Full Report

Market Potential for Private Annuities in Asia

A Strategic Analysis Based on the U.S. Annuity Market

Kang Soo Lee
KIDI
kslee@kidi.or.kr

Lauren Finnie
LIMRA International Research
lfinnie@limra.com

KIDI Korea Insurance Development Institute

LIMRA®

Market Potential for Private Annuities in Asia

A Strategic Analysis Based on the U.S. Annuity Market

Kang Soo Lee
KIDI
kslee@kidi.or.kr

Lauren Finnie
Staff
lfinnie@limra.com

009427-1013 (540-44-I-J11)

Contents

Tables and Figures

Recommendations

Make suitable market comparisons to predict and prepare your company

- The beginning of the U.S. annuity market in the 1930s coincided with the decline of multi-generation households. This phenomenon — now prevalent in Asian countries — suggests future developments for the Asian annuity market.
- The characteristics of Asian pension systems — such as lump-sum payouts — yield a greater need for private retirement products than in other developed nations.
- Public pension systems in Asia are not mature. The need for other types of retirement income, and the characteristics of pension systems, elicit greater opportunities for private retirement products in Asia.

Accumulation products with guarantees lead the way in the U.S.

- Accumulation products such as variable annuities remain the most attractive products.
- Guaranteed living benefits (GLBs) should be offered as riders.
- Carefully evaluate product designs based on market maturity and the specific risk management competency of the company.

Prepare for risk management

- Asian insurers can learn from the ways the U.S. market has attempted to manage the risk associated with annuity sales. For GLBs, risk management practices include reinsurance and hedging. Hedging competency is the number one factor in initiating and maintaining business in the most effective way possible. It will also determine future design and affordability of GLBs.

Customize products based on customer need

- Annuities should provide multiple options in order to be more tailor-made for consumers.

Consider product channels based on success in other markets

- In the U.S., the top-selling distribution channel for variable annuities is independent broker-dealers. For fixed annuities, the independent agent channel leads in sales. These channels are not popular in Asia, but companies might want to consider strengthening these in order to emulate U.S. providers' success.

Educate advisors and consumers

- Professional advisors should play a role in helping their clients make sound financial decisions. Many retirees do not have enough financial knowledge to evaluate complicated annuity products. They have a tendency to underestimate their longevity and are at risk of outliving their resources. Governmental entities should take steps to educate both consumers and advisors about the importance of lifetime income.

METHODOLOGY This report comprehensively aggregates market data on the United States and six Asian countries obtained from primary LIMRA research and secondary public sources in order to make inferences about annuity market potential in Asia.

Introduction

> *Asian retirees need other means of retirement income in order to supplement public pension benefits and meet their living expenses.*

Retirement income security is a significant social and economic concern around the world. In contrast to industrialized countries, most Asian countries do not yet have mature, well-functioning pension systems. These ineffective systems include low benefits from public pension systems and are designed so that pension savings are taken as lump sums, which often are withdrawn before retirement. Asian retirees need other means of income in order to supplement public pension benefits and to meet their living expenses in retirement.

The need for effective retirement income security is further perpetuated by anticipated population aging in the near future. Lower birth rates and advancements in health and medical practices contribute to aging populations, further emphasizing the need for effective retirement income security. Currently most Asian countries are considered younger than other regions, but research predicts a faster transition toward an aged population than in other countries. Competitive insurers anticipate consumer needs based on demographic changes.

The U.S. has the most advanced annuity market among countries that do not have governmental requirements to purchase annuities. U.S. companies have introduced many innovative products in an effort to make up for the weaknesses annuity products typically have. Asian countries might consider looking to other markets, such as the United States, for innovative ways to prepare for retirement income.

The purpose of this report is to present a strategic evaluation of the potential for annuity markets in select Asian countries, and provide Asian insurers with insight on how to learn from U.S. experiences in order to improve existing annuity products and develop new product lines.

Countries Included
China
Hong Kong
Indonesia
Korea
Malaysia
Singapore
Market Variables Assessed
Population Aging
Pension Systems
Payout Options
Financial Sector Development

Four Influential Factors

Population Aging

Population aging elicits the need for an individual retirement income market including annuities. Over time, as the U.S. population aged, annuity sales increased (Figure 1).

Figure 1 — U.S. Population Aging and Annuity Share to Total Life Sales

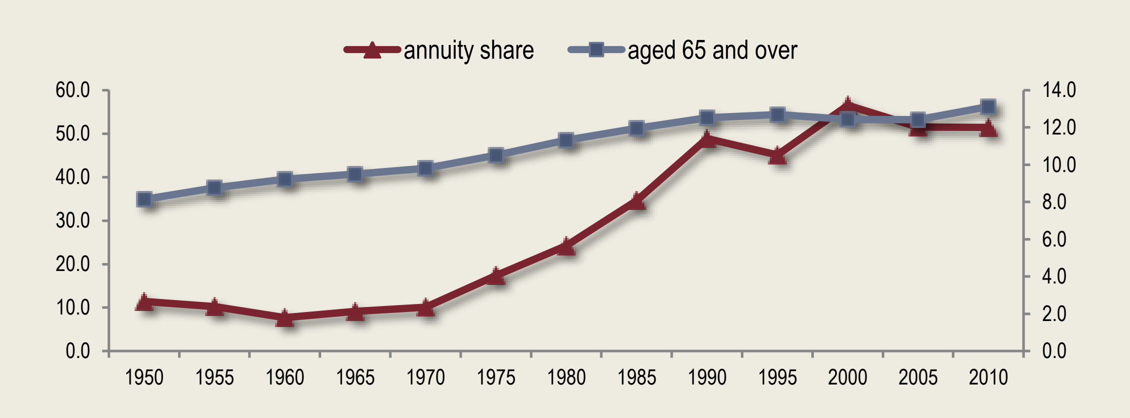


Table one shows country level data for three phases of population aging:

- **Aging society**— 7 percent of population are 65 and older
- **Aged society**— 14 percent of population are 65 and older
- **Super-aged society**— 20 percent of population are 65 and older

Table 1 — The Speed of Population Aging

	Attained Year			Aging Speed (in years)*	
	Aging	**Aged**	**Super-aged**	**7%–14%**	**14%–20%**
France	1864	1978	2018	114	40
United Kingdom	1929	1975	2028	46	53
United States	1942	2014	2032	72	18
Japan	1970	1995	2006	25	11
Korea	1999	2018	2026	19	8
China	2001	2026	2036	25	10
Hong Kong	1984	2013	2023	29	10
Indonesia	2023	2045	2070	22	25
Malaysia	2021	2045	2058	24	13
Singapore	1999	2021	2030	22	9

