
Ruark tracks variable annuity living benefit utilization habits

By Editorial Staff Wed, Oct 25, 2017

For life insurers, the long-range profitability of variable annuity living benefit riders depends on policyholder behavior around surrenders, withdrawals and annuitization. Ruark Consulting tracks that behavior and reports on it periodically.

Why do some variable annuity policyholders surrender their policies, while others take partial withdrawals or annuitize their contracts? Answers to these and other questions can be found in Ruark Consulting LLC's Fall 2017 studies, which the actuarial consulting firm released this week.

Ruark based its studies on the behavior of 13.8 million policyholders from January 2008 through June 2017. Twenty-five variable annuity writers participated in the study, comprising \$905 billion in account value as of June 2017.

Study highlights include:

Industry surrender rates in the first half of 2017 have recovered to post-crisis levels, following a secular dip in 2016, Ruark found. In addition:

- Surrenders at the shock duration (the year after the end of the surrender charge period) were nearly 30% at the onset of the 2008 economic crisis
- Shock rates below 10% were observed during 2016
- A post-crisis regime has prevailed, with shock rates in a range of 12-16% from 2009 through mid-2015 and 13% so far in 2017

Contracts with a lifetime benefit rider have much lower surrender rates than those with other types of guarantees. Policyholders who have withdrawn no more than the rider's maximum have the lowest surrender rates.

"The surrender behavior for VAs has changed a lot in last few years," Timothy Paris, an actuary and Ruark's CEO, told *RIJ* this week. "Post-financial crisis, we saw surrender rates go down and stay low even as markets recovered. Then they went even lower in 2016. Now surrender rates are going up to where they were before 2016.

"So it seems like 2016 was an extreme outlier. We think it may have had something to do with angst about the fiduciary rule, because so much of the surrender activity tends to involve exchanges into other products rather than cash-outs," he added.

"We've also seen a continued trend toward more efficient utilization by contract owners of the guarantee income feature. They fall into three categories: Those who take the maximum allowable income of 5%, those who take only two or three percent a year, and those who take much more in a year—as much as 20%.

“We’ve seen a gradual but consistent increase in those taking the maximum. In the past, folks may not have been underutilizing the income feature. They may have been waiting for the 10-year point, when there’s a maximum deferral bonus.”

Annuitization rates on policies with guaranteed minimum income benefit (GMIB) riders continue to decrease. The exercise rate for the riders with a 10-year waiting period is 2.2% by account value.

Living benefit annual withdrawal frequency rates have continued to increase, primarily as a result of increasing utilization efficiency. Withdrawal frequency for guaranteed lifetime withdrawal benefit (GLWB) riders is now over 24%, an increase of two percentage points over the past 18 months.

The effects of moneyness (account value relative to the guarantee base) on partial withdrawal behavior differ depending on circumstances. When contracts with lifetime withdrawal benefits are at-the-money or in-the-money, policyholders increase the frequency of standard benefit withdrawals.

This is consistent with greater benefit exercise when the benefit is more valuable, a Ruark release said. In contrast, when contracts move out of the money, withdrawals in excess of the maximum amount are more common. This is suggestive of policyholders taking investment gains out of the contract.

Detailed study results, company-level analytics, and assumption models calibrated to this data are available for purchase by participating companies. Based in Simsbury, Conn., Ruark specializes in principles-based insurance data analytics and risk management. It has conducted industry- and company-level experience studies of the variable annuity and fixed indexed annuity markets since 2007.

Its behavioral analytics engagements range from discrete consulting projects to full-service outsourcing relationships. As a reinsurance broker, Ruark administers bespoke treaties totaling over \$1.5 billion of reinsurance premium and \$30 billion of account value, and also offers reinsurance audit and administration services.