
Ruark reports “good news” on FIA policyholder behavior

By Editorial Staff *Thu, Jun 11, 2015*

AIG Life & Retirement, Allianz, American Equity, Athene, EquiTrust, Forethought, Midland National, Nationwide, OneAmerica, Pacific Life, Phoenix, and Security Benefit participated in Ruark Consulting's study of surrender and partial withdrawal behavior.

Ruark Consulting today released the results of its 2015 Fixed Indexed Annuity Experience Studies, including qualitative and quantitative findings on policyholder behavior with respect to surrenders and partial withdrawals. Policyholder persistence can be a determining factor in the long-term profitability of annuity products.

Companies participating in the study including the major FIA issuers: AIG Life & Retirement, Allianz, American Equity, Athene, EquiTrust, Forethought, Midland National, Nationwide, OneAmerica, Pacific Life, Phoenix, and Security Benefit.

The critical observations from the Partial Withdrawal study were:

§ **Complexity and dynamic behavior.** Partial withdrawal rates vary between policies without a GLWB, those with a GLWB but before lifetime income commencement, and those with a GLWB but after lifetime income commencement. This complexity of emerging experience calls for careful monitoring and analysis.

§ **Age and Tax Status.** Withdrawal frequency tends to increase with age, with higher frequency for qualified policies. Above age 70, withdrawal frequency for qualified policies is very high, but withdrawal amounts are significantly lower than for nonqualified policies.

§ **Policy Size.** Large policies tend to have higher withdrawal frequencies, but lower withdrawal amounts.

§ **Lower withdrawal frequency and amounts with GLWB.** Policies with a GLWB have significantly lower withdrawal frequency before the commencement of lifetime income than those without a GLWB, likely fueled by deferral incentives. Once income starts, inefficiency is evident from the substantial cohorts taking well below and well above the GLWB maximum.

§ **Low lifetime income commencement with GLWB.** Of those policies eligible to commence lifetime income, only a small share have yet done so. However, continuation rates are very high in subsequent years.

The key observations from the Surrender study were:

§ **Complexity and dynamic behavior.** Surrender rates vary between products and cohorts, and change with time and markets, warranting continued vigilance.

§ **Surrender Charge Period.** As an aggregate baseline, surrender rates start low and increase throughout the surrender charge period, to a “shock rate” above 20%, and then revert to an intermediate level.

§ **Living Benefit Rider.** For products with lifetime income guarantees such as GLWBs, although early in their lifespan, surrender rates are materially lower.

§ **Policy Size.** Surrender rates are significantly higher for large policies.

§ **Market Value Adjustment.** For products with an MVA feature, during periods of decreasing interest rates and increasingly positive MVA to the policyholder, surrender rates tend to increase.

§ **Imputed Credited Rate.** Low annual interest credited rates are accompanied by higher surrender rates, suggesting that interest credited is a key measure of policyholder and/or agent satisfaction.

The study is Ruark’s latest in a series of experience studies of industry-wide policyholder behavior for fixed indexed annuities. Each company provided seriatim data files for the period January 2007 through September 2014. The 12 participating companies represent approximately 70% of the industry. They contributed 9.3 million policy years and 11.2 million policy years of data to the partial withdrawal and surrender studies respectively.

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