

The Key Elements of Annuity Rate Setting

Rate setting is a function of the overall business objectives of the carrier. That can include product design considerations, such as how complex or simple the design is and what rate-setting levers are available within the product.

Rate setting is also impacted by the competitive landscape, as well as profitability targets.

“

EquiTrust strives to provide the same value to the client each year; which means if market conditions and option costs remain relatively consistent, the client should expect consistent renewal rates.

”

A carrier's responsiveness to changing market conditions also impacts overall rate setting. For example, one carrier may be quick to react to market conditions and change rates often and quickly. Another may be willing to ride out deteriorating market conditions and not change rates as quickly, but may also not increase rates as quickly when market conditions improve.

New money credited rates are based on current investment yields. Renewal rates are based on what the carrier invested in when the contract was originally issued, adjusted for any changes due to reinvestment of coupons or maturities.

Another big driver of credited rates on Index Annuities is option costs. Option costs are affected by market volatility and short-term risk-free interest rates. Changing option costs impact the various index strategies differently. A point-to-point account with a cap will have pretty stable option costs and not be impacted much by volatility. On the other hand, an uncapped or participation rate strategy will be very sensitive to changes in volatility. Monthly cap option costs move opposite to volatility and will be cheaper in more volatile environments, but short-term interest rates have driven up monthly cap costs over the past couple of years.

EquiTrust has a few core tenets when it comes to our renewal rate setting philosophy. EquiTrust does not offer “introductory rates.” EquiTrust strives to provide the same value to the client each year; which means if market conditions and option costs remain relatively consistent, the client should expect consistent renewal rates. During periods of improving market conditions, renewal rates have increased in some cases.

At EquiTrust, we take our reputation for renewal rate integrity very seriously.