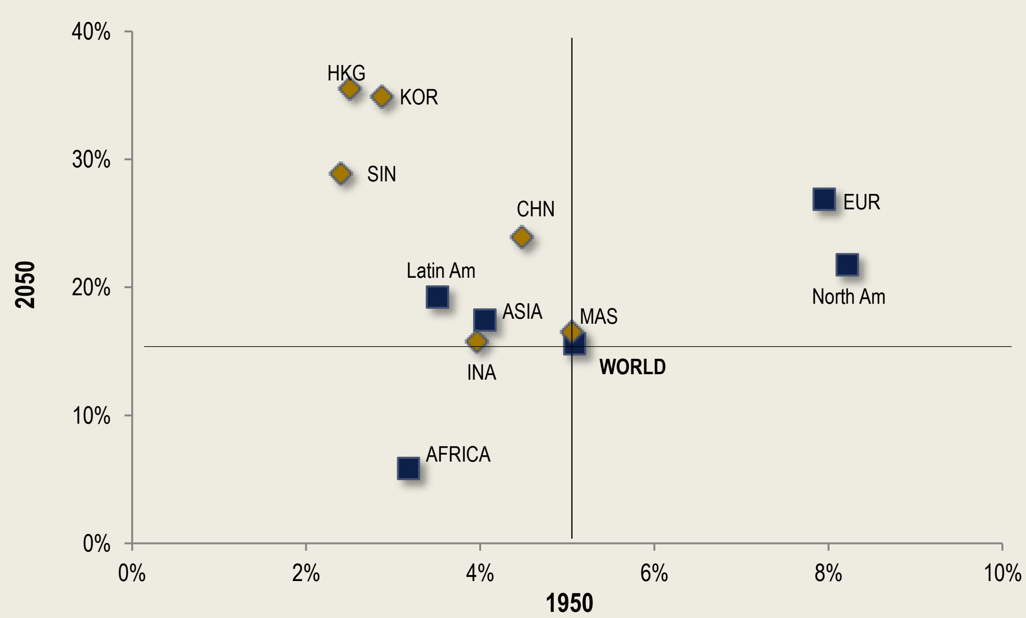
*Author's calculation

Source : Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World population prospects: http://eas.un.org/unppp, accessed in September 2013

France, the UK, and the U.S. became *aging societies* in 1864, 1929, and 1942 respectively (Table 1). It took over 100 years for France to move from an aging society to an aged society. On the other hand, Asian countries are expected to take approximately 20 years to enter the next category of "aged society," followed by "super-aged society" after about ten years. With the exception of Indonesia and Malaysia, the entire transition from aging to super-aged is anticipated to reach completion in approximately three decades.

In 1950, the ratio of the population aged 65 or older to the total population of all Asian countries was far lower than the global average ratio. Asian countries are generally younger than both European and North American countries; however, this situation is expected to reverse in the future (Figure 2). Specifically, Hong Kong and Korea are expected to have the highest percentages of people over 65, with 35.5 percent and 34.9 percent respectively. This rapid transition is due to falling fertility rates and increased life expectancy.

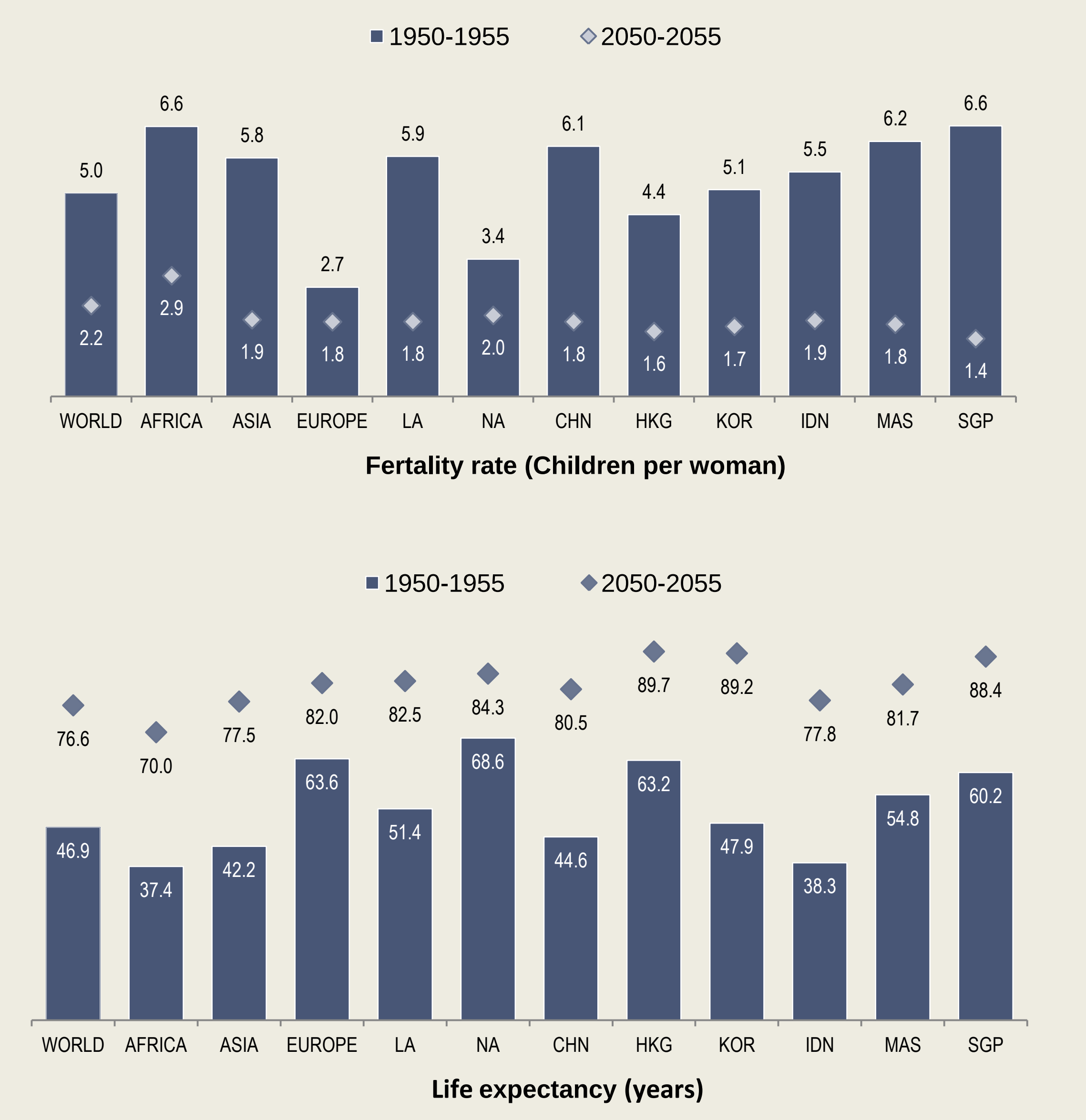
Figure 2 — Percent of Population Aged 65 or Older
1950 and 2050



Source : Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World population prospects: http://eas.un.org/unppp, accessed in September 2013

Figure 3 shows fertility rates and life expectancy at birth in 1950 and 2050. Certain economic and social factors, such as an increase of the standard of living, improved female education, and improved medical care, have led Asians to have fewer children and live longer lives. Since demographic trends tend to be long lasting, population aging is inevitable.

