

2015-2022 Fixed Rate Deferred Annuity Surrender Experience Study

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Study Highlights

The Society of Actuaries (SOA) Research Institute's Individual Annuity Experience Committee (IAEC) and LIMRA have jointly conducted a study of Fixed Rate Deferred Annuity (FRDA) surrenders covering calendar years 2015 through 2022.

Twenty-three companies contributed data to the current study, encompassing approximately 45% of fixed rate deferred annuity market share during the period of the study. The current study of 2015-2022 calendar years contains about 13.4 million contract count exposed, \$1.0 trillion in contract value exposed, and over 900,000 surrenders.

The experience data analyzed for this study includes both single- and flexible-premium products, and contracts were included regardless of whether they had a guaranteed living benefit (GLB) rider, although less than 1% of contracts in the company data that was submitted had a GLB. Only contracts sold inside the U.S. and its territories were included. The experience data excludes all types of fixed indexed annuities and variable annuities, as well as any annuities sold within employer-sponsored retirement plans.

Following are some of the more notable observations from the analyses detailed in this report.

- There was more Non-Qualified experience in the study, with 57.6% of contracts, compared to Traditional and Roth IRA experience.
- Females represented a larger percentage of the study in force than males in all market types (Traditional IRA, Non-Qualified, and Roth IRA), with females making up between 54-57% of contracts depending on market type.
- The Career Agent distribution channel dominated the FRDA market for Traditional IRA and Roth IRA market types, with 38.8% and 72.3% of contracts, respectively. The Bank/S&L distribution channel had the largest percentage of contracts in the Non-Qualified market type, with 23.7% of contracts.
- The surrender rates by both contract count and contract value were relatively stable across attained age groups 60-64 and older. The surrender rates for attained ages under 60 were the lowest of all attained age groups.

- The surrender rates by both contract count and contract value generally decreased as the guaranteed minimum interest rate group increased. Contracts with higher guaranteed minimum interest rates were more likely to persist compared to contracts with lower guaranteed minimum interest rates.
- As expected, the surrender rates by both contract count and contract value peaked in the year the surrender charge expired, at a rate of 38.6% by contract count and 46.3% by contract value. After that year, surrender rates remained elevated since there continued to be no surrender charge in the successive years.
- When split into calendar year groups, surrender rates in 2020, 2021, and 2022 were significantly higher in the year the surrender charge expired compared to surrender rates in 2015-2019. Surrender rates by contract count in the year the surrender charge expired were 51.7% for 2020, 55.7% for 2021, 54.0% for 2022, and 29.7% for 2015-2019; surrender rates by contract value in the year the surrender charge expired were 62.8% for 2020, 66.5% for 2021, 66.0% for 2022, and 33.7% for 2015-2019.
- Surrender rates by individual contract year show 'shocks' in the surrender rates in contract years 4, 6, 8, and 11, which correspond with common surrender charge periods of 3, 5, 7, and 10 years.
- When examined by grouped calendar years of study experience, calendar year group 2015-2017 experienced much lower surrender rates overall compared to the experience for calendar year group 2018-2022. The highest 'shock' surrender rate occurred in contract year 6 for calendar year group 2018-2022, with surrender rate by contract count of 33.4% and surrender rate by contract value of 40.3%. In comparison, the surrender rate for calendar year group 2015-2017 in contract year 6 was 10.2% by contract count and 10.6% by contract value.
- When examined by individual contract year and surrender charge expiry timing, contract year 6 had the highest surrender rate by far for contracts in the year the surrender charge expired, at 59.1% by contract count and 68.7% by contract value.
- When examined by individual contract year and whether a contract had a market-value adjustment (MVA) feature, contracts with an MVA feature had higher surrender rates in all 'shock' contract years, with especially elevated surrender rates compared to contracts without an MVA feature in contract years 4 and 6. In contract year 4, contracts with an MVA feature had a surrender rate of 21.0% by contract count and 22.0% by contract value, compared to a surrender rate of 6.0% by contract count and 7.4% by contract value for contracts without an MVA feature. In contract year 6, contracts with an MVA feature had a surrender rate of 41.8% by contract count and 48.1% by contract value, compared to a surrender rate of 13.3% by contract count and 16.3% by contract value for contracts without an MVA feature.
- In general, the surrender rate is expected to increase as the excess of market rate over current credited rate increases. This expected pattern of surrender rates does not always hold depending on the presence or absence of surrender charges.
- In the year the surrender charge expired, high 'shock' surrender rates were observed that were not necessarily impacted or driven by market interest rate sensitivity. Very high surrender rates would be expected in the year the surrender charge expires regardless of the interest rate environment, which may explain why there is not an intuitive pattern of surrender rate experience as the excess of market rate over current credited rate increases.

- When the surrender charge has expired in a previous year, the surrender rates increased as the excess of market rate over current credited rate increased. The relationship of surrender rates to the excess of market rate over current credited rate is more defined in the years after surrender charge expiry because there are fewer outside factors impacting the contract owner behavior.
- When there is a surrender charge applicable to any surrenders, the surrender rates are higher when the market rate is higher than the current credited rate. However, due to the very low level of surrender rates in this subset of experience, a clear driver of surrender rate experience could not be identified. The presence and level of the surrender charge likely has more of an impact on surrender rates than the excess of market rate over current credited rate.

Detailed Study Results

Detailed results from the 2015-2022 Fixed Rate Deferred Annuity Surrender Study are available for purchase in the Experience Studies Pro Standard Data Package. The Standard Data Package includes a report with detailed analysis and insights and a set of data visualization dashboards where the user can drill down into the results and obtain select views of the data. Various distributions of contracts included in the study are reviewed in the detailed results along with surrender experience on the contracts in the study. Detailed analysis and results are provided by various subsegments of the data, including sex, attained age group, contract year, observation year, market type, contract value, distribution channel, and issue year. For more information about the Standard Data Package and how to secure it, contact StudyPro@soa.org.

Study Methodology, Reliances and Limitations

Exposure for the surrender rates was determined using the Balducci approach. The contract year that a surrender is assigned to is based on the actual date of surrender. The data were submitted by calendar year split into two portions that correspond to the two contract years in that calendar year, the contract year before the anniversary date in the calendar year and the contract year after the anniversary date in the calendar year. Based on the two anniversary portions, we calculate exposure length for surrenders.

No assessment has been made concerning the applicability of this experience to other purposes. In developing this report, the SOA Research Institute and LIMRA relied upon data and information supplied by the participating company contributors. For each contributor, this information includes, but is not limited to, the data submission for contract owner behavior experience and the responses to follow-up questions. The results in the Experience Studies Pro Standard Data Package and this report are technical in nature and dependent on certain assumptions and methods. No party should rely upon these results without a thorough understanding of those assumptions and methods. Such an understanding may require consultation with qualified professionals.

List of Participating Companies

The Society of Actuaries Research Institute and LIMRA would like to thank the following 23 companies who contributed data to this study:

- American Equity
- Athene
- CNO Financial Group (Bankers Life)
- Brighthouse Financial
- Everlake Life (Allstate)
- Fidelity & Guarantee Life (F&G)
- Global Atlantic Financial Group
- Guardian Life
- Nassau Financial Group
- New York Life
- OneAmerica (AUL)
- Pacific Life
- Protective Life
- Prudential Financial
- Reliance Standard Life (RSLI)
- RiverSource (Ameriprise)
- Sammons Financial
- Securian Financial
- Security Benefit Life
- Talcott Financial Group
- The Standard
- TruStage (CUNA Mutual)
- USAA

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