Lifetime income withdrawals from FIAs up 39%: Ruark

By Editorial Staff *Thu, Feb 27, 2020*

'Lifetime income commencement increases sharply when policies are in the money, that is, when the benefit base exceeds the account value,' writes Tim Paris, CEO of Ruark Consulting.

Ruark Consulting, LLC has released the results of its 2020 industry studies of fixed indexed annuity (FIA) policyholder behavior, which include surrenders, income utilization and partial withdrawals. Ruark's FIA studies cover products both with and without a guaranteed lifetime income benefit (GLIB).

"With new data contributors, and rapid growth in the FIA market, data exposures in key areas continue to increase," said Timothy Paris, Ruark's CEO. "More data enables us to do more detailed analysis, identify new patterns, and—critically—help our clients achieve meaningful risk reduction in their models."

Among the notable increases in exposure:

- Total exposure years grew to 23 million, a 21% increase over the 2019 study
- Double the exposure years for GLIB contracts past the end of the surrender charge period
- A 39% increase in lifetime income withdrawals, to $5.4 billion
- The study data comprised over 4 million policyholders from 17 participating companies spanning the 12-year period from 2007-2019, with $296 billion in account value as of the end of the period. GLIB exposure constituted 44% of exposure overall, and 49% of exposure in the last 12 study months.

Highlights include:

Lifetime income commencement rates are low: 6% overall in the first year following the end of the waiting period and then falling to less than half that subsequently. But there is evidence of a spike in commencement 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 commencement 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, commencement rates are about five times higher for contracts that are 25% in the money or more.

Surrender rates continued to climb in 2019, particularly among contracts past the surrender charge period. The increase is broadly consistent with the rise in FIA sales that has been reported across the industry. This trend is also evident for contracts with a GLIB, where surrenders rates are much lower, particularly after lifetime income commencement.

While surrender rates for contracts with a GLIB appear insensitive to nominal moneyness (the relationship of account value to the benefit base), an actuarial moneyness basis which discounts guaranteed income for interest and mortality rates indicates surrender rates are lower when the economic value is higher, as should be expected.

The relationship between higher surrender charges and lower surrender rates can be quantified. The study examined the relationship of surrender rates to the effective surrender charge, that is, the difference between account value and cash surrender value, which includes the potential effects of market value adjustment (MVA) and bonus recapture.

Surrender rates are sensitive to credited rates and external market pressures. Contracts earning less than 2% exhibit sharply higher surrenders than those earning more. As market interest rates increase, so do surrenders, though there is some indication that a higher credited rate tempers the increase. In contrast, equity market returns are negatively correlated with surrenders.

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 (www.ruark.co), based in Simsbury, CT, is an actuarial consulting firm. It provides a platform and industry benchmark for principles-based insurance data analytics and risk management. Ruark has an ongoing collaboration with the Goldenson Center for Actuarial Research at the University of Connecticut.