Figure 3 — Fertility Rates and Life Expectancy in 1950 and 2050

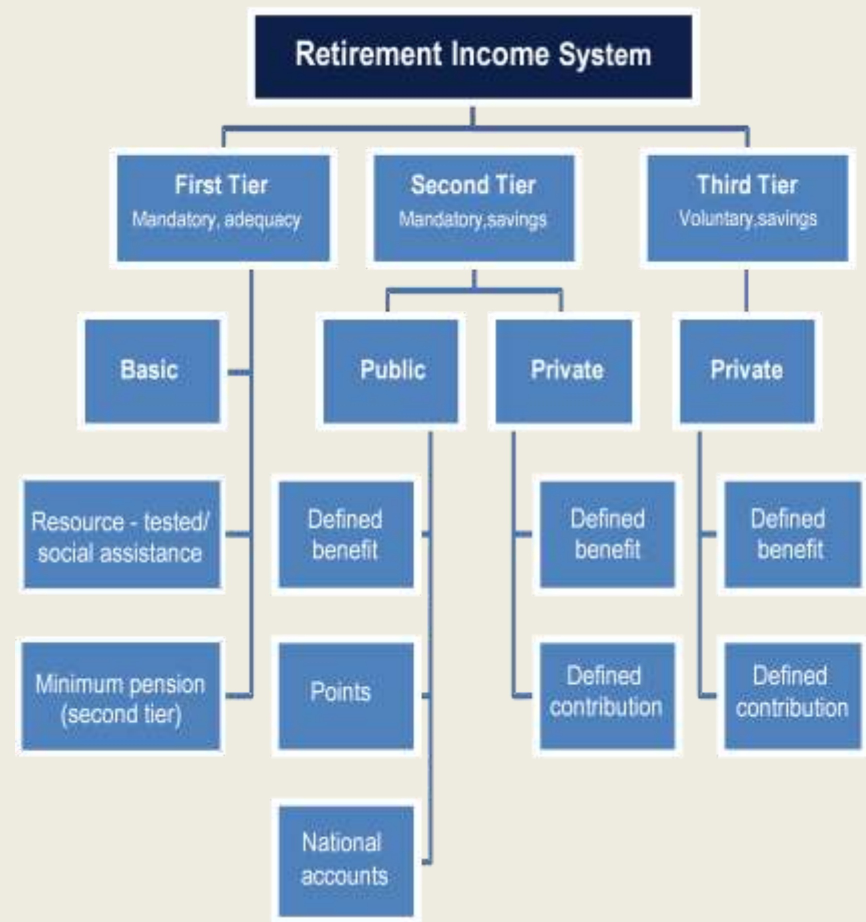


Source : Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World population prospects: http://eas.un.org/unppp, accessed in September 2013

Pension Systems

Pension system design establishes a need for annuity products. Adequate benefits from mandatory plans would reduce the need for an additional reliable income stream. On the other hand, insufficient benefits would cause people to seek for private annuity products to meet regular living expenses. Retirement income systems and taxonomies vary across countries. In this report, pension systems are classified according to the Organisation for Economic Co-operation and Development (OECD) pension taxonomy (Figure 4).

Figure 4 — Different Types of Retirement-Income Systems



Source : Retirement Income Systems in OECD and G20 Countries, OECD Publishing , 2011

Mandatory (public) pension systems

Based on the OECD pension taxonomy, the structures of mandatory pension systems for select countries are depicted in Table 2. Asian countries such as Indonesia, Malaysia, and Singapore don't have the first tier (a mandatory or redistributive part). In addition, many countries are adapting their mandatory pension as a defined contribution (DC) plan, which is in great contrast to other developed nations that provide defined benefit (DB) plans.

Typically DC pension plans make individuals responsible for their own investment and longevity risks. On the other hand, with DB pension plans, society shares those risks among individuals thereby achieving some social solidarity through income redistribution. According to one study, the lack of a distributive part and the prevalence of DC plans in Asian countries mean that mandatory pensions are designed to put more emphasis on individual risk bearing rather than social risk pooling.[1] There is a consensus or cultural conception that people should prepare for their old age income security by themselves, which increases the potential for private annuity markets.

Table 2 — The Structure of Mandatory Pension Systems[2]

	First Tier	Second Tier
	Has Mandatory Redistributive	**Mandatory Insurance Type**
China	Yes	DC*
Hong Kong	Yes	DC
Indonesia	No	DC
Malaysia	No	DC
Singapore	No	DC
Korea	Yes	DB
United States	Yes	DB

*DB = Defined benefit; DC = Defined contribution

[1] *Pension Systems and Old-Age Income Support in East and Southeast Asia,* Asian Development Bank, 2011

[2] *Pensions at a Glance Asia/Pacific*, OECD Publishing, 2011

The benefits of public pensions alone are insufficient to maintain the standard of living individuals become accustomed to during their working lives.

The gross replacement rate is the ratio of pension benefit to individual lifetime average earnings, and measures the effectiveness of a pension system in providing retirement income (Table 3). For average earners, gross replacement rates vary across countries, with rates as high as 77.9 percent for China and as low as 12.7 percent for Singapore and 14.1 percent for Indonesia. OECD benchmarking is used for policy making and goal setting by many Asian countries. Unfortunately, other than China, the rates of all Asian countries are lower than the OECD average of 57.3 percent. This demonstrates that benefits of public pensions alone are insufficient to maintain the standard of living individuals become accustomed to during their working lives.

