Surrender rates on some FIAs tick higher

By Editorial Staff *Thu, Mar 7, 2019*

While interest rate hikes tend to drive surrenders from fixed indexed annuity contracts, surrenders decline when a contract's lifetime income benefits are 'in the money,' studies by Ruark Consulting show. (Pictured: Ruark CEO Tim Paris.

Fixed indexed annuity (FIA) surrender rates climbed in 2017-18, after declining slowly from 2010 to 2016, according to Ruark Consulting LLC. Ruark released the results of its 2019 studies of FIA policyholder behavior this week.

Shock duration surrender rates in the most recent quarter rose to a level last seen in 2009, Ruark found.

“For a product with surrender charges at issue, the shock duration is the first year that the surrender charges are zero,” said Ruark CEO Tim Paris told *RIJ*. “For a typical seven-year product, the shock duration would be year eight. There tends to be a big uptick—a shock or spike—in surrenders at that time.”

The Ruark studies, which examine the factors driving surrenders, guaranteed lifetime income benefit (GLIB) utilization, and free partial withdrawals, were based on experience from 3.5 million policyholders from 2007 through September 2018.

Fifteen companies participated, with a combined $240 billion in current account values. Highlights of the studies include:

- Surrenders are sensitive to interest rates: Contracts that are credited less than 2% interest per year exhibit sharply higher surrenders; and as market interest rates increase, so do surrenders.
- GLIB (guaranteed lifetime income benefit) exposure beyond the surrender charge period increased 34% from last year’s study, providing a more credible basis for long-term behavioral assumption models.
- Contracts with a GLIB have much lower surrender rates than those without, and rates for contracts that have commenced income are even lower.
- GLIB commencement rates are influenced by age, tax status, and contract size, with a larger proportion commencing income at the first opportunity.
- GLIB utilization increases and surrenders decrease when contracts are economically

"in the money," reflecting longevity and the time value of money.

By aggregating data from across the annuity industry, Ruark tries to achieve greater precision in identifying trends than companies could achieve by relying only on their own experience, Paris said in a release. Timothy Paris, Ruark's CEO in a release.

Detailed study results, including company-level analytics and customized behavioral assumption models calibrated to the study data, are available for purchase by participating companies.

Ruark Consulting, LLC (www.ruark.co), based in Simsbury, CT, is an actuarial consulting firm that provides a platform and industry benchmark for principles-based insurance data analytics and risk management. Ruark collaborates with the Goldenson Center for Actuarial Research at the University of Connecticut.

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