

IRI Baseline Values

REFERENCE GUIDE



Executive Summary

INTRODUCTION

The IRI Baseline Values are a benchmark measurement of the accumulation and income protections that an investor can expect from deferred annuities. The values are computed for four (4) different growth protections and four (4) optional lifetime income protection options that can be added to a deferred annuity.

VERSION HISTORY

1.0 November 2024: Initial release of methodology

METHODOLOGY

The IRI Baseline Values will be calculated on a quarterly basis for the following categories:

	Premium	State	Death Benefit	Annuity Type = (& Gender)
Protected Growth				
Fixed Return (Fixed)	\$100,000	Alabama	Account Value	Single Owner
Fixed Index-Linked Return (FIA)	\$100,000	Alabama	Account Value	Single Owner
Variable Index-Linked Return (VIA)	\$100,000	Alabama	Account Value	Single Owner
Variable Return (Variable)	\$100,000	Alabama	Account Value; Return of Premium	Single Owner
Protected Income				
Fixed with GLWB ¹	\$100,000	Alabama	Account Value	Single Life; Uni-Sex
Fixed Index-Linked with GLWB	\$100,000	Alabama	Account Value	Single Life; Uni-Sex
Variable Index-Linked with GLWB	\$100,000	Alabama	Account Value	Single Life; Uni-Sex
Variable with GLWB	\$100,000	Alabama	Account Value; Return of Premium	Single Life; Uni-Sex

¹GLWB = GUARANTEED LIFETIME WITHDRAWAL BENEFIT RIDER OPTION

Please refer to the content in this document for more information on how the IRI Baseline Values are computed.

IRI Baseline Values are managed and supported by CANNEX Financial Exchanges. Founded in 1984, CANNEX is an independent financial data and research services company with operations in the U.S. and Canada. CANNEX's mission is to help increase transparency and access to guaranteed savings and lifetime income products in North America.

Overview

IRI OBJECTIVES

Annuities have historically been challenging to model in financial planning platforms. Annuities provide unique benefits, such as lifetime income and protected growth. Including annuities in financial plans can improve client planning outcomes including income stability, cash flow, and probability of success.

Through member-firm collaboration, IRI has created **baseline values** representing capital market assumptions to improve client outcomes and simplify the modeling process for financial professionals.

THE USE OF BENCHMARKS IN EDUCATION, PLANNING & PURCHASING PROCESSES

An annuity is a unique and versatile financial instrument that can be configured to help meet certain **financial protection needs** — as a stand-alone product or integrated within an investment portfolio.

Because of their variety and configurability, annuities can be difficult to understand. They also have a lot of rules. So, it's important to select and use them correctly.

A trained financial professional is usually needed to:

1. Determine if an annuity is suitable and in the best interest of the client
2. Help the client choose and configure the right annuity to meet their investment objectives
3. Monitor the annuity over time as part of an overall financial plan

One way to help simplify the initial evaluation and selection of an annuity in the planning process is through the use of “sample products” — or benchmark options. The benchmark options used for the IRI Baseline Values represent common configurations used by financial professionals to satisfy protected growth and protected income needs for their clients. **Although clients can purchase multiple protection options within a single contract, we will refer to these as separate and stand-alone contracts (or categories) for the sake of simplicity in presenting the baseline values.**

SUMMARY OF IRI BASELINE VALUES CURRENTLY PROVIDED

The baseline values include four different deferred annuity benchmark options for **protected growth** and one deferred annuity add-on income benefit rider option for **protected income**.

Protected Growth

- a. Fixed Return (Fixed)
 - > Multiple terms and variations used to describe products in this category include Fixed Annuity, Multi-Year Guaranteed Annuity (MYGA), Traditional Fixed Annuity, Book Value Annuity, etc.
 - > Like a bank CD, a guaranteed rate of return is provided by the insurance company for a specified term.
- b. Fixed Index-Linked Return (FIA)
 - > The most common term used for this category today is Fixed Indexed Annuity (FIA).

