2007 SPIA Features Survey

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Executive Summary:

As the baby boomer generation transitions to retirement and the financial services industry develops new products to meet their needs, the SPIA (Single Premium Immediate Annuity) is enjoying resurgent popularity because it maximizes income while providing longevity protection. Numerous academic and/or stochastic studies have concluded that a client can safely withdraw more income from a given portfolio when a SPIA is used to provide a floor for the guaranteed income.

In a recent survey[1], when 43 companies were asked what were their top two preferred methods for providing retirement income.

- SPIA was chosen as the #1 choice by 12 companies (exceeded only by 16 that chose guaranteed living benefits), and followed by 8 firms that selected systematic withdrawal
- 14 companies picked SPIAs as their second choice, followed by 8 firms that chose systematic withdrawals.

The same survey found that in 2006, the average SPIA contract was $107,000 and that the two most popular reasons for choosing a SPIA were:

- To supplement the guaranteed lifetime benefits in a pension or Social Security
- To establish a base of stable income to allow for more risk taking with other investments.

Recently, many insurance carriers have introduced features and riders to their SPIA product to further improve the product and increase sales. Broadly speaking, these features are designed to address particular needs:

- Inflation protection is now established with a variety indexing features. 48% of respondents offer some form of increasing benefit.
- Liquidity features have recently become more popular in order to address client concerns about loss of access to their assets in the event that their health changes. 36% of respondents offer some form of liquidity protection.
- Additional Guarantees have been available in some form (cash / installment refund) for a long time. 78% of respondents offer some form of premium refund. New forms are now being developed.
- Special needs are being addressed. Various forms of Longevity Insurance are being developed to minimize the cost of protection in advanced ages. More carriers are providing higher rates to annuitants that are in poor health.
- Temporary Life Annuities, which leverage mortality credits to boost income for a few years have not followed the trend towards increased popularity.

The CANNEX SPIA Exchange currently provides information about some of these features but it is not complete. As a result we felt it important to understand what features are being offered in the market and how the CANNEX SPIA Exchange service should be improved to reflect this new market reality.

Based on interest shown in this survey – carriers representing 90% of the SPIA market took the time to complete it – we believe that there is broad interest in SPIA features.

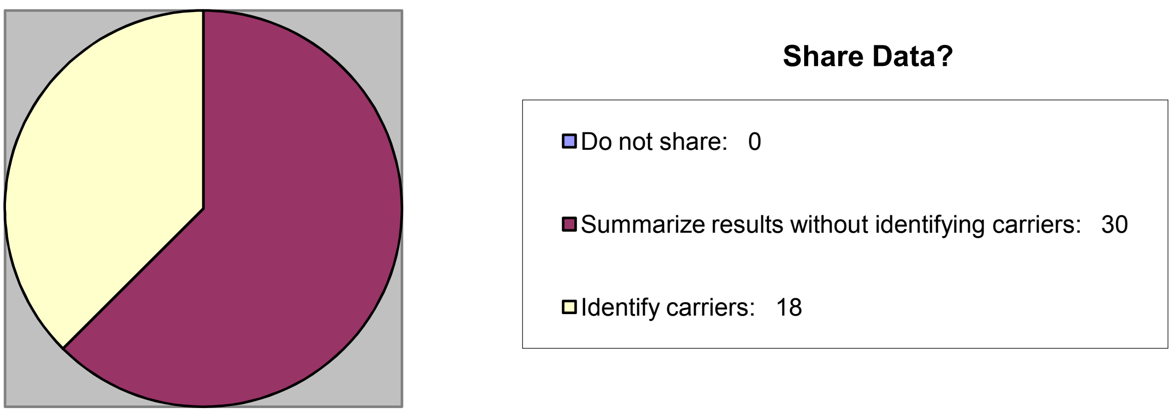
[1] The Diversified Services Group, ***2007 Retirement Income Products Study***

Methodology:

The survey (which is available at: http://www.cannex.com/survey200706.pdf) was sent to 72 insurance companies that were either known to be in the SPIA market, thought to be in the market or thought to be considering the market. Of these, we had responses from 50 insurance carriers. CANNEX followed up with 28 insurance carriers to clarify, understand and correct their responses. Results of the follow up are incorporated in this document.

LIMRA determined that three-fourths of the respondents to this SPIA Features Survey participate in LIMRA's quarterly U.S. Individual annuity survey and these carriers represent 90% of the SPIA market in terms of sales from July 2006 - June 2007.

Respondents were given a choice as to whether they would like to be identified and, of the 48 carriers that responded, 30 asked not to identify individual carriers in the summary results. As a result, the information provided here will not identify carriers.



Feature Popularity:

The survey identified and defined 22 specific features and asked respondents to indicate if their company offers or is planning to offer the feature by choosing one of the following choices, which are abbreviated in the Pie Charts as follows:

Survey Choices	Pie Chart ID
1. We currently offer this feature.	Current Offer
2. We currently offer this feature but only as a special quote and we are not promoting it.	Special Quote
3. We are planning to introduce this feature within six months.	Intro w/i 6 mths
4. We are planning to introduce this feature in more than six months but less than two years.	Intro 6 mths – 2 yrs
5. We are planning to introduce this feature but do not have a target date.	Plans but no target
6. We have no plans to introduce the feature.	No plans to offer

Summary of Results:

Feature Category / Feature Name	Currently offer (incl. as special quote) (# of firms)	Plans to offer at any target date (# of firms)	No plans to offer (# of firms)	Currently supported on CANNEX
Liquidity Features				
Cashable during the guarantee period	15	12	23	
Cashable Life Contingent Payments with Policy Surrender	6	8	36	
Cashable Life Contingent Payments without Policy Surrender	4	12	34	
Cashable under specified circumstances	3	6	40	
Acceleration of Income Payments	2	5	42	
Other Liquidity	3	1	29	
Indexing (Income Flexibility) Features				
COLA (Cost of Living Adjustment)	23	7	20	Yes
CPI Indexing	5	6	39	Yes
Simple Indexing	5	4	41	
Long Deferral (Income Flexibility) Features				
Longevity Insurance	5	13	32	
Contingent Longevity Insurance	0	4	46	
Special Needs (Income Flexibility) Features				
Changing Needs	1	9	40	
Temporary Life Annuity	7	3	40	Limited
Impaired Risk SPIA	9	7	34	Limited
Other Income Flexibility	4	0	23	
Additional Guarantee Features				
Death Benefit	6	6	37	
ROP (Return of Premium) Death Benefit	17	8	23	Yes
Cash Refund Guarantee	28	7	14	Yes
Installment Refund Guarantee	30	4	15	Yes
Market Timing Enhancement / Buyer Remorse Protection	1	2	45	
Other Guarantees	3	2	16	
Hybrid Products				
LTC / SPIA Combination	0	11	38	
Insurance / SPIA Combination	5	4	40	
Other Product in Combination with a SPIA	2	0	20	
Administrative (Other) Flexibility Features				
Medicaid Integration	4	1	44	
Flexible Premium	1	7	41	
Multiple Payees	25	4	19	
Other feature that should be included	0	0	14	

Results:

NOTE: Not all carriers responded to all questions. As a result, answers may not total 50 (the number of carriers that responded).

The results, sorted in order of feature popularity within they type of feature are:

Liquidity Features:

General Discussion: The ability to get extra liquidity out of a SPIA is relatively new and largely unknown in the market; yet 18 carriers currently provide additional liquidity in one or more of the following forms - SPIAs that offer:

1. Cashable during the guarantee period
2. Cashable life contingent payments with policy surrender
3. Cashable life contingent payments without policy surrender
4. Cashable under special circumstances
5. Acceleration of income payments
6. Other liquidity options.

