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## VA income deferral incentives are working: Ruark

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By Editorial Staff      Thu, Nov 29, 2018

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*Income commencement rates on guaranteed lifetime withdrawal benefits with 10-year deferral bonuses are highest in year 1 and in years 11+, with low commencement rates in between, according to a study by Ruark Consulting.*

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Ruark Consulting, LLC today released the results of its fall 2018 studies of variable annuity (VA) policyholder behavior. The studies, which examine the factors driving surrender behavior, income/withdrawals, and annuitization, were based on experience from 13.3 million policyholders.

Twenty-four variable annuity writers participated in the study, comprising \$840 billion in account value as of June, 2018. The study spanned the period from January 2008 through June 2018.

“In this study, we see new evidence of policyholder behavior changing over the course of a contract’s lifetime in ways that were not previously evident,” said Timothy Paris, Ruark’s CEO. “These include contract duration beyond the end of the surrender charge period, sensitivity of income/withdrawal commencement to moneyness levels, effects of systematic withdrawals on persistency, and guaranteed minimum income benefit (GMIB) annuitization decisions; all important factors for VA writers in pricing and managing risks for these products.”

Study highlights include:

- Surrender rates have not returned to 2008 levels, even as strong equity markets have boosted account values. This is believed to be due to newer sales with more lifetime income guarantees and strong persistency incentives, retrenched VA product offerings since the 2008 financial crisis, and reduced attractiveness of non-VA investment alternatives.
- 2016 was an outlier in recent years, with surrender rates materially lower than in preceding and subsequent years. This is believed to be the result of uncertainty surrounding the DOL’s proposed Fiduciary Rule and other political factors.
- Contracts with a lifetime income guarantee have much higher persistency than otherwise. Also, a contract’s prior partial withdrawal history influences its persistency: those who have taken withdrawals at or below the maximum income guarantee surrender at much lower rates.
- Those that take systematic withdrawals on lifetime income guarantees exhibit a select-and-ultimate effect, with very low surrenders in the first systematic withdrawal year,

increasing to more typical levels within a few years.

- Surrenders exhibit a dynamic relationship to “moneyness” of lifetime income guarantees, whether measured on a nominal basis – account value vs. benefit base – or actuarial basis reflecting longevity and the time value of money. In-the-money contracts surrender at rates about one-third of out-of-the-money contracts. Similarly, we can now see that owners commence income at higher rates when lifetime income guarantees become more in-the-money.
- We can now see that product design incentives for owners to defer income commencement, commonly for 10 years, have been effective: commencement rates are highest in year 1 and in years 11+, with low commencement rates in between.
- Overall lifetime income guarantee withdrawal frequencies have continued to increase, and utilization has grown more efficient with more than half at or near the maximum income guarantee.
- Annuitization rates for contracts with GMIB continue to decline, with lower rates evident for “hybrid” designs that allow partial dollar-for-dollar withdrawals before annuitization.

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

Ruark Consulting, LLC ([www.ruark.co](http://www.ruark.co)), based in Simsbury, CT, is an actuarial consulting firm specializing in principles-based insurance data analytics and risk management.

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

Ruark’s consultants often speak at industry events on the topics of longevity, policyholder behavior, product guarantees, and reinsurance. Ruark Consulting collaborates with the Goldenson Center for Actuarial Research at the University of Connecticut.

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