

# Milliman reports 9 basis points increase in Hedge Cost Index for VA guarantees in March

Index stands at 125 basis points

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The expected hedge cost for a hypothetical GLWB block (see Index Methodology<sup>1</sup>) is estimated to be 125 bps as of the end of March 2023, up 9 basis points from the previous month, driven by a decrease in long-term interest rates. The Index Methodology provides additional details about the assumptions and methodologies underlying the Milliman Hedge Cost Index.

**FIGURE 1: EXPECTED HEDGE COST**



## 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
3/30/21	176	
4/29/21	182	6
5/27/21	184	2
6/29/21	197	13
7/29/21	204	7
8/30/21	206	2
9/29/21	195	(11)
10/28/21	197	2
11/29/21	201	4
12/30/21	199	(2)
1/28/22	190	(9)
2/25/22	181	(9)
3/30/22	168	(13)
4/28/22	148	(20)
5/27/22	146	(2)
6/29/22	135	(11)
7/28/22	147	12
8/30/22	138	(9)
9/29/22	122	(16)
10/28/22	110	(12)
11/29/22	122	12
12/29/22	118	(4)
1/30/23	125	7
2/27/23	116	(9)
3/30/23	125	9

1 To view the Milliman Hedge Cost Index Methodology, go to: [milliman.com/mhci-methodology/](https://milliman.com/mhci-methodology/)