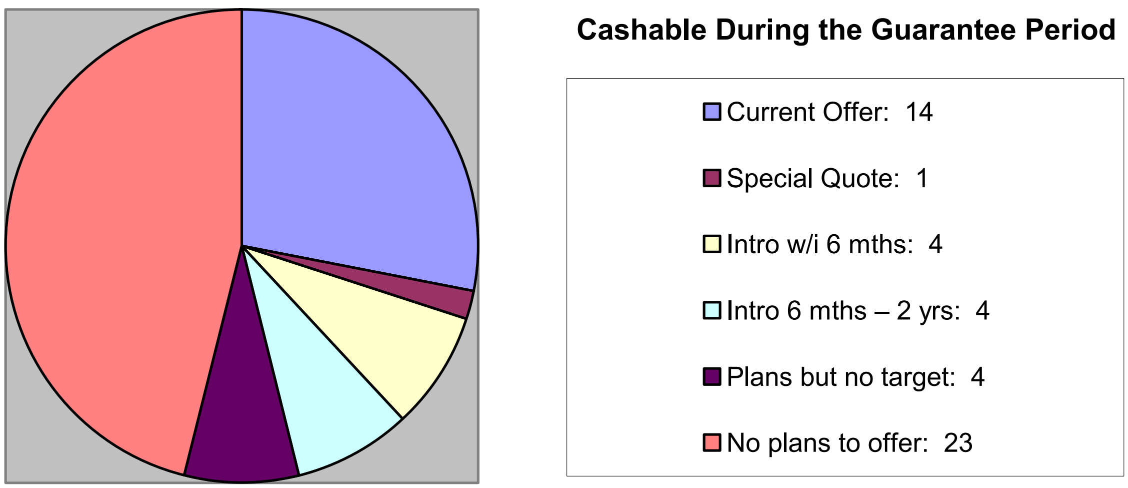
These 18 carriers often provide clients with multiple ways to access income; however several indicated that clients rarely utilize the cashable features, probably because they do not remember that it comes with their policy.

Cashable during the guarantee period

Definition: This feature allows annuitants to choose to receive all or a portion of the commuted value of the remaining guaranteed payments as a lump sum.

Adjustments: CANNEX followed up with 22 of the 23 respondents that initially indicated they offer this feature currently (including as a special quote) or will offer it within 6 months, to ensure that the respondent understood the nuance of the difference between cashable (where the annuitant is not required to die) and a commuted value option (not considered a feature for this survey - where on death, the beneficiaries have the option of commuting the remaining guaranteed payments). Results were corrected and are indicated below.

Overall feature popularity: #6



Discussion: CANNEX followed up with 13 of the 14 carriers that currently provide this feature. 10 of the 13 carriers provide this feature automatically at no extra charge to the annuitant. For at least one carrier, this flexibility is provided as company policy and is not explicit in the contract.

Of the carriers that charge in some way, two provide this feature as part of a package of flexibility features that are not explicitly charged. Rather, these carriers use lower interest rates than their less flexible SPIA product.

If the client chooses to select this option, all carriers charge in some way at the time of implementation. The fee for 6 of the 13 carriers is incorporated as part of the commutation calculation; 3 carriers charge an explicit surrender fee; for 2 other carriers the surrender of the contract involved a complex calculation, in one case involving underwriting; finally two respondents did not know their fee structure.

Most carriers (11 of 13) make the whole amount of the commuted value of the remaining payments available. One carrier only allows 30% to be commuted and another allows only partial withdrawals once per year but many times during the contract.

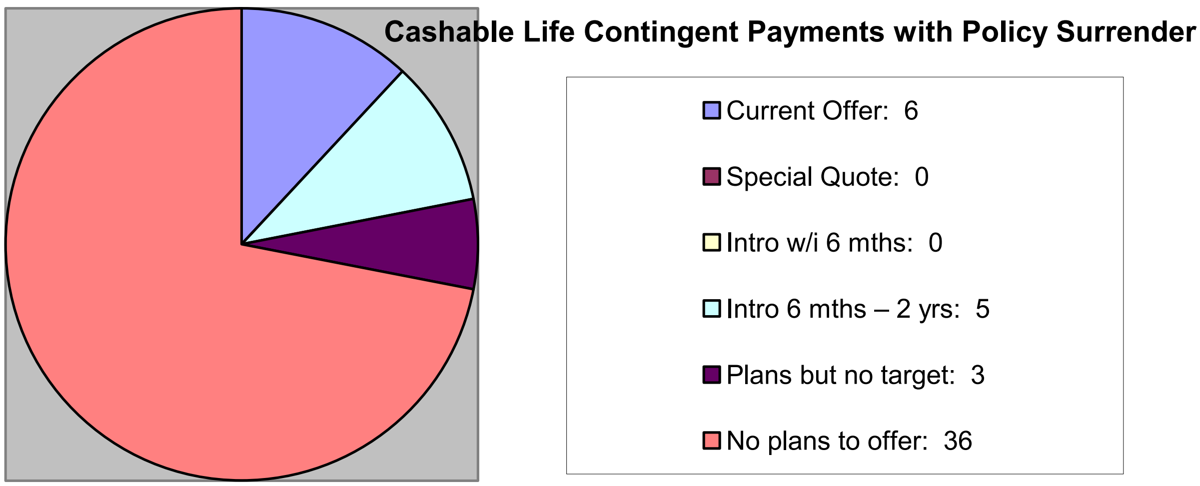
Most carriers (9 of 13) pay life contingent payments without reduction in the event that the client chooses to cash all of the guaranteed payments.

At least one of the companies that indicated that they will offer this feature within 6 months has since launched this feature. Others indicated that offering cashable features are a matter of high priority.

Cashable Life Contingent Payments with Policy Surrender

Definition: This feature allows annuitants to choose to receive all or a portion of the commuted value of the SPIA contract as a lump sum in exchange for the surrender of the policy.

Overall feature popularity: #9

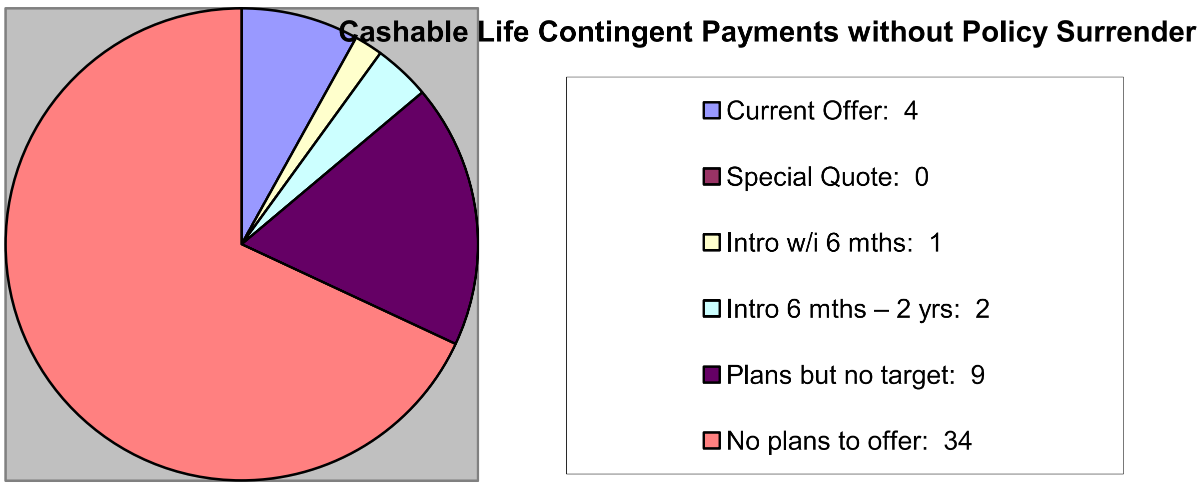


Discussion: CANNEX followed up with all respondents indicating that they offer this feature to ensure that the respondent understood this feature and how their company positions the product. Results were corrected and indicated above.

Cashable Life Contingent Payments without Policy Surrender

Definition: This feature allows annuitants to withdraw a portion (e.g. up to 30%) of the commuted value of the SPIA contract as a lump sum in exchange for reduced income for the remainder of the policy.

