2015-2021 Universal Life Insurance 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 policy lapse and surrender behavior covering observation 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).

Twenty-four companies submitted data for observation years 2015 – 2021 for six universal life insurance product types, Traditional Universal Life, Traditional Universal Life with Secondary Guarantees, Indexed Universal Life , Indexed Universal Life with Secondary Guarantees , Variable Universal Life , and Variable Universal Life with Secondary Guarantees. Exposure prior to the anniversary in 2015 and after the anniversary in 2021 were excluded from this study, creating six complete study years of data in this anniversary-to-anniversary experience study. In total, there were 33.5 million policy exposures, $8.5 trillion in face amount exposures, and 1.3 million lapse terminations.

For purposes of this study, products with secondary guarantees provide the policyholder with an additional benefit, that as long as sufficient premium contributions are maintained, the policy will not lapse even if the cash value is reduced to zero. These secondary guarantees can be for a short, medium, or long-term period (up to lifetime in some cases).

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:

- Average policy sizes are larger for product types with a secondary guarantee compared to their non-secondary guarantee counterpart, with the exception of Indexed Universal Life. Average policy size for Indexed Universal Life and Indexed Universal Life with a Secondary Guarantee (IULSG) are the largest of all the products, most likely due to the accumulation focus of these types of products.

- Where data is available, lapse rates by count and amount have generally decreased relative to the prior study covering 2009 – 2013.

- *Traditional Universal Life:* Lapse rates by count tend to increase as face amount band increases.

- *Universal Life with a Secondary Guarantee:* Lapse rates by count are over three times higher than lapse rates by count at the oldest attained ages (85-89 and 90+).

- *Indexed Universal Life:* Lapse rates increased significantly across all policy years between the earlier part of the study period (study years 2015-2018) and the latter part of the study period (2019-2020). This is the only product type to exhibit consistently higher lapse rates by policy year during the pandemic relative to prior to the pandemic.

- *Indexed Universal Life with a Secondary Guarantee*: In total female lapse rates are higher than male lapse rates on a count basis. Female lapse rates are slightly lower than male lapse rates on an amount basis.

- *Variable Universal Life*: Lapse rates based on count increase as face amount band increases. This may be a result of the accumulation-focused design of many VUL policies.

- *Variable Universal Life / Variable Universal Life with a Secondary Guarantee*: When comparing lapse rates for Variable Universal Life with Secondary Guarantees against lapse rates for Variable Universal Life, it is interesting to note that earlier policy year lapse rates by both count and amount are lower for Variable Universal Life with a Secondary Guarantee. However, the pattern by count switches in policy year 12 and in policy year 10 by amount.

- In total for all secondary guarantee product types, lapse rates for policies with a Lifetime Secondary Guarantee are 45% lower on both a count and amount basis than for policies with a secondary guarantee that is Not Lifetime.

- Lifetime lapse rates by count are lower than Not Lifetime lapse rates for all attained age bands and the relative difference in lapse rate increases as attained age increases.

Detailed Study Results

Detailed results from the 2015-2021 Universal Life Insurance 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, policy year, study year, issue age, face amount, risk class, and presence of a lifetime no-lapse secondary guarantee. Confidence intervals around the lapse rates, along with the underlying credibility of the results, are provided on a separate tab in the dashboard. 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. Withdrawal rates on a percent of contracts basis are equal to the number of contracts that took withdrawals during the calendar year divided by the number of contracts in force at the beginning of the calendar year. Withdrawal rates on a percent of contract value basis are equal to the amount of contract value withdrawn during the calendar year divided by the amount of contract value in force at the beginning of the calendar year. 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.

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 24 companies who contributed data to this study:

Allianz
Ameritas
Brighthouse Financial
Columbus Life Insurance
Equitable
Everlake
Global Atlantic Financial Group
John Hancock
Lincoln
Mutual Of Omaha
National Life
Nationwide
New England Life Insurance Company
Pacific Life
Penn Mutual
Principal
Protective
Prudential
Sammons
Securian
State Farm
Thrivent
Transamerica
Western & Southern

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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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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