2015-2021 Universal Life Premium Persistency and Lapse Rate Experience Study

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Experience Studies PRO

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Study Highlights

The Society of Actuaries (SOA) Research Institute and LIMRA have jointly conducted a study of Universal Life insurance premium persistency, and combined policy lapse and surrender behavior covering years 2015 through 2021. For simplicity, throughout this study the word "lapse" and the phrase "lapse rates" will include both terminations with value (surrenders) and terminations without value (forfeitures).

Fourteen companies contributed data to the current study, encompassing approximately 50% of flexible premium universal life new sales market share during the period of the study. The current study of 2015-2021 calendar years includes 11.9 million in exposure by policy count, almost $4.0 trillion in exposure by face amount, $76.5 million in collected premium, and approximately 417,000 lapse/surrender terminations.

Data was submitted separately for the premium persistency and the lapse analysis. For the lapse analysis, data was submitted on a calendar year basis and converted to a policy year basis for reporting lapse results. For the premium persistency analysis, premium paid, cumulative premium collected, and annualized planned or billed premium were submitted for each calendar year along with a number of product and policy data fields. The premium information was also converted to a policy year basis by assuming all premium received in a calendar year was on the policy anniversary in that year. The following premium persistency ratios are presented in the study:

- Ratio of premium collected (PC) to planned premium (PP) as of beginning of study year = PC(Annual) to PP(BOY)
- Ratio of premium collected (PC) up to planned to planned premium as of beginning of study year = PC up to planned (Annual) / PP (BOY)
- Ratio of premium collected to prior year premium collected = PC Curr / PC Prior

The experience data analyzed for this study includes only single-life policies sold inside the U.S. and its territories. The experience data excludes universal life plans sold at the workplace, universal life joint policies, and universal life policies sold outside the US and its territories.

The following are some of the more notable observations from the analyses detailed in this report:

- Cash Accumulation products have the largest percentage of exposure at 33 percent. Lifetime Guarantee and Current Assumption product focuses have most of the remaining known exposure at 27 percent for each.
- Based on policy exposure by count, fixed universal life product designs are the most common chassis for all product focuses for this study.
- As with other policyholder behavior factors, premium persistency experience can vary materially across companies based on the product design, product focus, target market, and distribution channels used. For the ratio analyzing total collected premium compared to planned premium at the beginning of the year, the standard deviation in results is greatest for policy years 1 and 20+.
- If we limit the premium collected in the numerator of the ratio PC(annual)/PP(BOY) to the planned premium amount for each year, the impact of dump-in premiums in any year is reduced. This view allows for a better understanding of ongoing premium activity over time. The first policy year tends to have the most impact from dump-in premiums but still has the highest ratio of premium collected relative to planned premium across most metrics.
- The last industry premium persistency study was published in 2018 and covered observation years 2009 – 2013. Premium persistency ratios, as measured by the full premium paid relative to planned premium at the beginning of the year, are consistently higher in the current study relative to the prior study starting in policy year 9.
- In total across all policy years, variable universal life policies had notably lower premium persistency ratios comparing to planned premium relative to indexed and fixed policies.
- The ratio of current premium to planned premium is highest for Lifetime Guarantee products in the early policy years. Thereafter, Current Assumption products have the highest persistency ratio.
- Lifetime Guarantee products appear to have the most consistent premium persistency ratio over time, most likely due to required premiums to keep the secondary guarantee in effect.
- With few exceptions, there is a consistent pattern of decreasing premium persistency by attained age for products with the Lifetime Guarantee focus across all product chasses. The patterns across product chasses by attained age for Cash Accumulation products are not as clear.
- For products with a Lifetime Guarantee focus, after policy year 3, lapse rates are materially lower for all policy years relative to other product focuses, where data can be shown.
- For all products, rates of premium persistency are generally lower for policies which terminated for any reason during the study relative to policies that survived the study period.

Detailed Study Results

Detailed results from the 2015-2021 Universal Life Premium Persistency and Lapse Rate Experience 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. Detailed results are provided by various subsegments of the data, including sex, product type, product focus, policy year, study year, issue age, face amount, and distribution channel. In these visualization dashboards, premium persistency results are also presented under an alternative methodology for allocating the provided calendar year premium to the two policy years within each calendar year. This second methodology assumes the premium is paid uniformly throughout the year, instead of once per year on the anniversary. For more information about the Standard Data Package and how to secure it, contact StudyPro@soa.org.

Study Methodology, Reliances and Limitations

Actual study experience was determined on an age-nearest birthday basis. Exposure for the lapse rates was determined using the Balducci approach. The policy year that a lapse is assigned to is based on the actual date of lapse.

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 14 companies who contributed data to this study:

Allianz Life Insurance Co of North America
Brighthouse Financial
Columbus Life (part of Western&Southern)
Global Atlantic
John Hancock Financial Services
Lincoln Financial
Nationwide
New England Life (part of Brighthouse)
Pacific Life
Principal Financial
Sammons Financial
Securian Financial
Thrivent Financial
Western & Southern Life Assurance Co

About LIMRA

Established in 1916, LIMRA is a research and professional development not-for-profit trade association for the financial services industry. More than 600 insurance and financial services organizations around the world rely on LIMRA's research and educational solutions to help them make bottom-line decisions with greater confidence. Companies look to LIMRA for its unique ability to help them understand their customers, markets, distribution channels and competitors and leverage that knowledge to develop realistic business solutions.

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About The Society of Actuaries Research Institute

Serving as the research arm of the Society of Actuaries (SOA), the SOA Research Institute provides objective, data-driven research bringing together tried and true practices and future-focused approaches to address societal challenges and your business needs. The Institute provides trusted knowledge, extensive experience and new technologies to help effectively identify, predict and manage risks.

Representing the thousands of actuaries who help conduct critical research, the SOA Research Institute provides clarity and solutions on risks and societal challenges. The Institute connects actuaries, academics, employers, the insurance industry, regulators, research partners, foundations and research institutions, sponsors and non-governmental organizations, building an effective network which provides support, knowledge and expertise regarding the management of risk to benefit the industry and the public.

Managed by experienced actuaries and research experts from a broad range of industries, the SOA Research Institute creates, funds, develops and distributes research to elevate actuaries as leaders in measuring and managing risk. These efforts include studies, essay collections, webcasts, research papers, survey reports, and original research on topics impacting society.

Harnessing its peer-reviewed research, leading-edge technologies, new data tools and innovative practices, the Institute seeks to understand the underlying causes of risk and the possible outcomes. The Institute develops objective research spanning a variety of topics with its strategic research programs: aging and retirement; actuarial innovation and technology; mortality and longevity; diversity, equity and inclusion; health care cost trends; and catastrophe and climate risk. The Institute has a large volume of topical research available, including an expanding collection of international and market-specific research, experience studies, models and timely research.

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