Variable annuity client behavior revealed in Ruark survey

By Editorial Staff *Thu, Jun 6, 2019*

'On a nominal basis 81% of GLWB exposure is in-the-money, whereas on an actuarial basis only 11% is in-the-money,' writes Ruark CEO Timothy Paris. (It's complicated.)

Ruark Consulting, LLC today released the results of its 2019 industry studies of variable annuity (VA) policyholder behavior, which include surrenders, income utilization and partial withdrawals, and annuitizations.

"Data exposures in key areas have increased considerably since last year's studies, allowing for more detailed analysis and higher credibility of results," said Timothy Paris, Ruark's CEO, in a press release.

Among the notable increases in data exposure:

- Nearly double the exposure in years 11 and later, including income commencement behavior after common 10-year deferral incentives for guaranteed lifetime withdrawal benefits (GLWB).
- 12% increase in exposure for in-the-money GLWBs, following equity market declines during the fourth quarter of 2018.
- 29% increase in exposure for guaranteed minimum income benefits (GMIB) past their waiting period.
- Total data comprises 85 million years of exposure and 14 million policyholders from 24 participating companies spanning the 11-year period from 2008-2018, with $795 billion in account value as of the end of the study period.

Highlights of the study include:

- GLWB deferral incentives appear to be effective. Income commencement rates are low overall, but double in year 11 with the expiration of common 10-year bonuses for deferring income, before falling to an ultimate rate.
- Annual withdrawal frequency rates for GLWB and GMIB have continued to increase and have become more efficient with approximately 60% of recent experience at the full guaranteed income amount.
- "Moneyness" (account value relative to the guarantee) affects partial withdrawal behavior. Income commencement rates increase when GLWBs are more in-the-money. When guarantees move out-of-the-money, withdrawals in excess of the maximum amount are more common, which is suggestive of policyholders taking investment gains out of the contract.
- On contracts without GLWB or GMIB, free partial withdrawal amounts increase after

the end of the surrender charge period, similar to the familiar “shock” in surrender rates.
- Surrender rates have not returned to 2008 levels, even as strong equity market performance has boosted account values in recent years.
- Three surrender regimes are evident during the study period: Surrenders at the shock duration were nearly 30% at the onset of the 2008 economic crisis, and in a range of 12-16% subsequently except for 2016 when they reached their nadir below 10%.
- Contracts with GLWB and GMIB have much lower surrender rates, and this is even more pronounced for those limiting their partial withdrawals to the guaranteed income amount via systematic withdrawal programs.
- Surrenders exhibit a dynamic relationship to moneyness, whether measured on a nominal (account value relative to the GLWB benefit base) or actuarial (reflecting interest and mortality) basis. On a nominal basis 81% of GLWB exposure is in-the-money, whereas on an actuarial basis only 11% is in-the-money.
- Annuitization rates for GMIBs are in the low single digits and continue to decline. “Hybrid” versions that allow partial dollar-for-dollar withdrawals have much lower rates than traditional versions. Factors influencing annuitization rates include age, duration, last year of eligibility, death benefit type, contract size, and moneyness.

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.