2015-2022 Term and Whole Life Insurance Policy Surrender/Lapse Experience Study Report

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Experience Studies PRO

Study Highlights

The Society of Actuaries (SOA) Research Institute and LIMRA have jointly conducted a study of Whole Life and Term Insurance policy lapse and surrender behavior covering seven complete study years[1], 2016 through 2022, spanning policy anniversaries in 2015 to policy anniversaries in 2022. The primary purposes of this study are:

1. To analyze and report on recent policyowner behavior experience for whole life insurance and the various term life insurance product types.
2. To update available industry benchmark data to include the most recent combined full surrender and lapse activity for these product types.
3. To analyze the experience by numerous factors, including attained age of insured, issue age and policy year, and various other product features.
4. For level premium term product types, experience will also be broken out between the level period and the post-level period, where possible.

Please note that, while post-level term experience is shown where company confidentiality rules allow, a detailed reporting or analysis of post-level term experience by the typical factors that drive this type of experience, including the post-level premium pattern and post-level premium jump, is outside the scope of this study.

Twenty-eight companies contributed data to the current study, encompassing approximately 40% of industry sales during the period of the study for term insurance and 47% of industry sales during the period of study for whole life insurance. Note that some companies have exited the new issue space for these products, especially whole life, so a comparison of market share using new sales will lead to a different percentage than an analysis using inforce policies.

The current study contains about 135.9 million policies exposed, 5.4 million surrenders and lapses, $30.6 trillion in face amount exposed, and $1.4 trillion in surrenders and lapses by face amount.

Not all companies were able to provide data for all years under either data format. The report analysis includes all companies for all study years that were provided. The experience data analyzed for this study includes only fully underwritten, single-life policies sold inside the U.S. and its territories. The experience data excludes term and whole life plans sold at the workplace, other simplified issue or guaranteed issue policies, joint policies, and policies

[1] Throughout this report, 'study year xxxx' refers to the time between contract anniversaries in calendar year xxxx-1 and contract anniversaries in calendar year xxxx. For this study, the observation years cover the time between anniversaries in 2015 and anniversaries in 2022.

sold outside the U.S. and its territories. Joint-life policies were excluded from the current study but are expected to be included for future iterations.

For simplicity, throughout this study the word "lapse" and the phrase "lapse rates" include both terminations with value (surrenders) and terminations without value (forfeitures).

The following are some of the more notable observations from the analyses detailed in this report. Please note that product type is assigned from the plan codes within the VM-51 data format:

- In total, this study contains about 135.9 million policies exposed and $30.6 trillion in face amount exposed from twenty-eight contributing companies over seven study years.

- Over 60% of the exposure by count is from the Whole Life product type (which includes Single Premium Whole Life). However, due to the smaller than average face amounts, Whole Life exposure by amount is considerably less at around 18%.

- Of the level premium term product types, 20-Year Level Term has the highest exposure by both count and face amount.

- *Whole Life:* By face amount band, lapse rates are greatest for policies with face amount band $25,000–49,999. Excluding this band, lapse rates in total are generally increasing as face amount increases, although lapse rates are relatively flat for amounts between $250,000 and $2.999 million. However, when policy year is added as a dimension, there is a clear pattern of lower lapse rates with increasing policy size, especially in years one through three.

- *Ten-Year Level Term:* Lapse rates based on count are higher than lapse rates by amount in policy years one through three. Thereafter, lapse rates by amount are higher.

- *Fifteen-Year Level Term*: During the level period, male lapse rates based on amount are higher than those based on count, which is the opposite pattern seen across other level term products.

- *Twenty-Year Level Term:* The disparity between count and amount lapse rates in the post-level period is smaller for 20YRLT than for 10- and 15-year level term across all attained age groups.

- *Thirty-Year Level Term:* Similar to other level term products, lapse rates by count are higher than lapse rates by amount at the younger attained ages. Lapse rates based on count and amount are quite low for attained ages 60 and older, between 1.0% and 1.5%.

- *Annual Renewable Term*: There is a pattern of increasing lapse rates with increasing issue age. For most issue ages, the lapse rate on a count basis is lower than lapse rates on an amount basis, and this difference increases with issue age.

- Lapse rates by count and amount for level term product types begin to increase one or two policy years in advance of the end of the level period.

- For level term product types, the relationship within certain experience factors tends to reverse in the post-level period relative to the level period. For example, lapse rates by face amount band tend to decrease as face amount increases in the early policy years. However, by the end of the level period, this pattern has reversed and stays that way in the shock policy year.

Detailed Study Results

Detailed results from the 2015-2022 Term and Whole Life 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 by product type, 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, and face amount. For more information about the Standard Data Package and how to secure it, contact StudyPro@soa.org.

Study Methodology, Reliance 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 28 companies who contributed data to this study:

AIG/Corebridge Financial
Ameritas
Baltimore Life
Brighthouse Financial
Country Financial
Everlake
Global Atlantic
GPM Life
Kansas City Life
Lincoln Financial
MetLife
Mutual Trust
New England Life
New York Life
Northwestern Mutual
OneAmerica
Pacific Life
Penn Mutual
Principal Financial
Protective Life
Sammons
SBLI
Securian Financial
State Farm
Symetra
Thrivent Financial
Transamerica
Western & Southern Financial Group (Western & Southern Life, Lafayette Life, Columbus Life)

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