Ruark shares results of FIA behavior study

By Editorial Staff *Thu, Mar 31, 2016*

In contrast to variable annuities, the FIA experience does not show clear sensitivity to the relative value or "moneyness" of GLWB riders, Ruark found after studying eight years of indexed annuity owner behavior.

Ruark, the Connecticut-based actuarial consulting firm, has released the results of its Spring 2016 Fixed Indexed Annuity Experience Studies. The research looked at the behavior of indexed annuity contract owners, whose withdrawal or lapse behavior can determine the long-term profitability of the contracts.

Participants in the Ruark study included AIG Life & Retirement, American Equity, Athene, EquiTrust, Forethought, Genworth, Midland National, Nationwide, Pacific Life, Phoenix, Protective, and Security Benefit. The study covered eight years of experience.

Among Ruark's findings:

Surrender rates spike after the surrender charge period ends. From single digit surrender rates during the surrender charge period, surrender rates rise by *a factor of five in* the first year after the surrender charge period.

Surrender rates have declined slowly but steadily. Over the eight years studied here, surrender rates have declined materially, during and after the surrender charge period. This seems due to increasing credited rates as stock markets have increased, along with higher election rates of living benefit GLWB riders which tend to have lower surrender rates.

Surrender rates are low for Guaranteed Lifetime Withdrawal Benefit riders. Although the experience for these riders is still emerging, surrender rates are about half of those for contracts without riders.

Surrenders rates are higher when interest credits are low. We see little difference in surrender rates of contracts with higher levels of interest credits, but when annual interest credits drop below 2%, surrender rates are materially higher.

Partial withdrawal utilization varies with GLWB riders. One in four owners of contracts with GLWB riders take withdrawals prior to turning on lifetime income, compared to one in three owners of contracts without riders. Partial withdrawal amounts also tend to be lower for contracts with GLWB riders. Lifetime income utilization rates are still very low.

Partial withdrawal utilization varies strongly by attained age and tax status. This is evident with and without GLWB riders, and particularly for qualified contracts over age 70.

Dynamic moneyness effects are still difficult to discern. In contrast to mature market products such as variable annuities, the FIA experience does not show clear sensitivity to the relative value or “moneyness” of GLWB riders. The riders are “in the money” when the account balance has fallen below than the guaranteed benefit base.