

Milliman’s annual VA survey analyzes rider exercise rates, lapse rates

By Editor Test Thu, Jun 16, 2011

Lifetime withdrawal benefit exercise rates rose with in-the-moneyness and age of contract owners, according to Milliman's survey of 18 variable annuity issuers, including 11 top-20 issuers.

Nearly 15% of eligible variable annuity policies with guaranteed lifetime withdrawal riders started withdrawal within the first 12 months after becoming eligible, about 6% began withdrawals within 13 to 36 months and 2% started withdrawals more than three years after eligibility.

Those were among the results of Milliman’s annual Guaranteed Living Benefits survey of leading U.S. VA carriers. Utilization was measured by time-since-eligibility, the degree to which the benefit is in-the-money (ITM), and by attained age. Other trends in the GLB market were also tracked. Utilization rates will rise as more business reaches the later stages of the periods currently under study, Milliman said in a release.

Impact of in-the-moneyness

Withdrawal benefit exercise rates are significantly influenced by the degree to which the withdrawal benefit base exceeds the account value—that is, when the guarantee is “in the money” (ITM).

The median exercise rate if the benefit was out-of-the-money was reported as 13.2%. This rate increased to 13.9% when the ITM% was less than 20%, to 25.2% when the ITM% was at least 20%, but less than 50%, and to 53.9% when the ITM% was at least 50%.

Another factor that influences withdrawal benefit exercise rates is attained age. Such rates increased from a median of 5.6% for attained ages younger than 60, to 16.7% for those in their 60’s, to 34.0% for those in their 70’s, and to 42.2% for those at least 80 years old.

Experience versus expectations

The survey indicated how lapses compare with the ITM-sensitive lapses insurers expected. The following table shows the comparison for GLWBs, but experience is similar for other GLBs.

Lapses Compared to ITM-Sensitive Lapses Expected % of GLWB Responses

Lapses are greater than expected	0%
Lapses are lower than expected (< 10% lower)	56%
Lapses are lower than expected (> 10% but < 20% lower)	22%
Lapses are lower than expected (> 20% lower)	22%

Exchange rates analyzed

Survey participants reported the percentage of VA sales that were external exchanges (nonqualified 1035

exchanges, qualified rollovers, and direct transfers) over the survey period.

The median of reported exchanges rose from 18.3% in 2009 to 23.6% during the first half of 2010; however, this is still significantly below the level reported for 2007 (39.7%). External exchanges slowed down as GLBs on existing VAs became deeper in-the-money.

The survey reported that about 95% of variable annuities offered in 2009 and in the first half of 2010 included some form of GLB. The purchase of any GLB by policyholders has increased consistently, on average, from 2006 through 2009, with a slight decline during the first half of 2010.

The average election rate of any optional GLB during 2009 was 74.5% for 2009 and 73.8% for year-to-date (YTD) 6/30/10. Other contracts contain automatic GLBs; consequently, the effective purchase rate is higher in aggregate.

The survey encompassed guaranteed minimum income benefits (GMIB), guaranteed minimum withdrawal benefits (GMWB), guaranteed lifetime withdrawal benefits (GLWB), and guaranteed minimum accumulation benefits (GMAB). Hybrid GLBs refers to multiples GLBs that are packaged together, such as a GMAB with a GLWB.

GLWBs continue to be the most popular GLB type offered and elected. The percentage of VA sales that offered an optional GLWB has increased from a median of 75.4% in 2006 to 95.1% during the first half of 2010. Purchase rates of GLWBs also increased over the same period from a median of 54.2% in 2006 to 69.2% in 2009 and YTD 6/30/10.

Events of the past few years have led VA carriers to design products with more flexibility. Most current VA policies allow for the adjustment of rider costs on inforce policies. Many still allow a change to fees only upon a step-up to the benefit base, and some allow a change on a quarterly basis or on annual policy anniversaries. There has been some movement by VA carriers to allow for cost adjustments on inforce policies at any time.

Variable annuity carriers that issue at least one type of GLB were invited to participate in the survey. Of the 18 participants, 11 ranked in the top 20 based on new VA sales, according to Morningstar.

For an executive summary of the major survey results, contact Sue Saip at sue.saip@milliman.com.

© 2011 RIJ Publishing LLC. All rights reserved.