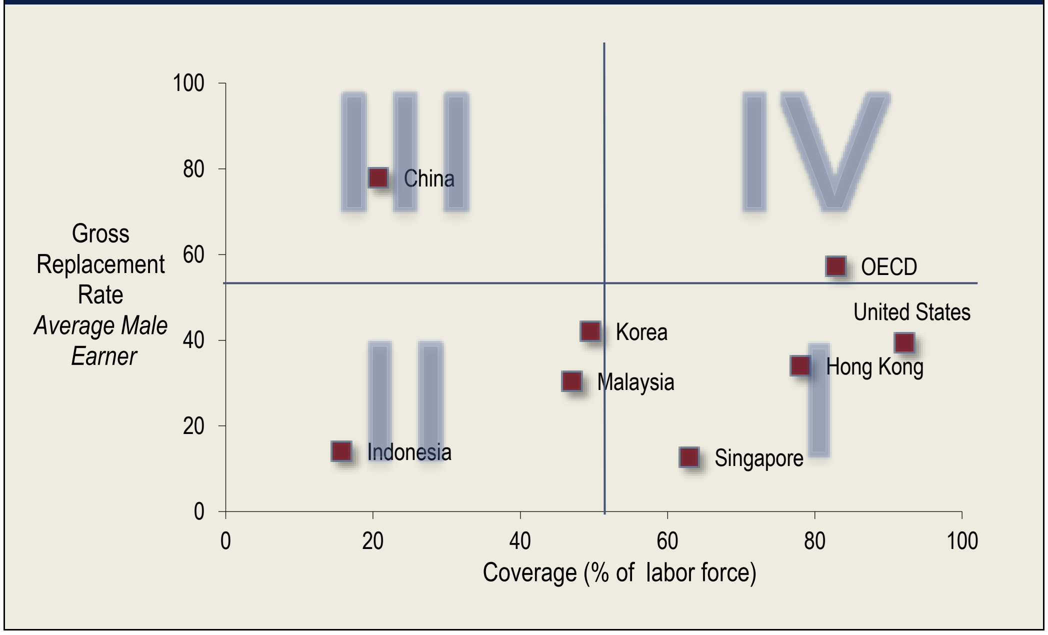
Table 3 — Replacement Rate by Earnings (Male)
Developed countries and select Asian countries

	Low Earners*	Average Earners	High Earners**
China	84.5%	77.9%	71.2%
Hong Kong	38.5	34.1	22.7
Indonesia	14.1	14.1	14.1
Malaysia	30.4	30.4	30.4
Singapore	12.7	12.7	8.5
Korea	49.4	42.1	31.9
United States	43.5	39.4	35.3
OECD	61.8	57.3	52.0

Source: *Pensions at a Glance Asia/Pacific*, OECD Publishing, 2011
*Low earners make 80% of average income.
**High earners make 150% of average income.

As part of our analysis, we divided countries into four groups based on two criteria — coverage and replacement — to assess the potential for annuity products in the context of the characteristics of mandatory pension plans (Figure 5). Group I is the most promising, since mandatory pension systems in this group are relatively mature based on the coverage rate (x axis in Figure 5) and coverage is relatively low, based on the gross replacement rate of mandatory pension plans (y axis in Figure 5). It will be easier to supplement mandatory pension plans in the countries that fall within the dimension I, which, as expected, includes the United States.

Figure 5 — Coverage and Replacement Rate of Mandatory Pension Plans



Voluntary (private) pension systems

In an effort to reduce the future burden to the government of providing old-age income due to population aging, most developed nations are reducing the benefits of pay-as-you-go public pensions and increasing the role of funded voluntary private pensions. However, coverage by private pensions remains very low in Asian countries (Table 4).

Table 4 — Percent of 15-64 Year Olds Covered by Voluntary Pension[3]

	Year	Occupational (Individual)
China*	2009	1.2
Indonesia	2010	1.8
Singapore	2012	2.0
Korea**	2012	12.3 (11.2)
United States	2009	32.8 (24.7)
United Kingdom	2009	49.1 (18.1)
Germany	2009	32.2 (29.9)

Source: Number of people covered by voluntary pension obtained for Korea from Financial Supervisory Service, Singapore from SRS, China from ADB (2011), and United States, U.K. and Germany from OECD (2011).

Annuities have an advantage in a market dominated by DC plans rather than DB plans, since DC plan benefits can be paid at termination as a lump sum which can be then used to purchase an annuity. DC plans prevail in many Asian countries. In addition, DB plans in Asian countries differ from those in developed nations in that DB plan benefits can also be paid as a lump sum. Details of voluntary pension schemes by county are shown in Appendix A.

[3] Hong Kong and Malaysia were omitted because additional voluntary contributions are usually made on mandatory pension accounts. Table statistics are based on author's calculation.

* In China only Enterprise Annuity is considered.

** Korea has two plans employers can choose from: severance pay and retirement plan. This report only considers retirement plans

Payout Options

The main forms of payout options include lump sums, programmed or phased withdrawals, annuities, and any combination of these options. Although benefit payment at retirement varies across nations, it is becoming a worldwide trend to place some restrictions on the use of lump-sum options.

Table 5 — The Possibility of Lump Sum Payment*
Select Asian countries

	Mandatory pensions	Voluntary pensions
China	No	Yes
Hong Kong	Yes	Yes
Indonesia	Yes	Yes
Malaysia	Yes	Yes
Singapore	No**	Yes
Korea	No	Yes***

*Lump-sum payout from a failure to meet minimum contribution periods is not considered.
**Private providers possible
***With tax penalty on retirement pension scheme

In many Asian countries, however, accumulation is not properly linked to the payout phase, so lump-sum payment is widespread even in a mandatory (public) pension provisions (Table 5). Hong Kong, Indonesia, and Malaysia have a lump-sum option in their pension systems. In voluntary pension schemes no lump-sum restriction exists except in Korea where lump-sum withdrawal is given a tax penalty. The lack of policy intervention for full or partial annuitization has the potential to increase the demand for private annuity products.

Financial Sector Development

The more evolved a country's financial market is, the more options people in retirement have for turning accumulated assets into lasting income.

Annuity products have many features, guarantees, and protections that require a stable financial infrastructure in order to succeed. There should be a well-developed financial market to hedge various risks — such as investment, inflation, and longevity — that annuity providers face, and a sound regulatory and supervisory infrastructure could boost producer and consumer confidence.

Table 6 shows the development of financial markets of each country although this ranking is not directly related to the infrastructure mentioned above.

Table 6 — Financial Development Index 2012*
Rankings among 62 countries

		Factors, Policies, and Institution			Financial Intermediation			Financial access
	Total Score	**Institutional environment**	**Business environment**	**Financial stability**	**Banking financial services**	**Non-banking financial services**	**Financial market**	**Financial access**
China	**23**	35	47	20	17	4	21	41
Hong Kong	**1**	9	2	8	1	10	4	4
Indonesia	**50**	51	53	35	53	23	54	54
Malaysia	**18**	21	25	10	11	14	24	28
Singapore	**4**	1	1	3	10	12	3	14
Korea	**15**	34	15	44	20	2	14	22
United States	**2**	13	13	38	21	1	1	5

