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## Living benefit buyers live longer: Ruark

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By Editor Test    Tue, Sep 18, 2012

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*Mortality levels among purchasers of guaranteed living benefits are lower than among variable annuity purchasers who did not buy a guaranteed living benefit, according to the 2012 Variable Annuity Mortality Study from Ruark Consulting.*

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Purchasers of variable annuities with guaranteed living benefits have shown lower mortality rates than non-buyers, according to Ruark Consulting LLC's 2012 Variable Annuity Mortality Study. The difference may indicate "product selection decisions made by these purchasers," Ruark suggested.

"This is important information for insurance companies because they need to establish appropriate price and reserve levels for these benefits," said Peter Gourley, vice president of Ruark Consulting, based in Simsbury, Conn.

The study also found that "mortality levels by age and sex are not well matched to any of the standard mortality tables used by the industry." To correct for this, Ruark has created a proprietary mortality table and provided it to insurance company risk managers to use as a point of reference in their modeling.

Seventeen major insurance companies contributed over 30 million policy years of exposure and 340,000 deaths to the study, covering the time period January 2007 through December 2011, Ruark said in a release.

Ruark Consulting has performed surrender, partial withdrawal, and mortality studies for the variable annuity industry since 2007, and produced the industry's first Fixed Indexed Annuity Surrender Study in 2011.

Variable annuity surrender, partial withdrawal and annuitization studies are currently in process and will be released later this year. The annuitization study will analyze utilization under Guaranteed Minimum Income Benefits (GMIB's) and will be the first industry study of its kind, providing insurance company participants with unique insights into the early usage of GMIB's.

Highlights of the Variable Annuity Mortality Study include:

- Mortality levels among purchasers of guaranteed living benefits (GMIB's, GLWB's and GMWB's) are lower than those who did not buy a guaranteed living benefit, suggesting that buyers of these benefits have an accentuated concern for longevity risk.
- Mortality levels have declined since the prior study was completed in 2007. However, this is largely accounted for by the increase in volume of policies containing guaranteed living benefits, which were pointed out to have lower mortality. After adjusting for this difference, there is little statistical support for mortality levels declining from 2007 through 2011.
- None of the standard industry tables, such as 94MGDB or A2000, are a good proxy for the level and slope of variable annuity mortality. Actual mortality levels vary by both sex and age, relative to the standard industry tables. To facilitate accurate modeling, the Ruark Mortality Table has been

created to reflect the true level and slope of the variable annuity mortality experience.

- Mortality levels generally increase as policy size increases. Since socio-economic differences are typically expected to have the opposite effect, this study result may indicate a selection affect occurring among buyers of variable annuities.

U.S. insurance industry regulators have established principle-based standards for statutory reserves and capital on variable annuity business. C3 Phase II for capital came first in 2005, followed by Actuarial Guideline 43 (also known as VA CARVM) in 2009. Principle-based calculations require companies to perform financial projections that utilize assumptions believed to be appropriate.

Establishing these appropriate reserve and capital levels requires the selection of assumptions for future expected mortality, persistency and partial withdrawal activity. Historical results are important input to the selection of future anticipated experience. The valuation of guaranteed living benefits offered on variable annuities is particularly sensitive to the selection of these assumptions.

Study results are only available to the participating insurance companies who contribute data to the study. Participating companies receive extensive analysis of their own experience, as well as the aggregate experience of all companies who participate.

The ability to compare their results to that of the aggregate study provides a valuable benchmarking function to the insurance company participants, providing standards against which they can manage their business and their risk profile.

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