Overall feature popularity: #14

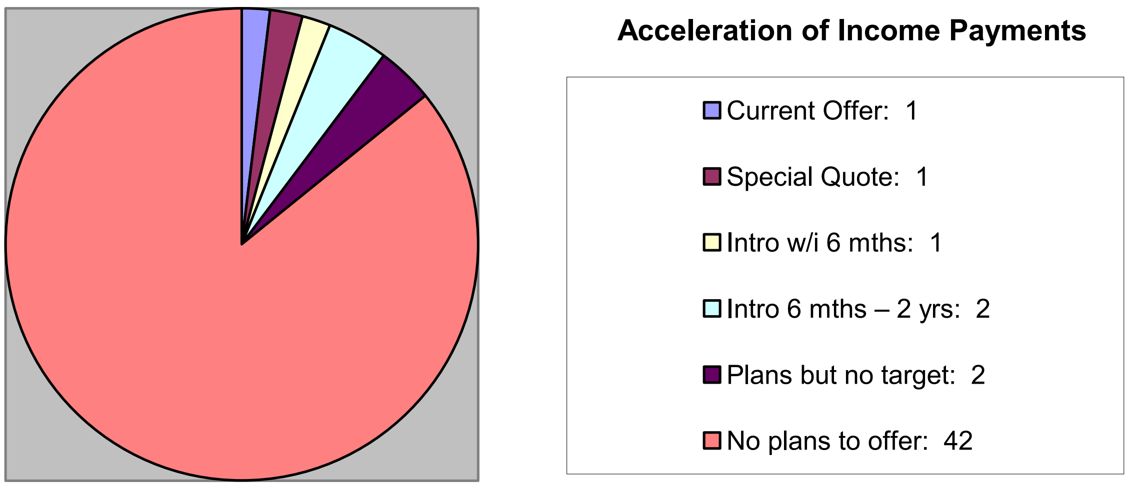


Discussion: Of the four carriers that offer cashable life contingent payments without policy surrender, two also provide the option to fully cash out – and surrender their policies.

Acceleration of Income Payments

Definition: This feature allows annuitants to receive a number of payments in advance of the date this income would normally be paid (e.g. 6 months of accelerated payments).

Overall feature popularity: #17



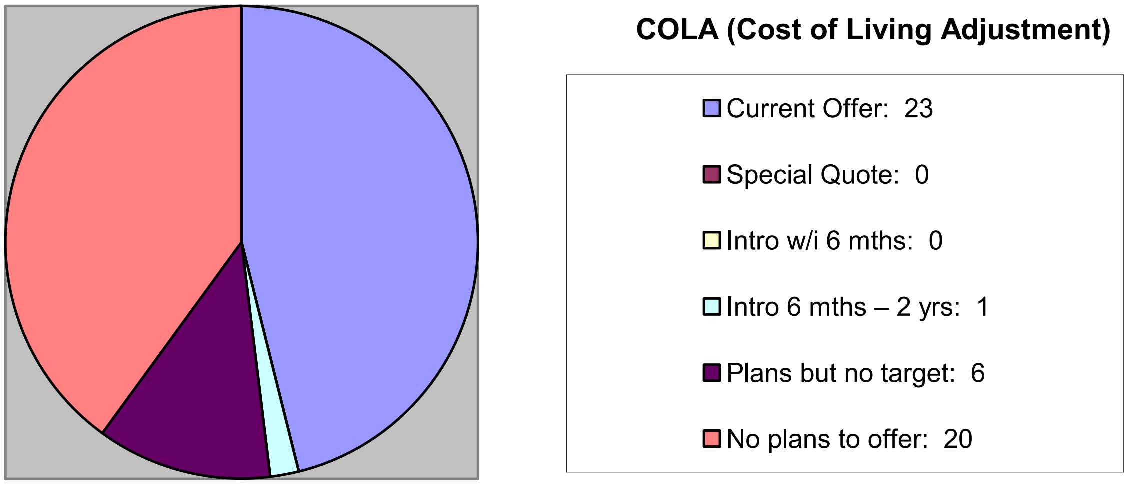
Discussion: The one carrier that currently provides this feature includes it automatically without additional fees.

Indexing (Income Flexibility) Features

COLA (Cost of Living Adjustment)

Definition: This feature provides annuitants income payments that increase by a scheduled percent (e.g. by 3% every year).

Overall feature popularity: #4



Discussion: Of the companies that currently offer the feature, only one carrier differentiates between funds from a Qualified source versus a Non-Qualified source. That carrier allows COLA increases of 1 to 5% from Non-Qualified sources and does not allow increases from Qualified sources. Not including this carrier, the range of COLA increases that companies allow for either Qualified or Non-Qualified sourced funds are:

Qualified Funds	Number of responses
1 to 3 %	3
1 to 4 %	1
1 to 5 %	8
1 to 6%	3
1 to 10%	1
0 to 5%	1
0 to 6 %	1
2 to 5 %	1
Only 3%	1
Unlimited	1
No response	1

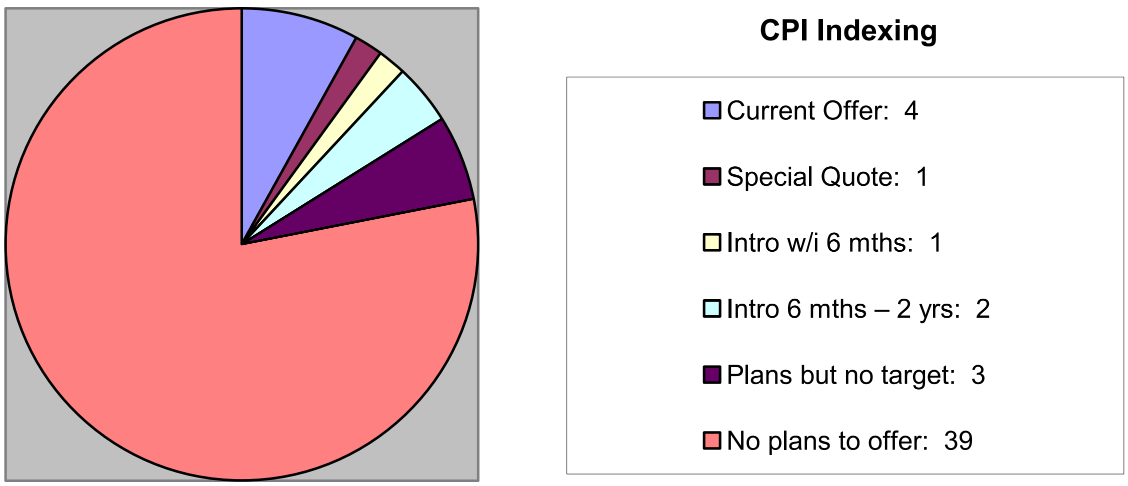
All carriers (except one) with a COLA feature or planning to introduce the feature, increase payments under the COLA rider annually. The one exception plans to introduce the feature in more than two years and the current product plans are to increase payments every three years.

The COLA feature is currently supported on CANNEX.

CPI Indexing

Definition: This feature provides annuitants income payments that increase (or decrease) annually by an amount linked to the CPI-U for All Urban Consumers published by the BLS.

Overall feature popularity: #13



Discussion: All carriers that offer this feature use the CPI-U index. Of the six carriers that offer this feature (either as a standard or special quote) or are planning to offer CPI indexing within the next six months, four carriers offer a 0% floor or a guarantee that payments will not decline below the initial amount and two carriers offer the feature with no floor.

