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How the pandemic affected indexed annuity owner behavior

By Editorial Staff *Thu, Mar 4, 2021*

'Given record low interest rates, and disruptions to sales channels, there was no way to know whether past patterns would continue. We're intrigued by how some changed—and others didn't,' said Tim Paris, CEO of Ruark Consulting.

A study of the impact on fixed indexed annuity (FiA) policyholder behavior by the COVID-19 pandemic, including surrender activity, income utilization and partial withdrawals, was released this week by Ruark Consulting LLC. Ruark's FIA studies cover products both with and without a guaranteed lifetime income benefit (GLIB).

The new study, which covered product with and without a guaranteed lifetime income benefit (GLIB), "gave us our first look at the effects of COVID-19 on FIA policyholder behavior," said Timothy Paris, Ruark's CEO.

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The study data comprised nearly 4 million policyholders from 16 participating companies spanning the 13-year period from 2007-2020, with $264 billion in account value as of the end of the period. GLIB exposure constituted 43% of exposure overall, and 47% of exposure in the last 12 study months. GLIB exposure beyond the end of the surrender charge period increased 83% over 2020 study exposure.

Highlights of the study include:

Extreme market activity, and COVID-related disruption to policyholders' usual communication patterns with advisors and agents, had mixed effects on 2020 surrender activity. Record low interest rates led to more positive market value adjustment, and contracts in the surrender charge period with a positive MVA surrendered at higher rates. For contracts beyond the surrender charge period, surrender rates declined.

Contracts with a guaranteed lifetime income benefit have much better persistency than those without, and among contracts that have begun taking income withdrawals, surrender rates are even lower. Persistency appears insensitive to nominal money-ness (the relationship of account value to the benefit base), but when an actuarial money-ness basis which discounts guaranteed income for interest and mortality rates is applied, we see that persistency is greater when the economic value is higher.

Surrenders are sensitive to external market forces as well as the absolute level of credited interest rates. Contracts earning less than 2% exhibit sharply higher surrenders than those earning more.

Lifetime income commencement rates are low: 7% overall in the first year following the end of the waiting period and then falling to approximately 3% in years 3 and later. There is evidence of a spike in utilization after year 10, particularly where the benefit is structured as an optional rider rather an embedded product feature. Age, tax status, and contract size all influence commencement rates.

Lifetime income utilization increases sharply when policies are in the money, that is, when the benefit base exceeds the account value. After normalizing for age, tax status, and contract duration, contracts that are 25% in the money or more exercise at a 12% rate.

In contrast, when contracts with lifetime withdrawal benefits are out of the money, at the money, or modestly in the money, policyholders exercise at a base rate of about 2%. Income commencement rates are most sensitive to money-ness following the end of the rollup period.

Detailed study results, including company-level analytics, benchmarking, and customized behavioral assumption models calibrated to the study data, are available for purchase by participating companies.

Ruark Consulting, LLC, based in Simsbury, CT. is an actuarial consulting firm that provides principles-based insurance data analytics and risk management, and offers expertise on topics of longevity, policyholder behavior, product guarantees, and reinsurance.