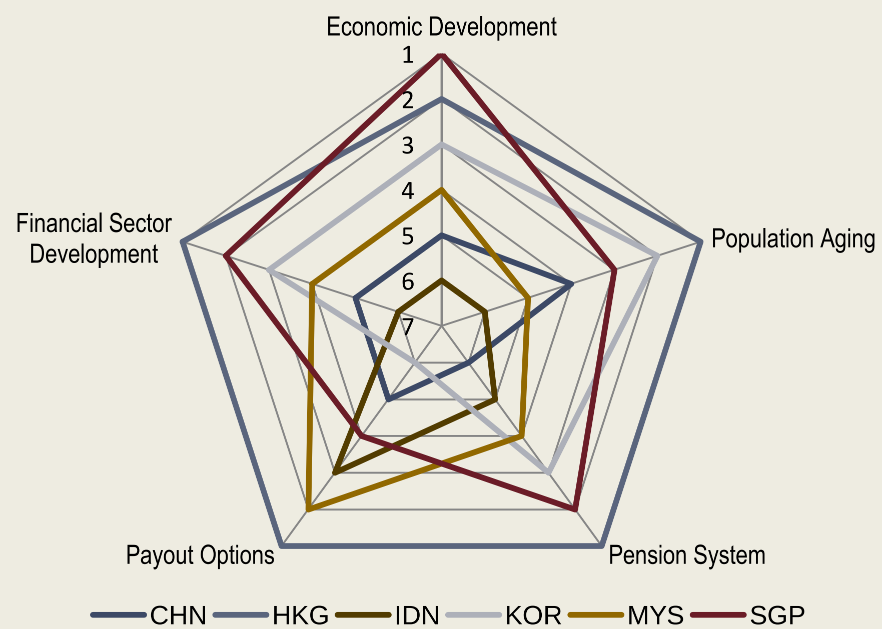
*The World Economic Forum has issued the Financial Development Report since 2008.The Financial Development Report 2012 is based on the Financial Development Index ("the Index"), which provides a score and rank for the breadth, depth, and efficiency of 62 of the world's leading financial systems and capital markets.

Evaluation

Overall

Based on the four factors discussed earlier, we came up with an overall market potential for annuities in Asia. In addition, this analysis includes an economic development factor measured by Gross Domestic Product per capita as its proxy to evaluate the potential of each country. Evaluations indicate that Hong Kong and Singapore have better structures for establishing an annuity market than other countries. In particular Hong Kong ranks Number 1 in almost all of the identified criteria. Korea and Malaysia follow Singapore with Indonesia and China having less potential within this framework.

Figure 6 — Overall Annuity Market Potential Evaluation Based on Five Factors*



*Economic Development is ranked according to Gross Domestic Production 2012 (current USD)
*Population Aging is based on the ratio of population aged 65 or over to total population in 2050
*Pension System is based on the distance from the U.S. in Figure 5
*Payout Options are based on the possibility of lump-sum payment, unless scores are equal, then coverage rate is used
*Financial Sector Development is based on total score in Table 6.

Older populations lead to better opportunity

The Asian countries assessed in this report are likely to age in the future, increasing the opportunities for annuity sales in those markets. Based on predictions for population aging in 2050, Hong Kong, Korea, and Singapore will become the grayest countries across the world. China will be as aged as Europe; and, though Malaysia and Indonesia will not show significant aging, they will still yield rates similar to the global average.

Low benefit and high coverage of public pension

In mandatory pension schemes, Hong Kong and Singapore show high coverage and low replacement rates which indicates better potential for annuity products. Other than Korea, the Asian countries have very low coverage rates for voluntary private pension, making it difficult to evaluate them at this time.

No restriction on payouts

Many Asian countries allow accumulated assets to be withdrawn as a lump sum. Hong Kong, Indonesia, and Malaysia have no restrictions on lump-sum withdrawals from both public and private pensions, which ranks these countries higher in payout options. Singapore and China follow because they possess DB plans that pay lifetime benefits. Korea ranks lowest in this category because restrictions exist even for private pensions.

The development of a financial industry

Hong Kong and Singapore have the most developed financial markets in the world. Hong Kong ranks first in overall index and Singapore takes the second position. The overall ranking of Korea is relatively low; however it has good non-banking financial services (ranked 2nd) such as insurance. The overall score for Malaysia, China, and Indonesia follow but they still have a long way to go.

U.S. Individual Annuity Market

Overview and History

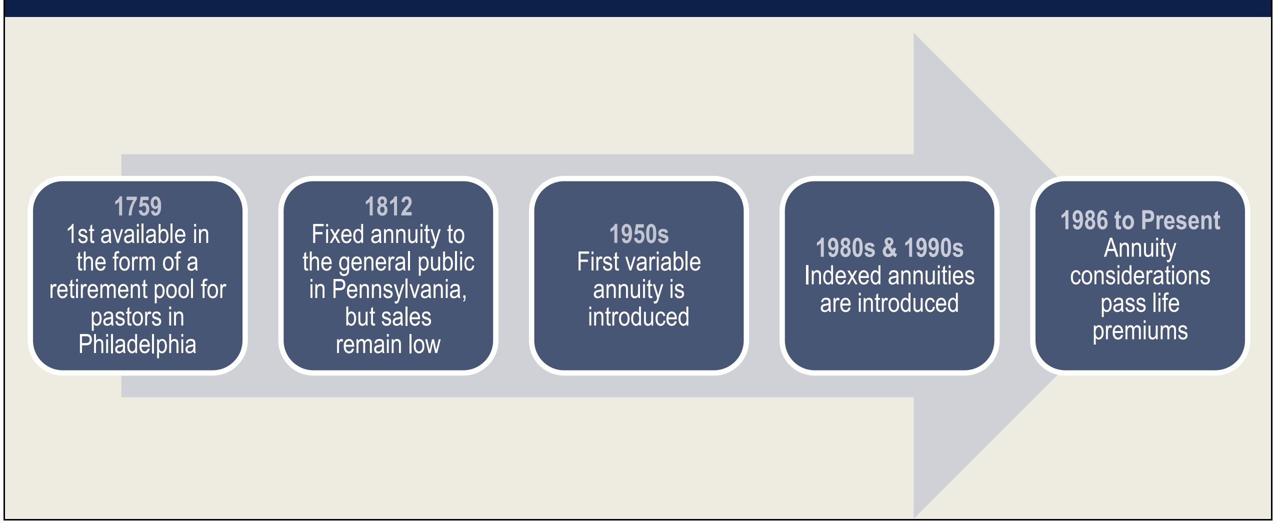
The success of an annuity market is partially dependent on the design of the payout phase of a nation's pension system. The United Kingdom has the largest and most advanced market for annuity products in the world, but this success is attributed largely to the mandatory annuitization of most accumulated savings. Therefore, when you evaluate product variety and regulation constraints, the U.S. annuity market is more substantial, possessing a large number of providers and innovative products. From this point of view, Asian countries can use the U.S. as a benchmark in order to boost the use of annuity products.

Some similarities of Asian and U.S. pension systems include:

- Public pension benefits are relatively low
- DC plans dominate
- No intervention in payout of private pensions

Annuities first became available in the U.S. in 1759, in the form of a retirement pool for church pastors in Philadelphia. In 1812 fixed annuities were offered to the general public in Pennsylvania, but sales remained insignificant. Annuity growth began to slowly increase during the early 20th century as the percentage of multigenerational households in America declined and the Great Depression led many investors to seek reliable investment vehicles. The first variable annuity was introduced in the early 1950s, and many new features, riders, and benefits have been incorporated into both fixed and variable contracts ever since. Indexed annuities first made their appearance in the late 1980s and early 1990s, and these products have grown more diverse and sophisticated as well. Since 1986, annuity considerations surpass life premiums.