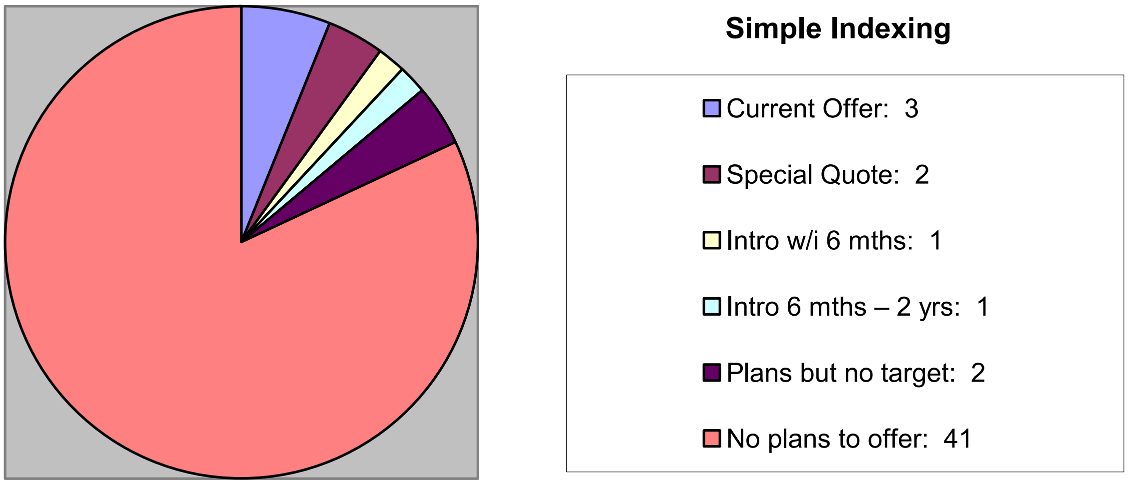
Three provide the feature with no cap, two provide it with a 5% cap and one has a 15% cap. Of the two carriers that provide this feature with no floor, one has no cap.

The CANNEX system currently supports CPI indexing.

Simple Indexing

Definition: This feature provides annuitants income payments that increase by a fixed amount every year (which does not compound).

Overall feature popularity: #15



Discussion: Simple indexing provides for increases that decline in real terms over time.

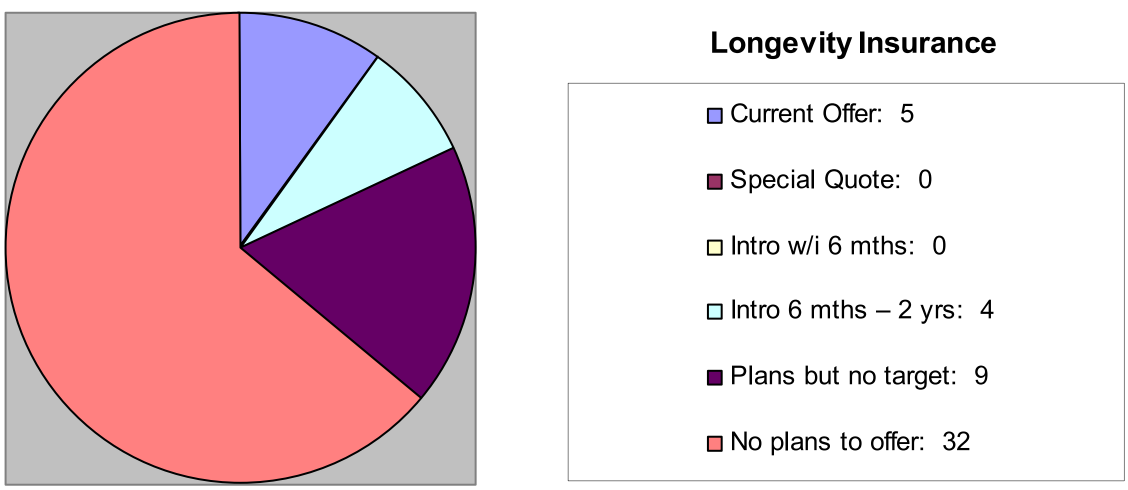
Long Deferral (Income Flexibility) Features

Longevity Insurance

(a.k.a. Deferred Paid-up Annuities, Deferred Income Annuities, Survivorship Annuities, Pure Endowment Annuities, Personal Pension Annuities, Advanced Life Deferred Annuities, ALDA)

Definition: This feature provides income payments for the life of the annuitant but income payments are deferred for a significant period of time generally until a designated age (e.g. 85). This feature typically has no cash value.

Overall feature popularity: #12

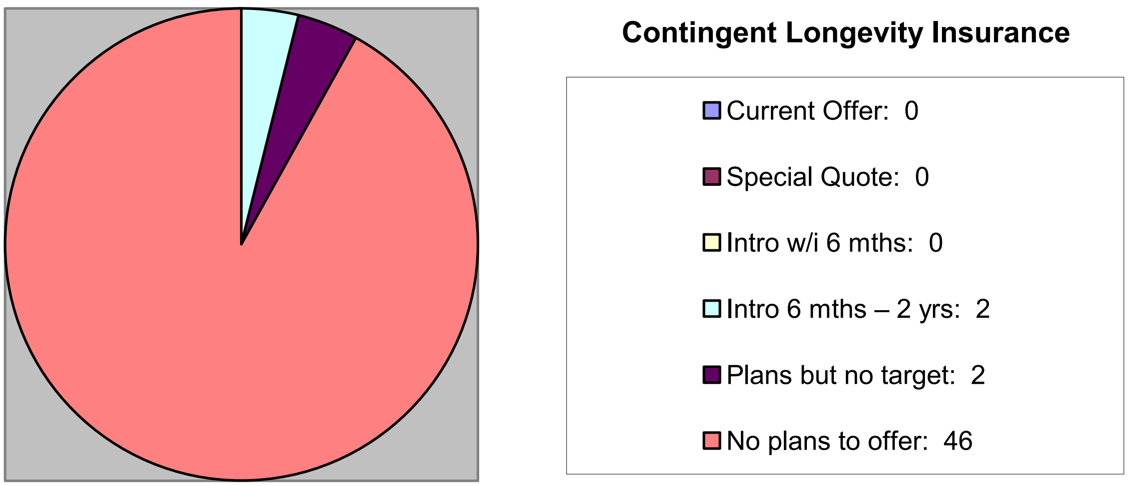


Discussion: Longevity Insurance goes a long way towards separating the insurance element of SPIAs from the investment element. This allows annuitants to direct most of their assets to products that they may understand better (e.g. systematic withdrawals from mutual funds) while providing income protection in the event that the annuitant lives to an old age. This protection is lacking in uninsured methods.

Contingent Longevity Insurance

Definition: This feature provides income payments for the life of the annuitant but income payments are deferred and contingent on the depletion of an account that is external to this feature (e.g. a systematic withdrawal from a mutual fund). This feature typically has no cash value.

Overall feature popularity: #22



Discussion: Contingent Longevity Insurance takes the Longevity Insurance concept one step farther. This product should be less expensive because it reduces the states in which it is payable. Specifically, a client may not need Longevity Insurance if her mutual fund or equity portfolio performs well. By linking payments to the performance of an appropriate systematic withdrawal index, the probability of payment is reduced and the product could therefore be offered at lower cost.

Interested readers could find more information about this feature at http://www.ifid.ca/research.htm see: *"A Different Perspective on Retirement Income Sustainability: Introducing the Ruin Contingent Life Annuity (RCLA)"* (H. Huang, M.A. Milevsky, T.S. Salisbury) 160KB, September 2007

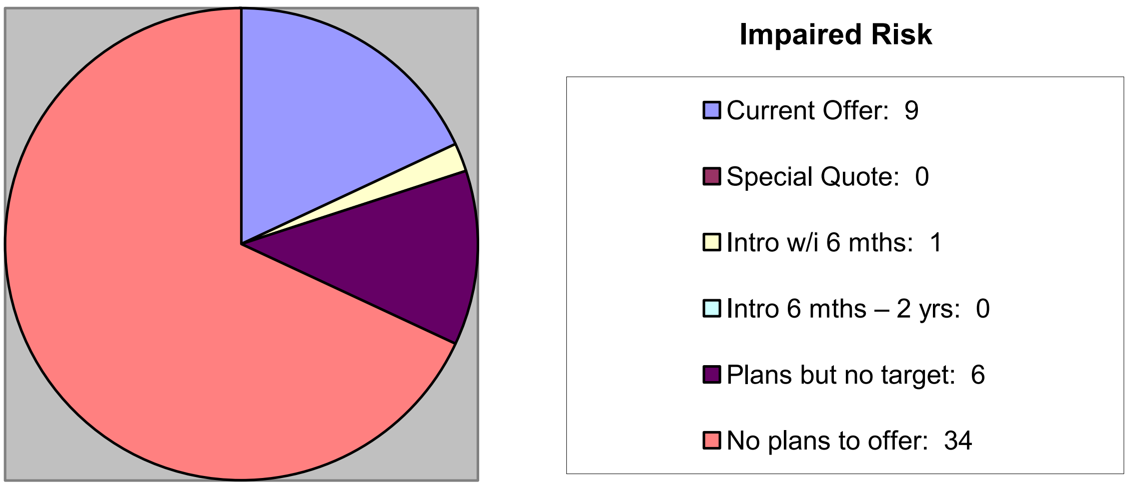
Special Needs (Income Flexibility) Features

Impaired Risk SPIA

(a.k.a. Rated Age, Age Rated, Substandard, Medically Underwritten, Accelerated, Enhanced)

Definition: This feature pays an enhanced income to annuitants with below average life expectancy.

