life annuity specialist

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Study Highlights Spike in Variable Annuity Withdrawal Benefit Rates

By Warren S. Hersch June 1, 2018

Holders of variable annuities with guaranteed lifetime withdrawal benefits are exercising them after the riders mature, evidence that financial incentives provided by carriers to defer withdrawals in prior years are having the intended effect.

So reports **Ruark Consulting** in its Spring 2018 Variable Annuity Studies on policyholder behavior. Based on data from 25 variable annuity issuers and representing $948 billion in account values at year-end 2017, the research examines factors underpinning rates of variable annuity annuitization, surrenders and partial withdrawals.

The report observes on average a five-point uptick in usage of variable annuity guaranteed lifetime withdrawal benefits (GLWBs) in the 11th contract year, when bonuses offered by variable annuity writers for deferring income expire. GLWB commencement rates tend to be lower before the 11th contract year, averaging 6-7%. After this benchmark year, commencement rates are also lower, averaging about 9%.

These findings, only now becoming available for variable annuities issued during the early 2000s, are of keen interest to product manufacturers. That's because they depend on such data to price the products and set appropriate capital and reserve levels to support the products' guarantees, according to Ruark Consulting CEO **Timothy Paris**.

"In the last year, we've reached a point where the first waves of variable annuity products are now 10 to 12 years old," he says. "One or two years from now, there will be a lot more data, which will be very important for companies to look at so they can ensure that pricing assumptions are grounded in reality."

Ruark Consulting CEO Timothy Paris

Another big takeaway from the research, he adds, is an uptick in variable annuity surrender rates. Following a "secular dip" in 2016, the rates have returned to the levels recorded in the years following the 2007-2009 financial crisis.

Most notable are “shock rates” or a spike in surrenders after the surrender charge period. In 2017, shock rates averaged 13%, in line with the 12%-16% rates prevailing between 2009 and 2015. Shock rates in 2016, an outlier year, fell below 10%.

Why the dip that year? Paris cites as key reasons “regulatory and economic factors,” including policyholders taking a “wait-and-see” attitude due to uncertainty over the **Department of Labor**’s fiduciary rule.

The current uptick in surrender rates, he says, will reduce pressure on variable annuity issuers to increase capital and reserve levels to support the products’ living benefits. But he cautions that policyholder behavior must be considered in tandem with other fluctuating variables — variable annuities’ exposure to different investment funds and asset classes, currency exchange rates and interest rates, as well as policyholders’ longevity and income and withdrawal start dates — in determining capital/reserving and pricing levels.

The Ruark study pegs withdrawal frequency for GLWB riders in 2017 at 25%, a 2% and 3% rise over the rates recorded in the spring of 2017 and 2016, respectively. The research credits the increase to “more efficient utilization” — more policyholders taking withdrawals to which they’re entitled — of the guaranteed lifetime withdrawal benefit rider.

The research observes also a correlation in variable annuity contracts with a guaranteed living benefit and surrender rates. Surrender rates are lower (and, conversely, persistency rates are greater) in contracts carrying the rider than those that don’t.

The research also notes that policyholders who limit withdrawals to the maximum amounts permitted by a lifetime benefit rider have the lowest surrender rates. In contrast, individuals exceeding the contract maximum have surrender rates on average three points greater than other contracts carrying a living benefit rider.