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“In the moneyness” drives VA policyholder behavior: Ruark

By Editorial Staff *Wed, Dec 9, 2015*

'A bit less than half of annual withdrawals [from variable annuities with income guarantees] are at the maximum amount,' a Ruark study found. Maximum withdrawals are most efficient for policyholders but riskiest for issuers.

Ruark, the actuarial consulting firm based near Hartford, CT, has issued the highlights of its Fall 2015 Variable Annuity Experience Study, which analyzes policyholders’ usage of their variable annuity benefits. Because insurers assume certain lapse rates when pricing their contracts, client behavior that deviates from those assumptions can significantly affect profitability.

Participants in the Ruark study included AIG Life & Retirement, Allianz, AXA, Commonwealth, Genworth, Guardian, John Hancock, MassMutual, MetLife, Nationwide, New York Life, Ohio National, Pacific Life, Penn Mutual, Phoenix, Protective, Prudential, Security Benefit and Voya. The complete results are available only to data participants who have purchased them.

Highlights of the study include:

Fairly stable surrender rates over the past six years. Surrenders at the shock duration (the year following the end of the CDSC period) have remained fairly stable since the beginning of 2009. This stability followed a steep decline from nearly 30% at the onset of the economic recession. As the VA industry retrenched its product offerings in the wake of market volatility and low interest rates, contract owners no longer had ever-richer guarantee options within VAs or attractive vehicles outside of VAs to move to.

Effect of the “moneyness” and the presence of a living benefit is notable. Contracts that are in the money on an actuarial or nominal basis with a GMIB or lifetime GMWB GLWB have much better persistency than those out of the money or with other types of guarantees. GMIBs have surpassed GLWBs in this regard only in the past several years, with rates now a point and a half lower at the shock and nearly a point lower post-shock.

What is less important? Factors that are less significant for assumptions include attained age, gender and contract size. Even when surrender rate differences by these measures appear, they are explained away once the more significant factors of surrender charge and living benefit presence and value are accounted for.

Annual withdrawal frequency rates have been increasing over the past several years. Some of this change is due to demographics: Frequencies go up with age. However, even rates within age buckets have increased. GLWB riders are riskiest to the writing companies when contract owners take the full maximum annual withdrawal amount. Utilization of the withdrawal feature continues to be less efficient in this way than initially expected, although efficiency is slowly increasing. Overall, a bit less than half of annual withdrawals are at this maximum amount, while a third take less than that. The remaining 20% of withdrawals are in excess of the maximum, which degrades the guarantee for future years.

Principal drivers of GMIB annuitization are the relative value of the rider ("in the moneyness") and attained age. Rider forms that allow partial dollar-for-dollar withdrawals have much lower exercise rates than those that reduce the benefit in a pro-rata fashion. The latter form emphasizes the availability of guaranteed income while retaining control of the account value, and so is more akin to a lifetime GMWB rider than a traditional GMIB.

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