- › Like a Market-Linked CD, the investor can receive a slightly higher return than a simple Fixed Return product. However, if the market index and the associated crediting method does not perform well, there is a minimum guaranteed rate of return (a “floor”) which protects the initial investment amount from market losses.
- c. Variable Index-Linked Return (VIA)**
- › The most common term used for this category today is Registered Index Linked Annuity (RILA). Other terms used include Variable Index Annuity (VIA), Structured Annuity, Buffered Annuity, Hybrid Annuity, etc.
 - › With a RILA, the investor assumes some investment risk but may also realize a higher return than in an FIA. However, if there is a loss, it is mitigated by a “buffer” (protection against investment loss up to a certain percentage) or “floor” (protection against investment loss beyond a certain percentage).
 - › Since it is possible to experience a loss on the amount invested, a financial professional must be securities licensed to offer this option — like a mutual fund or a Variable Annuity (see below). This is why the term RILA is often used to differentiate it from its cousin, the FIA.
- d. Variable Return (Variable)**
- › The most common term used for this category is Variable Annuity (VA). Another variation is an Investment Only Variable Annuity (IOVA) — which is used when there are no additional benefits or protections added.
 - › Like a mutual fund, the investor takes on the risk of investment loss without any underlying protections. However, because they are invested in an annuity (i.e., insurance) contract, the investor has the added benefit of tax-deferral for non-qualified assets. In some contracts the investor also has a Return of Premium (ROP) death benefit available at no additional cost — for both qualified and non-qualified assets.
 - › For the purpose of these baseline values, the benchmark computed is the additional contract fee to access the tax-deferral benefit. A financial professional can add the variable annuity fee to a mutual fund fee and performance assumptions to get a directional result for a variable contract.

Protected Income

- a. Guaranteed Lifetime Withdrawal Benefit (GLWB)**
- › A Guaranteed Lifetime Withdrawal Benefit (GLWB) is a type of income benefit contract rider that you can add to a deferred annuity contract for income protection. It can either be optional or included depending upon the specific product. In the past, other product designs have included a Guaranteed Minimum Withdrawal Benefit (GMWB) and a Guaranteed Minimum Income Benefit (GMIB), but they are no longer offered in the market (with one or two exceptions). Today, these acronyms (GLWB, GMWB, GMIB, etc) are often used interchangeably to describe what is exclusively the design of a GLWB.
 - › The addition of an Income Rider can add to the complexity — and versatility — of an annuity. The design of this rider is often aligned uniquely to the function of the different categories of base contracts as outlined above for Protected Growth.
 - › **For the purposes of these baseline values, an add-on GLWB benchmark rider option is computed for each of the 4 protected growth categories for a directional result in a broader plan.**

Market Sample

MARKETPLACE SCOPE

Depending upon how you survey the market, there are several dozen insurance companies offering annuities in the U.S. today. Some insurance companies have multiple, separate legal entities that evaluate the protections associated with these products due to legal, accounting, or distribution channel reasons. In many cases, the guarantees and protections offered by the subsidiary entities will vary due to product design, pricing/risk policy, and the state of issuance. The sampling of annuities in support of these baseline values includes all of the products offered through these various legal entities as found in the CANNEX Annuity Market Exchange.

COMPETITIVENESS OF BENCHMARKS

The baseline values represent the median results from each set of products from the marketplace. A median value establishes a performance metric that serves as a stable and reliable benchmark by reducing the volatility that may be caused by outliers during any given time period. This approach facilitates the generation of realistic Baseline Values representing the most widely purchased annuities, while also providing insights into emerging market trends.

IRI Baseline Values

This section specifies the Product Assumptions made and the methodology used to compute the IRI Baseline Values. The Baseline Values utilize data available within CANNEX's Annuity Market Exchange to ensure a representative survey of the market. The following Product Assumptions are applied as filters each time the data is retrieved:

1. State: Alabama
2. Premium: \$100,000
3. No Premium Bonuses
4. The Death Benefit equals the Account Value

Note: No filter is applied for the Credit Rating associated with the insurance company providing each product

IRI Baseline Values–Protected Growth

Fixed Return (Fixed)

The Guaranteed Crediting Rate for the Benchmark Fixed product is based on a “Yield to Surrender” return.