Figure 7 — The History of Annuity Products in the United States



The Current U.S. Annuity Market

The annuity market can be divided into two phases: the *accumulation phase* and the *payout phase*. The U.S. annuity market is currently in the accumulation phase due to deferred annuities representing the vast majority of contracts sold, and the annuitization from accumulated savings remaining very low. However, immediate annuity sales have steadily increased, and the payout phase is expected to get more attention in the future.

Annuities can be categorized along many dimensions but this report focuses on:

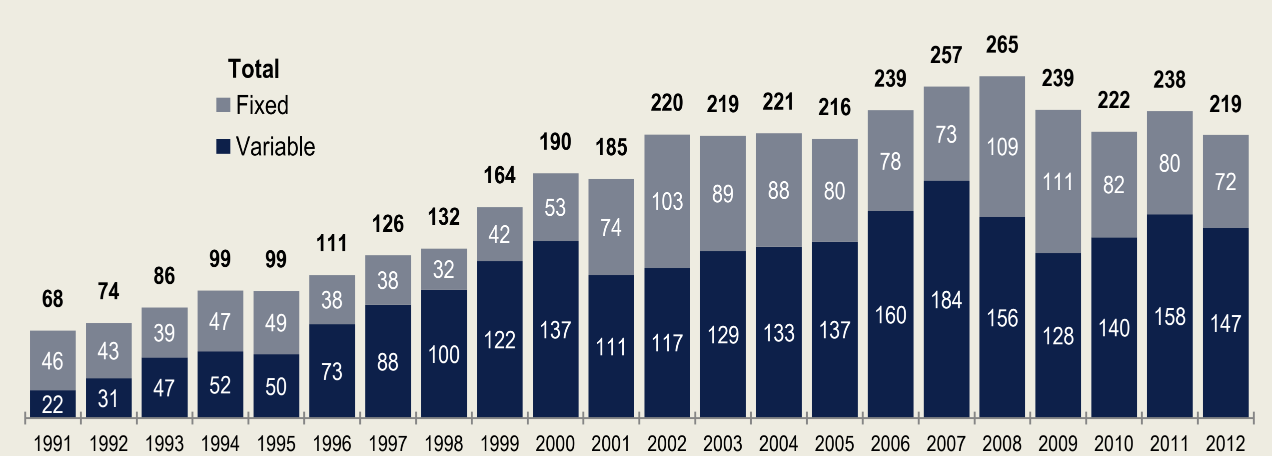
- Waiting period for benefits
  - Deferred annuities
  - Immediate annuities
- Investment vehicles in which premiums are invested
  - Fixed annuities
  - Variable annuities

Deferred variable annuities dominate the market

> ***Deferred Variable Annuities dominate the U.S. market and sales of these products have been fueled by guaranteed income riders***

In terms of a waiting period, deferred annuities dominate the market, representing almost all of variable and 80 percent of fixed annuities in 2012 (Figure 8). The market for these products increased dramatically during the 1990s and the sales of VAs surpassed those of fixed annuities for the first time in 1993. Due to unit-linked features on VAs, their sales are significantly impacted by external market turmoil. Fortunately history indicates that they tend to rebound right after a market crisis.

Figure 8 — Annuity Sales
Dollars in billions



Source: *U.S. Individual Annuity Yearbook*, LIMRA, 2012

GLBs make annuities more attractive

Since the mid-1990s, companies began to offer various forms of living benefits, fueling the recent growth of VA sales. These benefits, referred to as Guaranteed Living Benefits (GLB's), are income, accumulation, or withdrawal guarantees that provide protection against market risk. The history of GLB introduction is shown in Table 7. See Appendix B for definitions of these riders.

Table 7 — History of VA Guaranteed Living Benefits
United States

1996	**GMIB** (Guaranteed Minimum Income Benefit) launched by Equitable
1997	**GMAB** (Guaranteed Minimum Accumulation) introduced by Citicorp
1999	**GMWB** (Guaranteed Minimum Withdrawal) benefit launched by Fortis
2004	JNL launches **1st Lifetime GMWB (GLWB)**

GLB Types Include:

- Guaranteed Lifetime Withdrawal Benefits (GLWBs)
- Guaranteed Minimum Accumulation Benefits (GMABs)
- Guaranteed Minimum Income Benefits (GMIBs)
- Guaranteed Minimum Withdrawal Benefits (GMWBs).

Variable Annuities (VA's) are inevitably vulnerable to financial market downturns since they guarantee some minimum benefits despite market performance. Following the market downturn of 2000 and 2008 the value of the guarantees became more appreciated, and reserves increased. Since 2000 when U.S insurers typically initiated hedging programs, risk management has continued to be top-of-mind in the VA GLB market places. Various approaches to reduce risks have been employed such as reduced benefits on GLBs or increased fees. Guaranteed lifetime income riders in VAs continue to attract consumers planning for retirement. Eighty-eight percent of new VA sales in 2012 included a GLB (Table 8).

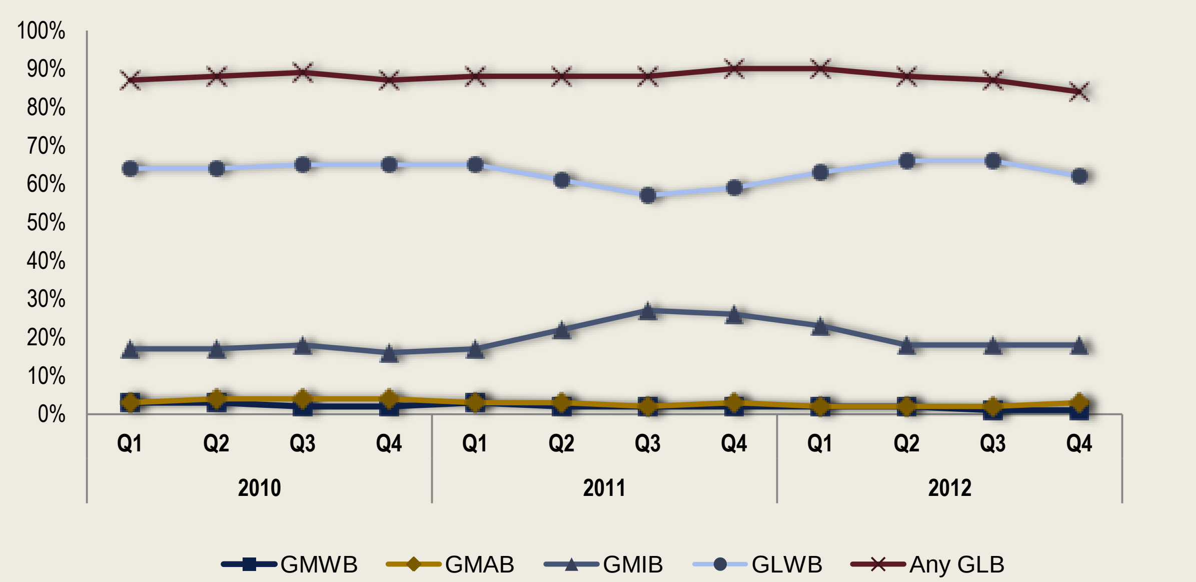
Table 8 — New VA GLB Sales by Quarter in 2012
Dollars in billions