Overall feature popularity: #7



Discussion: CANNEX followed up with all respondents indicating that they offer this feature. Of the 9 carriers that currently offer the feature, all hold the quote for their standard length of time, but all carriers hold the rating for longer:

How long is the rated age held?

Number of Months	Number of Carriers
1 month	1
6 month	4
12 months	4

There are two methods these carriers used to determine the rating as identified by the quote input, specifically, does the software ask:

Software input:	Number of Carriers
Age adjustment (months)	3
New Age (years)	6

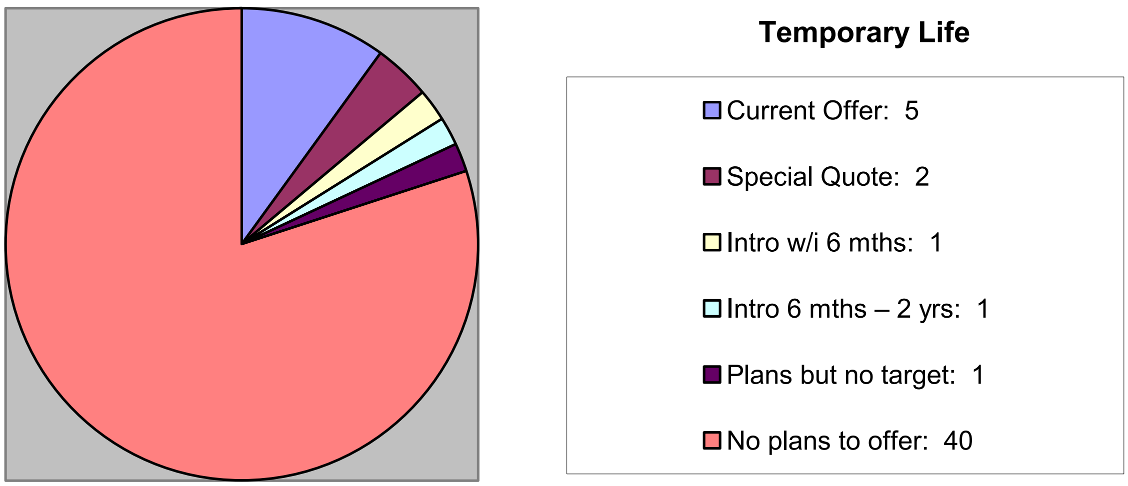
Most of the carriers (7 of 9) use full underwriting for every case - often third parties with no knowledge of which advisor submitted the case. Two of the carriers use simplified underwriting based on answers to a small number of questions. One carrier (also reported above) uses both methods and smaller increases in income are provided if the rating is based strictly on the answers to a set of questions with no underwriting.

The CANNEX system currently supports impaired risk SPIAs in a limited way.

Temporary Life Annuity

Definition: This feature pays the annuitant until the earlier of the annuitant's death or a fixed period (often used to fund a limited pay life insurance policy).

Overall feature popularity: #10



Discussion: CANNEX followed up with all carriers that indicated they offer this product. Of the five carriers that currently offer the product, three see it as a product that is primarily used in conjunction with a life insurance product in order to avoid estate taxes although two of these carriers sited other purposes. Other uses for the product are, to boost income for a limited period of time and as a settlement option for reversionary annuities; and for no specific purpose.

Three of the five carriers indicated that the potential loss from mortality arbitrage is a concern with this product (competitive pressures cause income annuities to be priced using higher mortality than life insurance). The other two are not concerned because in one case very few are sold and in the other temporary annuities are only used as a settlement option for reversionary annuities so mortality arbitrage is not a factor.

Three of the five carriers indicated that they would sell both the life insurance and annuity sides of an insured annuity sale (to avoid estate taxes).

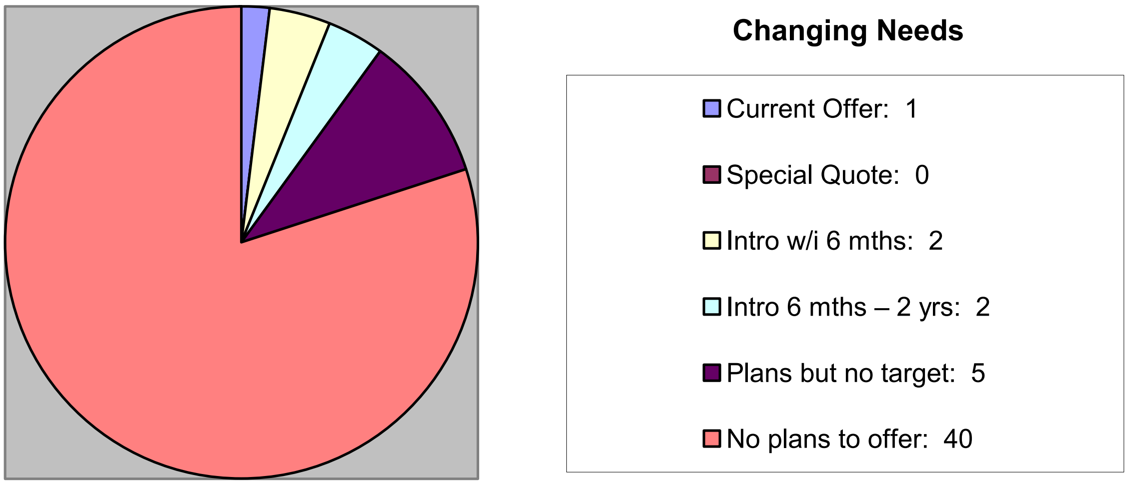
All the carriers that were asked reported poor sales, which is surprising because certain clients have a clear and well-understood need to boost income for a temporary period of time (e.g. until their mortgage is repaid). Temporary Life annuities leverage mortality credits and should therefore be able to provide higher income than that available from traditional fixed investments with similar bond ratings.

CANNEX currently supports temporary annuities but none of our clients offer the product on the CANNEX system.

Changing Needs

Definition: This feature allows the annuitant to vary income payments by an amount chosen by the client at the time of purchase (e.g. $100/mth for 5 years, then increasing to $150/mth for life).