Calculation Steps for Benchmark Yield to Surrender:

- a. Survey the market for Fixed products using the Product Assumptions and filter this data with the following criteria:
 - > Product Type: Multi-year Guaranteed Annuity (MYGA) where the guarantee period is equal to the surrender period
 - > Surrender Period (Term) = 5 years
- b. Compute the median Yield to Surrender from the resulting set of products. The median yield is not rounded.
- c. Report this value as the Median Benchmark Crediting Rate for the Fixed Baseline Value.

Fixed Index–Linked Return (FIA)

With a pre-defined Crediting Configuration and a fixed set of Indexed-linked Parameters, we are only computing the Annualized 10 Year Yield and Benchmark Cap Rates applicable to the crediting strategy.

Calculation Steps for Benchmark Cap Rate:

- a. Survey the market for FIA products using the Product Assumptions and filter this data with the following pre-defined Crediting Configuration:
 - > Surrender Period (Term) = 7 years
 - > Market Index: S&P 500
 - > Crediting Strategy Type & Frequency: Annual Point-to-Point
 - > Crediting Strategy Configuration: Cap Rate + Participation Rate
 - > Participation Rate = 100%
 - > Strategy Fee = 0%
 - > **Note:** A Spread Rate is not applicable for this strategy configuration and a Guaranteed Floor Rate is known to be 0% for FIA products.
- b. Compute the median value from the resulting set of Cap Rates. The median value is then rounded to the nearest 0.05%.
- c. Report the Median Benchmark Cap Rate as an input parameter for the FIA Baseline product.

Calculation Steps for Benchmark Annualized 10-year Yield:

- a. Use CANNEX’s Sequence Management System to derive the 10-year Hypothetical Sequence (Annual Index Return Values) for the S&P 500 Index under three Market Scenarios: Good, Bad and Moderate.
- b. Keeping the Product Assumptions and Crediting Configuration fixed over 10 years, calculate the Annualized 10-year Yield under each Market Scenario in alignment with the Benchmark Cap Rate. The yields are not rounded.
- c. Report the yields as Benchmark Crediting Rates for the FIA Baseline product.

Variable Index-Linked Return (VIA)

With a pre-defined Crediting Configuration and a fixed set of Indexed-linked Parameters, we are only computing the Annualized 10 Year Yield and Benchmark Cap Rates applicable to the crediting strategy.

Calculation Steps for Benchmark Cap Rate:

- a. Survey the market for VIA products using the Product Assumptions and filter this data with the following pre-defined Crediting Configuration:
 - > Surrender Period (Term) = 6 years
 - > Market Index: S&P 500
 - > Crediting Strategy Type & Frequency: Annual Point-to-Point
 - > Crediting Strategy Configuration: Cap Rate + Participation Rate + Buffer Rate
 - > Participation Rate = 100%
 - > Buffer Rate = 10%
 - > Strategy Fee = 0%
 - > Note: It is typical for this strategy configuration to not have a Spread Rate or a Floor Rate.
- b. Compute the median value from the resulting set of Cap Rates. The median Cap Rate is then rounded to the nearest 0.05%.
- c. Report the Median Benchmark Cap Rate as an input parameter for the VIA Baseline product.

Calculation Steps for Benchmark Annualized 10-year Yield:

- a. Use CANNEX's Sequence Management System to derive the 10-year Hypothetical Sequence (Annual Index Return Values) for the S&P 500 Index under three (3) Market Scenarios - Good, Bad and Moderate.
- b. Keeping the product assumptions and crediting configuration fixed over 10 years, calculate the annualized 10-year yield for each market scenario. The yields are not rounded.
- c. Report the yields as Benchmark Crediting Rates for the VIA Baseline product.

Variable Return (Variable)

The protected growth for a Variable product associated with the Baseline Values is not associated with a performance outcome or parameter, but rather the "protection" from taxes in the form of tax-deferred growth associated with non-qualified money. A Benchmark Contract Fee is computed to represent the additional cost associated with the benefits received from an annuity contract. Unique to all other Baseline Values, this benchmark is derived from all Variable products (i.e., not top 25%).

