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## **Ruark Publishes Biannual VA Usage Study**

By Editorial Staff    *Thu, Dec 4, 2014*

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*Many owners of variable annuities with lifetime income riders are not using their benefits as efficiently as they could, Ruark found. They often draw down too much or too little of their money, thus degrading or not taking full advantage of the insurance features.*

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Ruark Consulting, the Simsbury, Conn., actuarial firm, has published a summary of the results of its latest analyses of full surrender, partial withdrawal and GMIB annuitization behavior among variable annuity contract owners.

Ruark found that:

- Surrender rates continue to trend downward, but not as steeply. As the number of years left in the surrender periods (and the penalty) goes down, contract owners become more likely to surrender.
- GMIB (guaranteed minimum income benefit) contracts now have slightly lower surrender rates (higher persistency) than lifetime GMWB contracts, which historically have had the lowest surrenders of all the living benefit types in the Ruark study.
- Among contracts with living benefits, lapse rates are lower when the guarantee value is high relative to account value. This is true regardless of whether the guarantee is valued nominally or on an actuarial basis (using discount and mortality rates).
- Excess withdrawals predict a greater chance of surrender. In other words, there's a markedly higher surrender rate among owners of GLWB contracts who have taken excess withdrawals (amount higher than the maximum allowable) in the past.

### **Partial withdrawal study**

Ruark analyzed over 16 million contract years of lifetime withdrawal (GLWB), non-lifetime withdrawal (GMWB), and withdrawal-oriented ("hybrid") GMIB rider experience. Almost four million of those contract years included withdrawals, and RCL identified factors that might have affected partial withdrawal behavior:

- Across the industry, the frequency of withdrawals is up slightly from last year. Most of the marginal bump is at the annual maximum withdrawal amount.
- The rate of excess withdrawals (withdrawals above the policy's annual maximum) has not increased over the same period.
- The level of overall industry withdrawals has not been at what product designers would consider efficient. Some policyholders take withdrawals, which eliminate an annual deferral bonus, that are smaller than the maximum the contract permits, thus under-using the benefit of the income rider. Others withdraw more than their full

income percentage, thus degrading the rider's guarantee.

- GLWB policyholders, once they do begin taking withdrawals, continue to do so in subsequent years at very high frequencies.

### **GMIB annuitization study**

In a separate analysis, Ruark looked at GMIBs with 7-year and 10-year waiting periods. Experience is now emerging on the behavior of owners of the 10-year contracts, which predominated during the past decade. The 30,000 annuitizations in the study provide adequate credibility overall, though reliability declines when the data is finely sub-divided, Ruark said in its release.

Among the findings:

- GMIB exercise (for all contracts) remains in the single digits and lower than in RCL's previous study.
- Age and relative value of the rider (moneyness) drive behavior. The moneyness effect is evident on both a nominal and actuarial (which reflects the rider's guaranteed income rates) basis.
- GMIB riders that allow partial dollar-for-dollar withdrawals have lower exercise rates than those that reduce the benefit proportionately.
- There is only a slight effect of duration (time since end of waiting period) on annuitization rates. Exercise is slightly higher at first opportunity than in subsequent years.

Ruark Consulting (RCL) conducts biannual variable annuity experience studies of full surrender, partial withdrawal, and GMIB annuitization behavior. Full results are available only to the study's 18 participants, including:

- AIG Life & Retirement
- Allianz
- AXA
- Commonwealth Annuity & Life
- Delaware Life
- Guardian
- John Hancock
- Massachusetts Mutual
- MetLife
- Nationwide
- New York Life
- Ohio National Life

- Pacific Life
- Phoenix
- Protective
- Prudential
- Security Benefit
- Voya (ING)

RCL's surrender study includes over 44 million contract years of exposure, with 2.6 million surrenders. RCL said it believes that this large sample size, up nearly 20% from last year, allows it to accurately assess the effects of duration, surrender charge period, owner age, distribution channel, commission level, contract size, and inclusion and value of guaranteed benefits on VA surrender rates.

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