Milliman reports 10 basis point decrease in Hedge Cost Index for VA guarantees in October

Index stands at 191 basis points

Ram Kelkar, CFA Daren Lockwood, PhD, FRM Xiaohong Mo, FSA, MAAA, CFA Adam Schenck, MS, FRM, CFA

L Milliman

The expected hedge cost for a hypothetical GLWB block (see Index Methodology¹) is estimated to be 191 bps as of the end of October 2019, down 10 basis points from the previous month, driven by an increase in long-term interest rates. The Index Methodology provides additional details about the assumptions and methodologies underlying the Milliman Hedge Cost Index.



ABOUT THE MILLIMAN HEDGE COST INDEX

The Milliman Hedge Cost Index[™] (MHCI) provides the estimated hedging cost for a hypothetical Guaranteed Lifetime Withdrawal Benefit (GLWB) block, based on product specifications and modeling assumptions as described in the MHCI Methodology Document. The expected hedge costs are calculated using product features for a generic GLWB in line with product designs common in the market. Likewise, the modeling assumptions are based on typical actuarial and behavioral assumptions widely used by VA writers in the marketplace.

Milliman conducts annual reviews of the product features and assumptions underlying the MHCI and will implement updates to the assumptions as and when appropriate to keep pace with market trends and industry practice.

The MHCI is calculated each month based on the risk-adjusted Milliman Guaranteed Index volatility assumption and swap interest rates. It also assumes 50% of investment is in a fixed target volatility option as described in the MHCI Methodology Document. As a result, monthly changes in the index are primarily driven by movements in swap interest rates.

FIGURE 2: EXPECTED HEDGE COST (bps of Guaranteed Withdrawal Base)

DATE	EXPECTED HEDGE COST	CHANGE FROM PRIOR MONTH
10/30/17	147	
11/29/17	147	0
12/28/17	149	2
1/30/18	136	(13)
2/27/18	129	(7)
3/28/18	136	7
4/27/18	128	(8)
5/30/18	132	4
6/28/18	133	1
7/30/18	126	(7)
8/30/18	131	5
9/27/18	123	(8)
10/30/18	118	(5)
11/29/18	122	4
12/28/18	137	15
1/30/19	137	0
2/27/19	135	(2)
3/28/19	149	14
4/29/19	142	(7)
5/30/19	159	17
6/27/19	173	14
7/30/19	173	0
8/29/19	211	38
9/27/19	201	(10)
10/30/19	191	(10)

. To view the Milliman Hedge Cost Index Methodology, go to: milliman.com/mhci-methodology/

©2019 Milliman, Inc. All Rights Reserved. The materials in this document represent the opinion of the authors and are not representative of the views of Milliman, Inc. Milliman does not certify the information, nor does it guarantee the accuracy and completeness of such information. Use of such information is voluntary and should not be relied upon unless an independent review of its accuracy and completeness of such information with their own judgment. All Rights Reserved is a solely based upon their own judgment and advice from their advisors. Materials may not be reproduced without the express consent of Milliman.