
Ruark completes study of FIA surrender patterns

By Editorial Staff Thu, May 22, 2014

The study covered the period 2007 through third quarter of 2013 and consisted of 9.3 million contract years and 380,000 surrenders.

In a follow-up to a similar study in 2011, Ruark Consulting, LLC (RCL) has conducted a fixed indexed annuity surrender study involving 12 carriers representing a majority of FIA sales, the Simsbury, Conn.-based firm said in a release this week.

The study covered the period 2007 through third quarter of 2013 and consisted of 9.3 million contract years and 380,000 surrenders. The large volume, and the use of data scrubbing and validation, enabled it to draw “credible conclusions” about surrender behavior, RCL said.

Among the factors analyzed were:

- Duration
- Imputed return
- Surrender charge period
- Policy size
- Bonus
- Time period
- Living benefit presence and value
- Market Value Adjustments

The study found the “expected but very graphic pattern” of low surrender rates during the surrender charge period, with a steep shock lapse in the year following the expiration of the CDSC, followed by single-digit surrender rates. Surrender rates of contracts with living benefits have been lower by one to three points per year.

“Contracts with low annual imputed credited rates display worse persistency than higher-credited contracts – but this result does not extend clearly across the hierarchy of those higher-credited contracts,” the Ruark release said. “On contracts with an MVA feature, a positive MVA value correlates to higher surrender rates at points representing a nadir of interest rates.”

Ruark Consulting has performed policyholder behavior studies for the annuity industry and individual companies since 2007. Examined behaviors have included surrender, living benefit utilization, annuitization, mortality and longevity.

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