Benchmark Base Contract Fee:

- a. Survey the market for Variable products using the Product Assumptions.
- b. Add both the Mortality and Expense Fee (M&E Fee) and Administrative Fee for all Variable products to derive a total Base Contract Fee and compute the median value. The Median Base Contract Fee is then rounded to the nearest 0.05%.
- c. Report the rounded average fee as a Base Contract Fee for the Baseline Variable product.

IRI Baseline Values–Protected Income

Additional protections can be added to a deferred annuity contract in the form of contract riders to help satisfy certain financial planning needs. One of the most common riders used today is an Income Benefit rider in the form of a Guaranteed Lifetime Withdrawal Benefit (GLWB). The GLWB allows the investor to maintain the liquidity of the amount invested while receiving an ongoing lifetime withdrawal from the annuity, with a prescribed limit to the percentage they can withdraw over time. The actual dollar amount of the withdrawal is determined by applying this percentage to a Benefit Base value that is also maintained as a “shadow account,” or notional value, that is separate from the actual Account Value. The value of the Benefit Base can grow or decrease based on rules and a set of parameters.

Baseline Values for the Guaranteed Lifetime Withdrawal Benefit (GLWB)

Baseline values are determined for four (4) GLWB Riders that are aligned specifically with each of the Protected Growth options from the previous section: Fixed, FIA, VIA and Variable. For the computation of GLWB rider income and associated parameters, the Product Assumptions and Crediting Configurations across the base contracts remain unchanged as defined in the previous section.

Calculation Steps for Benchmark Roll-up Rate:

- a. Survey the market for GLWB Rider data separately for each Base Contract Type (Fixed, FIA, RILA and Variable) based on the Product Assumptions. Filter the data based on the following GLWB Rider configuration:
 - > Annuity Type: Single Life
 - > Income Style: Level Income
 - > Benefit Base Roll-up Type: Simple
 - > Benefit Base Roll-up Period: 10 years
 - > Benefit Base Step-up: None
- b. For each Base Contract Type, compute the median value of the Roll-up Rates across all available products. Each median is then rounded to the nearest 0.50%.
- c. Record these Median Benchmark Roll-up Rates for each respective GLWB Rider.

Calculation Steps for Benchmark GLWB Rider Fee:

- a. Survey the market for GLWB Rider data separately for each Base Contract Type (Fixed, FIA, RILA and Variable) based on the Product Assumptions. For each Base Contract Type, filter the data individually for Single Life.
- b. Compute the median of GLWB fees across all available products for each of the 4 categories of the filtered data. Each median value is then rounded to the nearest 0.05%.
- c. Record these values as Median Category Benchmark GLWB Riders fees.

Calculation Steps for Benchmark Annual Income:

- a.** Survey the market for GLWB Rider data separately for each Base Contract Type (Fixed, FIA, VIA and Variable) based on the Product Assumptions. Filter Income results for:
 - > Income Start at Age 65 with Purchase Ages 55, 60 and 65
 - > Income Start at Age 70 with Purchase Ages 60, 65 and 70
 - > Annuity Type: Single Life
 - > Income Type: Level Income
 - > Market Assumption: 0% Return
- b.** For each possible combination of the purchase age, income start age, single life and level income (6 combinations in total), compute the median value for each combination.
- c.** These median values are the Market Implied Benchmark annual income values.

Calculation Steps for Benchmark Withdrawal Rates:

The Withdrawal Rates are calibrated using optimization techniques to match the Market Implied Income Benefits with mathematically modeled Income Benefits. The same technique is used to compute Benchmark Withdrawal Rates for all annuity types.

- a.** With premium set at \$100,000, use the benchmark Roll-up Rates to evaluate the Income Benefit Base for all combinations of purchase age, income start age, single life and level income discussed above in the 'Benchmark Annual Income' section. This generates the Mathematically Modeled annual Income values.
- b.** Optimization techniques are used to compute the Withdrawal Rates for each combination while minimizing the mean squared error between Market Implied Benchmark annual income values and Mathematically Modeled annual income values. Each Withdrawal Rate is then rounded to the nearest 0.05%.
- c.** Record these calibrated rates as Benchmark Withdrawal Rates for each annuity type.

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