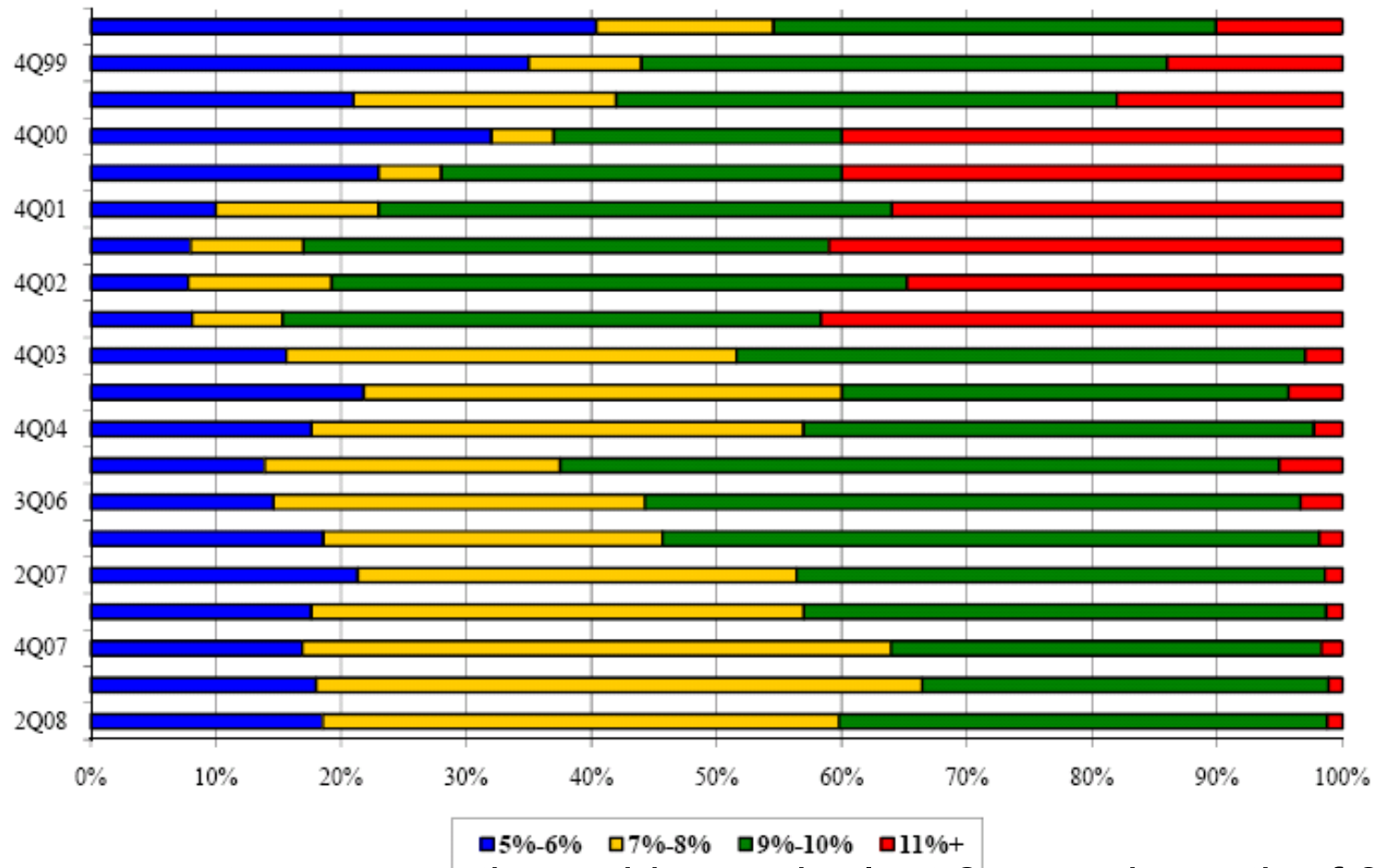
Index Annuity Sales By Surrender Period



81.5% of sales have surrender charges 10 years or longer

Current Design: Compensation

Index Annuity Market Share By Agent Commission Paid



The average agent compensation paid over the last 2 years is north of 8%

Current Design: Common Index Methods

- Point to point with
 - Participation rate
 - Cap
 - Spread
 - Multiple Year
- Monthly Additive
- Monthly Average
- Multiple Index Option
 - Best performing index
 - Multiple markets

Indexing methods are continually expanding making the products more complex

Current Design: Product Features



■ GMWB

- Represented 43% of total Sales for 2nd Quarter 2008*
- Lower cost than VA
- Some Include Guaranteed Growth

■ Indexes

- S&P represents 81% of the market *
- Nikkei, EuroStoxx, Dow,
- Commodities are emerging as hedging becomes available

- FIAs created to provide upside growth with downside protection
- By 2005 FINRA claimed the FIA environment was misleading and issued notice 05-50 to force it's broker-dealer members to assume some oversight on sales
- By 2008 the SEC felt pressure to get involved and 151A was released for comment

Why is the FIA market so against 151A?



- Approximately 45% of the current producers are not registered*
- B/Ds add an additional layer of cost
- Most don't believe the suitability problem are related to registration or that the SEC involvement will fix it
- Industry supports better training of the sales force

*National Underwriter August 4, 2008 By Jack Marrion

Why Are VAs Registered?

- Return not usually guaranteed
- Funds directly invested in separate accounts, not the general asset fund of the insurer
- Prospectus seen as critical to understanding investment objectives of fund

How do FIAs Compare?



- All fixed annuities provide a minimum guaranteed return
- Premiums invested in the general account of the insurer
- Performance based on change in a specific market index, not any one mutual fund trying to mimic the market

Why Did 151A Come About?

- SEC claims an increase in complaints as more VA policies are being replaced with Indexed
- SEC believes more oversight of the sales force and education of the consumer is needed to fix the problem
- SEC claims the State Insurance Departments and Carriers have not reacted to these concerns quickly enough
- SEC believes FINRA is a good vehicle to accomplish that oversight

Where is 151A Today?

- Industry comment period extended from Sept 10 to Nov 15
- Many comments against the proposal have been sent and more are submitted every day
- Current thought is nothing has happened to derail interest in it
- The Industry will quite likely not go down without a Legal Battle
- Even if a compromise emerges, the likelihood of the marketplace for FIAs changing is real

What should we be doing?

- Should we be designing registered products?
 - 151A allows for simplified filing that won't be in place until 151A is final

- Should annuity marketing organizations be associating with a Broker/Dealer or buying one?
 - .7% sold through Broker/Dealers today

- Will B/D involvement reduce the compensation being paid but increase the overall cost of the products?

- Can the FIA market survive a 50% reduction in its sales force?

Thank you