Overall feature popularity: #18



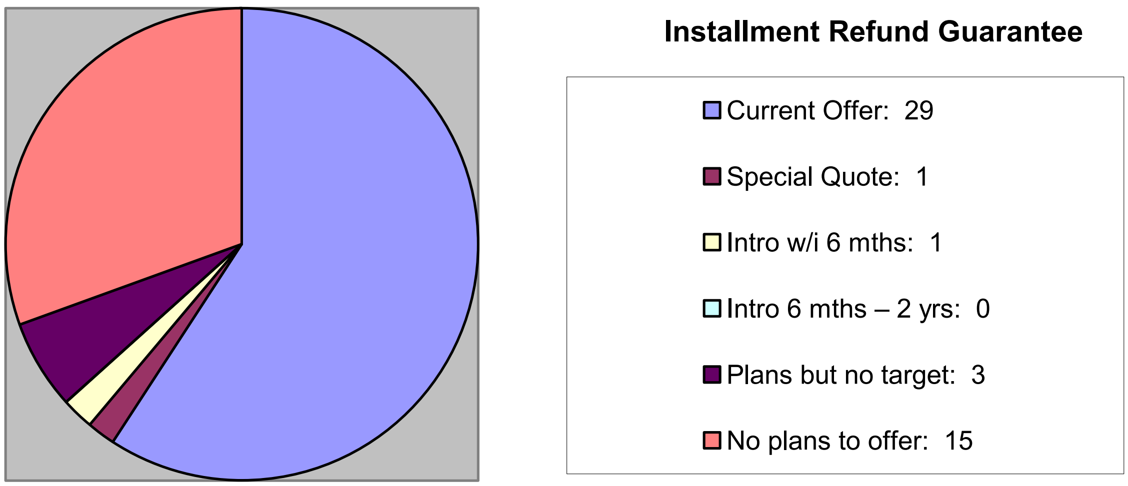
Discussion: Of the three carriers that either offer this product or are planning to within the next 6 months, all offer the product as a rider and one carrier also offers the feature as an option within their standard SPIA.

Additional Guarantee Features

Installment Refund Guarantee

Definition: This feature provides for continued income payments (in the event of the annuitant's death) until the sum of the income payments received equals the initial premium paid.

Overall feature popularity: #1



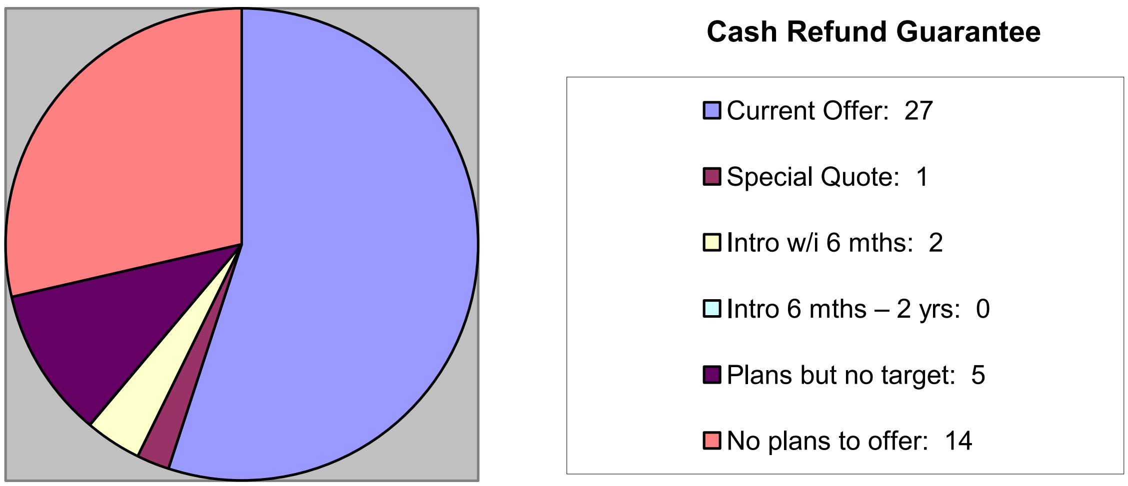
Discussion: The Installment Refund Guarantees is a low cost method of ensuring that the client receives, in income payments, at least the amount he has paid in premiums.

The Installment Refund Guarantee feature is currently supported on CANNEX.

Cash Refund Guarantee

Definition: This feature pays an amount, at the annuitant's death, equal to the difference (if any) between the initial premium and the sum of all income payments received.

Overall feature popularity: #2



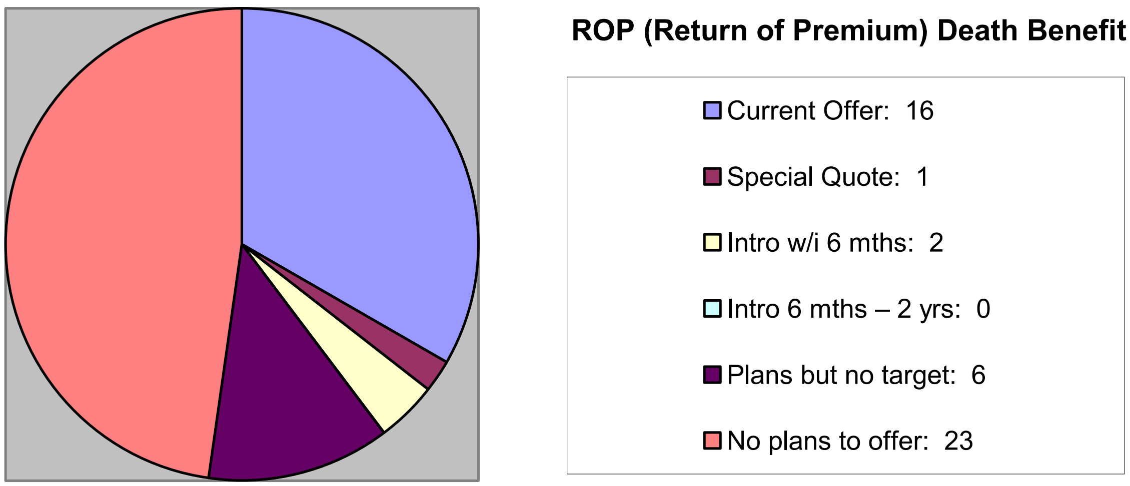
Discussion: Cash Refund Guarantees are sometimes referred to as Death Benefits.

The Cash Refund Guarantee feature is currently supported on CANNEX.

ROP (Return of Premium) Death Benefit

Definition: This feature provides for the return of the premium (sometimes with interest) in the event that the annuitant dies after the premium has been paid but before any income payments are received.

Overall feature popularity: #5



Discussion: Of the 19 carriers that offer an ROP-DB currently (including as a special quote) or will within 6 months, 16 offer the feature as an option within their stand alone SPIA product, in at least one case the option is not electable, one offers the feature as either a rider or an option and two did not indicate how it is offered. In follow up discussion several carriers indicated that the ROP feature is not written into the SPIA contract but is standard company policy.

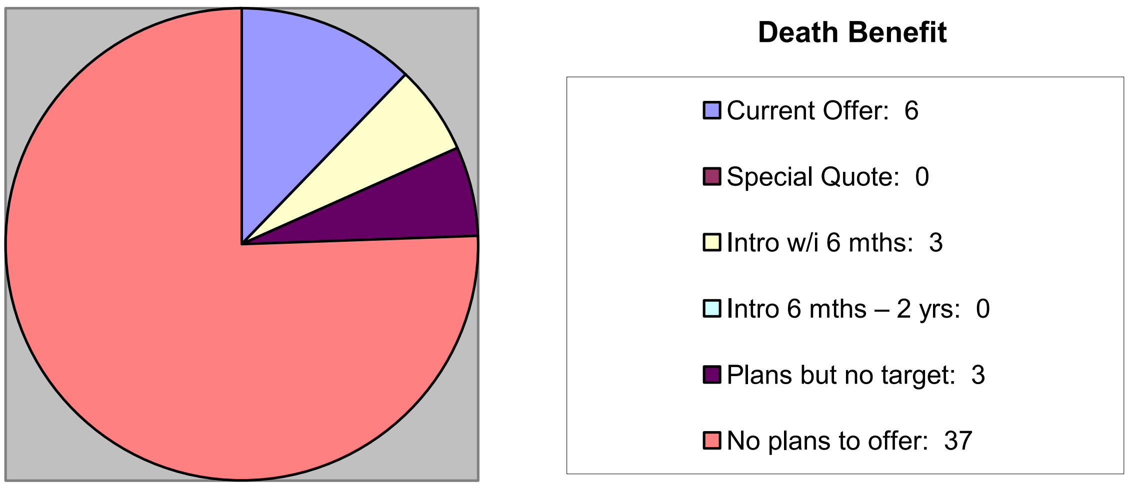
Variations: One carrier limits the time period for the death benefit to 30-days whether this covered the deferral period or not (as part of an extended free-look period). Others only provide the option for qualified contracts, as part of a cash refund guarantee, only on deferred income (ALDA) products or in one case as part of a return of premium guarantee where all premiums (less payments made) are returned if the annuitant dies within 90 days of issue.