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
New sales	$26.5	$28.8	$28.6	$28.4	$112.3
New sales, GLB available	24.4	24.8	23.8	22.1	$95.1
New sales, GLB elected	21.9	21.9	21.0	18.5	$83.3
Election rate (any GLB when available)	90%	88%	88%	84%	88%

Source: *U.S. Individual Annuity Yearbook*, LIMRA, 2012.

The most elected GLB is GLWB followed by GMIB (Figure 9). GLWB represents 81 percent of market share, indicating that they are the most attractive riders. Usage of non-lifetime guaranteed riders such as GMWBs and GMABs remain low ranging from 1 to 2 percent in 2012.

Figure 9 — VA GLB Election Rate Trends



Indexed among fixed is gaining popularity

Fixed deferred annuities can be classified into three types: boxed-value, market-value-adjusted, and indexed. The sales of indexed surpassed traditional book value in 2010 and have widened the difference (Table 9). This sales growth is partly attributable to GLWB riders. Although principal protection is a primary focus of fixed annuity buyers, they also purse the market potential, drawing them to indexed annuities.

Table 9 — Sales of Fixed Annuities by Type
Dollars in billions

		2007	2008	2009	2010	2011	2012
Deferred	Book Value	27.3	50.7	53.2	30.3	29.7	20.2
	Market Value Adjusted	7.8	17.6	14.4	6.1	5.2	4.5
	Indexed	**25.0**	**26.7**	**29.9**	**32.1**	**32.2**	**33.9**
Immediate		6.5	7.9	7.5	7.6	8.1	7.7
Deferred Income(DIA)		—	—	—	—	0.2	1.0
Others		6.2	6.4	5.6	5.8	5.1	5.1
Total Fixed		72.8	109.3	110.6	81.9	80.5	72.3
Total Variable		184.0	155.7	128.0	140.5	157.9	147.4
Total		256.8	265.0	238.6	222.4	238.4	219.7

—Indicates less than $50 million in sales
Source: *U.S. Individual Annuity Yearbook*, LIMRA, 2012.

Immediate annuities show sustained growth

Sales of immediate annuities are low, totaling $7.7 billion in 2012, constituting 10.7 percent of total fixed and 3.5 percent of total annuity sales. Annuitization of deferred annuities to turn deferred assets into lifetime income was also very low, around 0.4 percent and $10.2 billion in 2012.[4] However grim the current outlook may appear, research indicates a positive outlook for the future of annuities. This market is expected to increase as the focus on immediate annuities, and the need for guaranteed lifetime income continues. The "unrealized" annuitization market has a huge potential estimated at $250 billion.[5]

Immediate annuities in the U.S. offer a variety of features that broaden their appeal including: liquidity, income flexibility, death benefits, and more (Table 10). LIMRA research reviewed 50,000 individual contracts in 2008 and 2009, and found that only 1 out of 8 contracts selected 'pure only' payments. The majority of the lifetime contracts had some form of cash refund and guaranteed payments for a certain period.[6]

Table 10 — Features of Immediate Income Annuities

22/39 Companies Offer Liquidity Features	
Cashable during guarantee period	17 companies
Cashable life contingent payments	2
Cashable under specified circumstances	2
Accelerated payments	4
Other	4
25/39 Offer Income Flexibility	
COLA fixed	22
CPI-U	4
Changing needs	2
Impaired risk	3
31/39 Offer Death Benefits	
Installment refund	26
Cash refund	22
ROP death benefit	13
Proportional death benefit	4
33 Offer Additional Features	
Rate protection	33
Financial program integration	5
Income annuity valuation	7
STP	2

Source: *Features in Income Annuities*, LIMRA, 2013

[4] *U.S. Individual Annuity Yearbook*, LIMRA, 2012

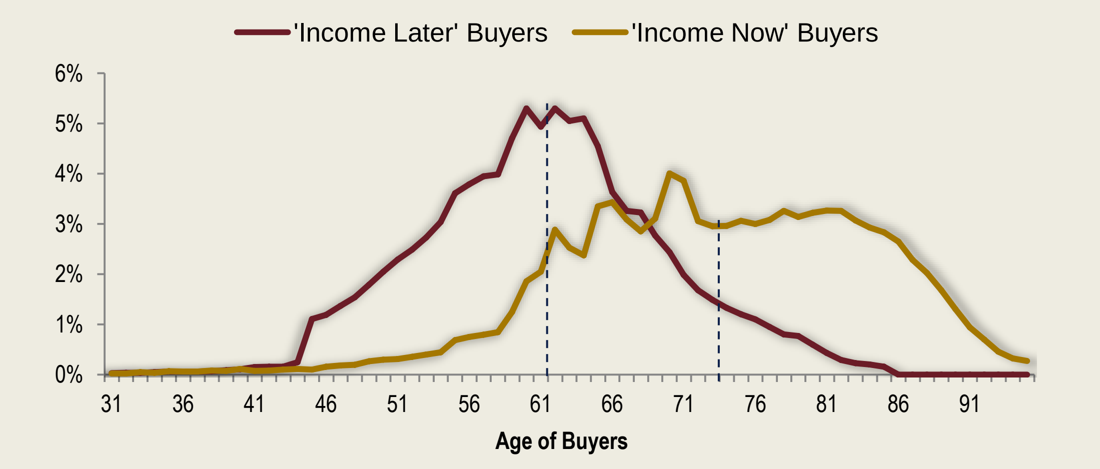
[5] *Retirement Income Reference Book*, LIMRA, 2009.

[6] *Guaranteed Income Annuities*, LIMRA, 2010.

Annuities have two separate markets by age

The average age of individuals purchasing VAs with GLWBs is 61. Immediate income annuities are purchased on average at age 73, which indicates the presence of two separate annuity markets in the United States. Age 66 is considered the normal pensionable age in the U.S., so it appears that the need for accumulation remains until retirement and the need for immediate income appears long after retirement.

Figure 10 — Percentage of 'Income Later' and 'Income Now' Buyers by Age



Source: *Retirement Income Reference Book*, LIMRA, 2012

Independent channel is the key to success

Independent channels such as independent broker-dealers (B-Ds) and independent agents are successful distributors of annuity products. Independent B-Ds accounted for one third of VA sales and 7 percent in fixed sales. On the other hand, independent agents distributed almost half of the fixed annuity sales but only 1 percent of the variable annuity sales.