The Return of Premium Death Benefit feature is currently supported on CANNEX.

Death Benefit

Definition: This feature provides the annuitant's estate a specified portion of the initial premium, determined at the time of purchase, payable on the annuitant's death.

Overall feature popularity: #8

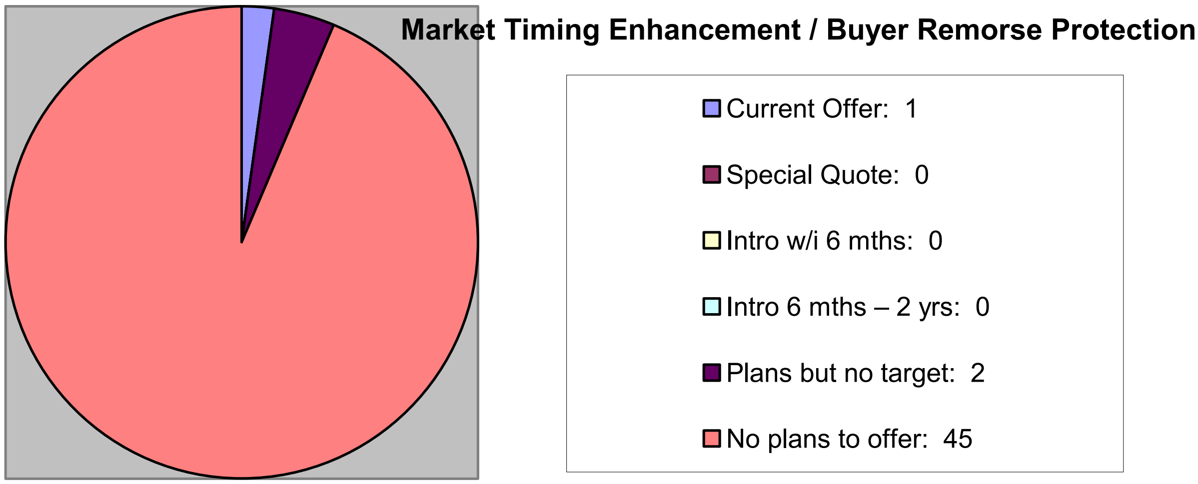


Discussion: Of the 9 carriers that provide a death benefit feature currently or are planning to offer this within the next six months, 7 carriers provide this feature as an option within a stand alone SPIA, one provides it as a rider and one provides it either stand alone or as a rider.

Market Timing Enhancement / Buyer remorse protection

Definition: This feature allows the annuitant to re-price (increase) the remaining payments in the event that the initial purchase decision was, in retrospect, poorly timed (e.g. if 10-year Treasuries increase by more than 2% on the 5th anniversary).

Overall feature popularity: #20



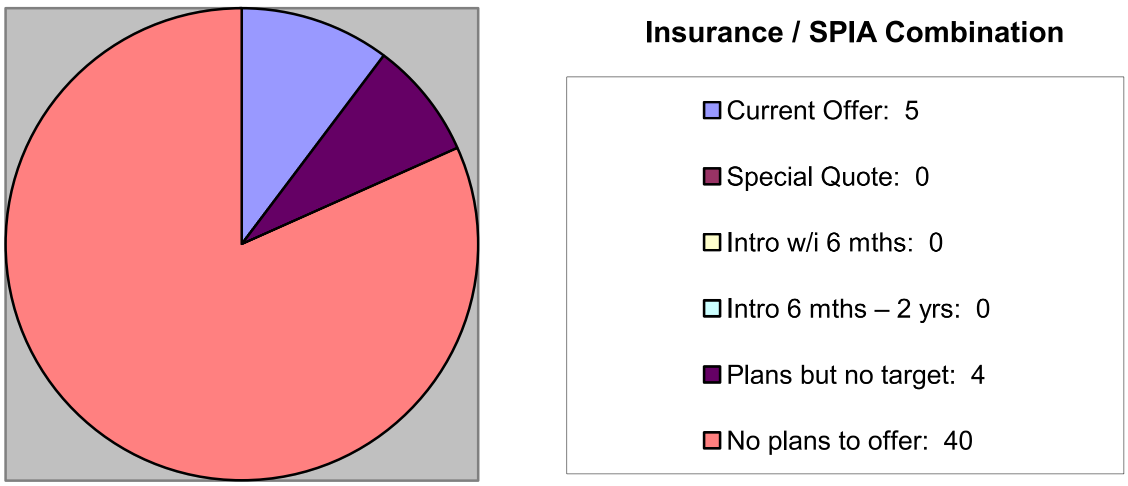
Discussion: The only carrier that actively sells this product sells it as a rider.

Hybrid Products

Insurance / SPIA Combination:

Definition: This feature is a hybrid product that combines life insurance with a SPIA.

Overall feature popularity: #11

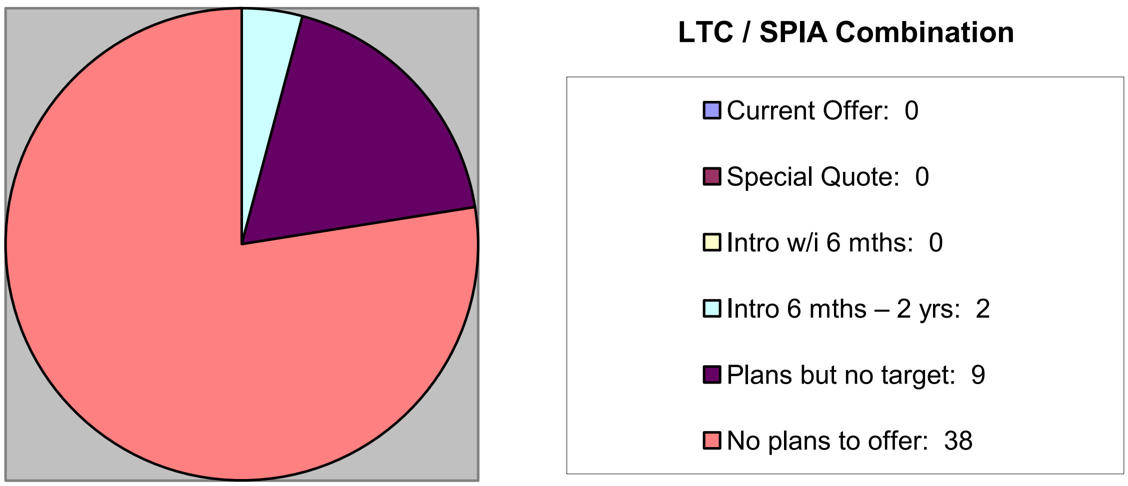


Discussion: Two of the five carriers that offer this combination product also offer Temporary Life Annuities.

LTC / SPIA Combination:

Definition: This feature is a hybrid product that combines long term care with a SPIA.

Overall feature popularity: #21



Discussion: Although no carriers currently provide an LTC / SPIA option, one carrier does provide a similar but more focused rider where the annuitant receives a 50% increase in benefit payments if confined to a nursing home.

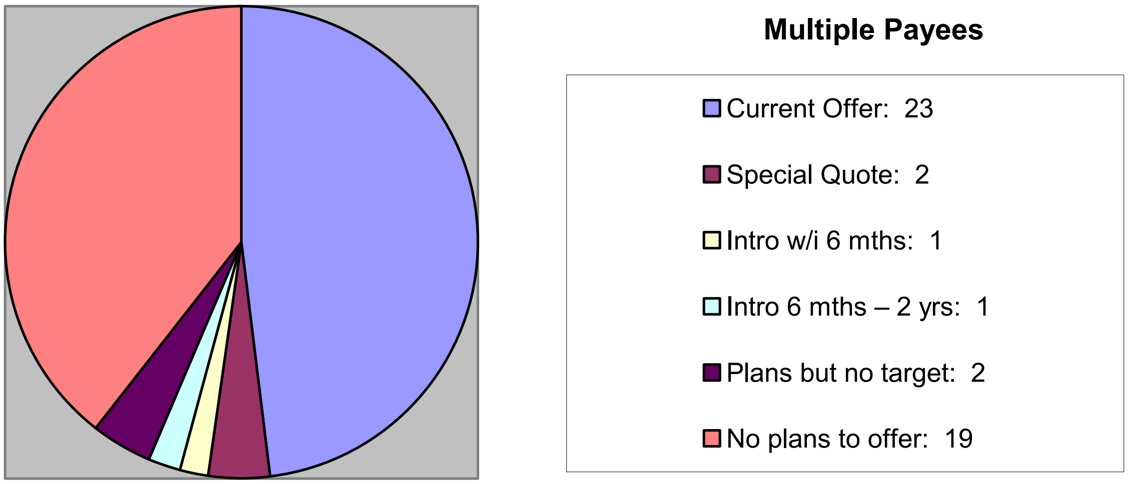
With the passage of the Pension Protection Act in August 2006, payments from this combination product might be able to be received without tax following a qualified trigger of the need for Long Term Care.

Administrative Flexibility (Other) Features

Multiple Payees:

Definition: This feature provides the ability to distribute income payments from a single SPIA contract to multiple payees.

Overall feature popularity: #3

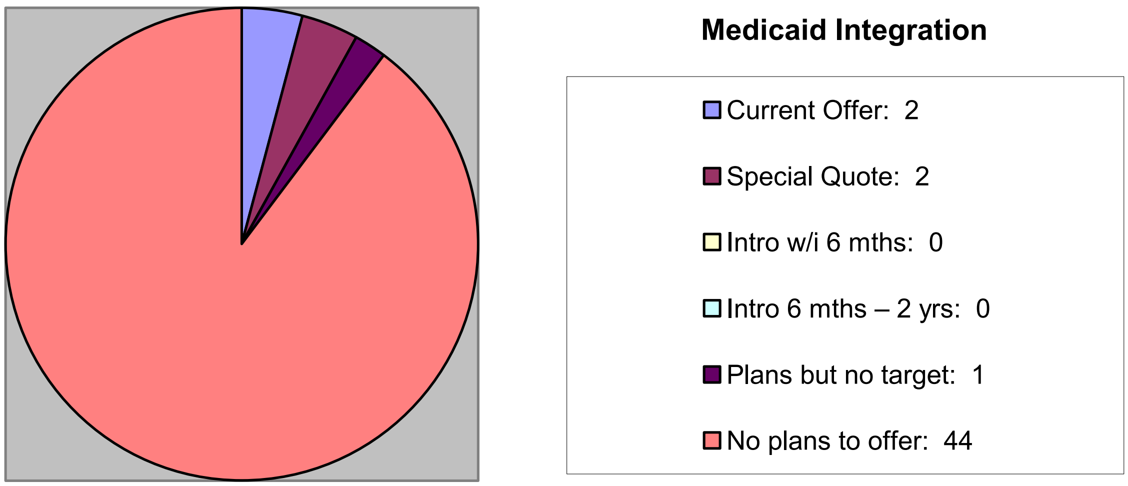


Discussion: This feature makes the administration of the income easier for certain clients.

Medicaid Integration:

Definition: This feature integrates the SPIA with Medicaid benefits.

Overall feature popularity: #16

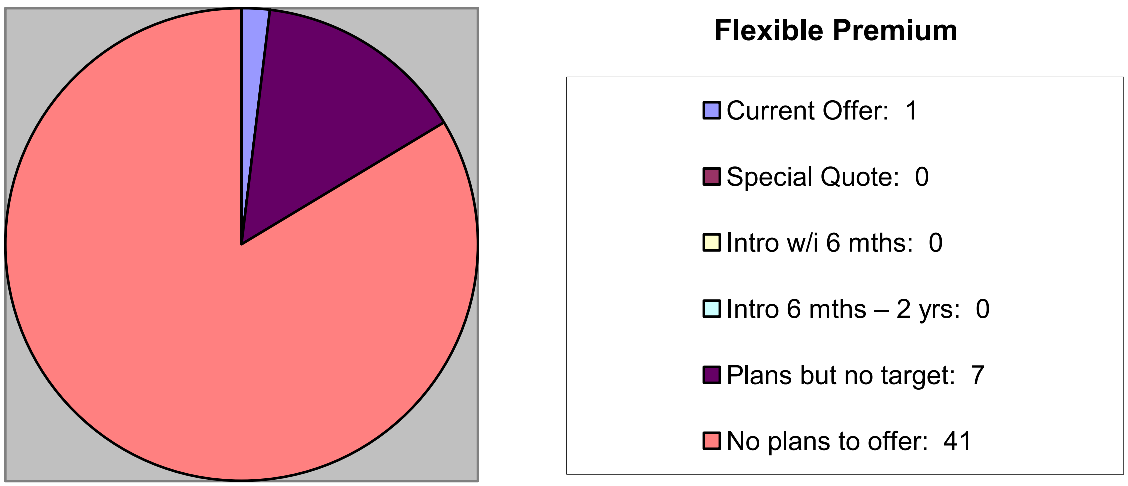


Discussion: This feature adds restrictions to the SPIA to ensure that the SPIA is not counted as an asset in the means test for Medicaid assistance.

Flexible Premium:

Definition: This feature provides the ability to fund multiple premium payments, each priced at different then-current rates and paid on different dates, into a single fixed income annuity contract.

Overall feature popularity: #19



Discussion: This feature allows the client to ensure that he is not purchasing a SPIA at a time when interest rates are at a historical low.

Other Features:

Respondents were asked if there are other significant features that fall into a number of defined categories. Some of these features are:

Feature:
Cashable under specified circumstances

Definition: This feature allows annuitants to receive all or a portion of the commuted value of the SPIA contract, but only under defined circumstances (e.g. on proof of critical illness).

Responses included:
One carrier has a SPIA where the whole certain period, or up to one year of the life contingent period is cashable if the client is terminally ill (not available in certain states).

Another carrier has an option where up to 30% of the remaining benefit is cashable on defined anniversaries if there is proof of a significant non-medical loss.

Feature:
Liquidity – other

Definition: This feature provides annuitants another kind of liquidity, specifically:

Responses included:
One carrier allows clients to lengthen or shorten their payment guarantee period resulting in a smaller or larger (respectively) payment amount during that guarantee. This option is automatically available for both certain-only SPIAs as well as life contingent SPIAs with a guarantee period and is included in policies at no additional fee.

Another carrier provides a similar option to lengthen or shorten the guarantee period but only makes this available to certain-only SPIAs.

Another carrier has an option that allows clients to receive up to the initial premium less income payments received to date, in cash. If less than the maximum is taken, income is reduced.

Feature:
Other Income Flexibility

Definition: This feature or rider provides annuitants with another kind of income flexibility:

Responses included:
One carrier automatically allows flexible commencement dates for deferred payout (ALDA) annuities.

Another carrier provides a no charge option, at the owner's choice, to make the payments irrevocable.

Number of SPIA products:

Many carriers offer different channels different SPIA products, even if the differences consist only of a small number of parameters (e.g. different commission rates). We asked carriers to indicate the number of different retail and institutional SPIA products they offer.

The results for the number of different retail products:

Number of Retail Products	Number of Carriers
1 retail product	19
2 retail products	5
3 retail products	2
4 retail products	1

The results for the number of different institutional products:

Number of institutional products	Number of Carriers
0 institutional products	12
1 institutional product	7
2 institutional products	4
3 institutional products	0
4 institutional products	1