Figure 11 — 2012 Variable and Fixed Annuity Sales Market Share by Distribution Channel

Source: *U.S. Individual Annuity Yearbook*, LIMRA 2012

Conclusion

Population aging has altered the way life after retirement is experienced around the world. The most important change in the field of retirement income security is the reduction of PAYG (Pay-As-You-Go) public financing systems and the increased role of fully funded private annuities. The private annuity market is growing in importance and will become more developed around the world as different countries experience the demographic transition to older populations.

The determinants of annuity market potential can be extensive and challenging to define. However, a couple of factors have demonstrated influence on product sales. Population aging can be considered the basic foundation for the need of annuities. This demographic transition in Asian countries is expected to be faster than in other developed nations.

The payout options of public and private retirement savings also have a significant impact on market potential. In Asian countries, lump sum payment is widely used with no or little restrictions, and insufficient public benefit elicits the needs for additional retirement income products. In short, the characteristics of Asian pension systems favor the development of a private annuity market.

The annuity market in Asia will appear sooner than expected and will require advanced preparation due to the complexity of annuity product design. To prepare for impending conditions, it is important that Asian insurers increase their focus on annuity product lines now.

The experience and best practices of U.S. annuity market can be used as a blue print to help develop a new line of annuity business or diversify current product options. Annuity capacity will determine the sustainability of a company in a super-aged future environment unlike any mankind has ever seen.

Appendix A — Voluntary Private Pension by Country

China

Table A1 — China	
Name	**Basic Assumptions**
Occupational	▪ Three types of occupational pension schemes, enterprise annuities (EAs), insured pension schemes and self-administered schemes. The markets are now being gradually converted into EA format which was first introduced in 2004. ▪ Almost all pension schemes are arranged on a DC basis ▪ Most retirement benefits are taken as a lump-sum, though phased withdrawal is also available as an option.
Individual	▪ There are no tax incentives to encourage individual pension contributions. ▪ A pilot scheme for individual tax deferred pensions is expected to be launched in Shanghai in some future.

Indonesia

Table A2 — Indonesia	
Name	**Basic Assumptions**
Employer pension funds (EPFs)	▪ Related law was enacted in 1992 for both EPF and FIPF. ▪ Cover employees of one employer or of a group of related employers. ▪ Either defined contribution (DC) or defined benefit (DB), with the majority being DB. ▪ Accumulated funds less than IDR 500 mil. can be paid as a cash lump sum ▪ A pension of less than IDR 1.5 mil per month is payable from a DB plan or lump sum
Financial institution pension funds (FIPFs)	▪ Open to all workers provided by banks and insurance companies, predominantly aimed at small to midsize employers and individuals. ▪ Defined contribution plans. ▪ Cash lump sum can be taken up to IDR 125 mil. When funds exceed this amount, 20% more can be taken as a lump-sum benefit, but the 80% balance must buy an annuity.

Korea

Table A3 — Korea

Name	Basic Assumptions
Occupational	▪ Two types: severance pay and Retirement Pension Scheme (RPS- introduced in 2005) ▪ RPS may be either defined contribution (DC) or defined benefit (DB). Majority are DB ▪ Accumulated savings can be paid by a lump sum or an installment
Individual	▪ Introduced in 1994 ▪ Defined contribution plans ▪ Accumulated savings paid by installment for at least 10 years, or else heavy tax is levied.

Malaysia

Table A4 — Malaysia

Name	Basic Assumptions
Private Retirement Scheme (PRS)	▪ Introduced in 2012. ▪ Defined contribution plans. ▪ Tax–free lump sum benefits at retirement.

Singapore

Table A5 — Singapore

Name	Basic Assumptions
Supplementary Retirement Scheme (SRS)	▪ New in 2011 ▪ Not popular ▪ Paid lump sum and only 50% of withdrawal benefits are not taxable at retirement.

Appendix B — Guaranteed Living Benefits (GLBs)

Guaranteed Lifetime Withdrawal Benefit (GLWB) — Guarantees that owner can make withdrawals, subject to a specified maximum percentage per year, that will equal at least a certain minimum (e.g., premiums paid less withdrawals) or for life. Owners are not required to annuitize to receive this benefit. Typically benefits have no waiting period.

Guaranteed Minimum Accumulation Benefit (GMAB) — Entitles the contract owner to receive a minimum amount, equal to some percentage of premiums received less withdrawals, at a specified future date (i.e., maturity)

Guaranteed Minimum Income Benefit (GMIB) — Allows the contract owner to receive lifetime income based on a guaranteed amount and annuity rates specified within the benefit, at or after maturity. Owners must choose to annuitize after benefit maturity in order to utilize the benefit.

Guaranteed Minimum Withdrawal Benefit (GMWB) — Guarantees that owner can make withdrawals, subject to a specified maximum percentage per year, equal to at least a certain minimum (e.g., premiums paid less withdrawals). Owner is not entitled to lifetime withdrawals under this benefit. Typically has no waiting period.

Appendix C — Annuity Terminology

Deferred Income Annuity (DIA) — Also known as deferred payout, longevity annuity, or advanced life delayed annuity. Pays a benefit to the policyholder starting more than one year from the policy date if he or she survives to a pre-established future age; this does not include annuitizations.

Fixed Annuity — A stand-alone annuity product that has a guaranteed minimum interest rate (does not include fixed accounts within variable annuities).

Indexed Annuity — Has a guaranteed principal with returns that are tied to a specific index. Often the index is an equity based index, such as the S&P 500.

Individual Annuity — An annuity contract between an insurance company and an individual (individual contracts can allow for joint owners as well as a trust for the benefit of an individual) or employer in which the individual either owns the contract outright or controls features such as premium payments, withdrawals, asset allocation, transfer, beneficiary selection, and other contractual options.

Market-Value-Adjusted Annuity — A deferred, fixed annuity that transfers part of the intermediation risk to the contract owner. The declared interest rate is guaranteed for a specified period of time, typically multi-years. If withdrawal (above any free-out) or surrender occurs during the interest guarantee period, in addition to any applicable contingent deferred sales charge, the cash value liquidated is subject to an adjustment in which the guaranteed interest rate is compared to current market interest rate for the remaining duration of the guarantee period, reflecting gain or loss which would occur in liquidating the underlying asset.

Variable Annuity — An annuity in which considerations are placed in separate accounts, and the cash value of the annuity fluctuates in accordance with the value of the underlying investments in the separate accounts. Investment risk is borne by the contract owner for all separate accounts, except for fixed accounts within VA products.

KIDI
Korea Insurance Development Institute

LIMRA®

009427-1013 (540-44-I-J11)