

Annuity Sales Show Signs of Recovery in Q2

By Mariana Lemann August 27, 2010

Ignites

Annuity providers of all kinds have reason to cheer after enduring a season of soul-searching.

Sales of variable, fixed and income annuities are slowly recovering to pre-crisis levels.

Earlier this week the **Insured Retirement Institute** (IRI) released second-quarter data on sales of annuities, showing record highs.

Variable annuity sales advanced at the greatest pace since 2007, according to IRI. The institute aggregates data provided by **Morningstar** and **Beacon Research**. In addition, estimated sales of both indexed and income annuities were the strongest since the Beacon study began in 2003.

Annuity sales for the second quarter were \$53.8 billion, up from \$47.4 billion in the previous quarter, representing a 13.5% increase. Still, year-to-year quarterly sales of annuities were down 9.8%, declining from \$59.6 billion in the second quarter of 2009.

Second-quarter sales indicate that the state of the annuity industry is strong, says Cathy Weatherford, president and CEO of IRI. "Clearly all of our research is showing that advisors are using these products much more now as part of a retirement plan," Weatherford says. "Those who had never used them before are using them now...[and] I think the demand by consumers is going to grow too."

Variable annuity sales totaled \$34.4 billion for the second quarter, up 9% from \$31.6 billion in the previous quarter. Year-to-year quarterly sales of variable annuities were up, posting an 8.2% increase from second quarter 2009 sales of \$31.8 billion.

"With regards to variable annuities, people are looking at the guarantees and that downside protection that they get through the guarantees," says Weatherford.

Prudential Financial topped the ranking of VA sellers in the second quarter, followed by **MetLife** and **TIAA-Cref**. At the end of 2007, Prudential was the seventh largest VA provider in terms of sales, according to Morningstar.

Growing confidence in variable annuity products and the strength of Prudential's balance sheet were drivers behind Prudential's rise to the top spot, says Bruce Ferris, senior VP of sales and distribution for Prudential Annuities. "What you are seeing now is advisors and clients are recognizing that variable annuities might be an appropriate investment solution for meeting their retirement objectives."

Even though Prudential had to make some adjustments to its VAs like the majority of carriers, Prudential's "product has been a lot more consistent through the financial crisis," says Tamiko Toland, managing director of retirement income consulting at **Strategic Insight**.

A wide distribution network and value-added programs for advisors have been instrumental in helping the firm build its practices. In addition to distribution through its captive sales force, Prudential sells its VAs through banks, wirehouses and independent advisors, she says.

Ferris points to the fact that sales figures are not the only indicator of a recovery in the market for VAs. The nature of these sales dollars is also a positive sign. He says that the percentage of exchange dollars in the overall sales of VAs has been decreasing since 2007, pointing to **Limra** data. More and more sales are attributable to new assets in the VA market. In 2007, 67% of VA sales were the result of exchange activity, according to Limra. That percentage decreased to 57% in 2008 and 41% in 2009.

“I expect the numbers to be lower in 2010, bringing new assets and new investors to our sales recognizing the product as valuable for their retirement goals,” Ferris says.

Growth in sales also has occurred on the indexed- and income-annuity sides.

Fixed-annuity sales totaled \$19.4 billion for the second quarter, up from \$16.5 billion in the previous quarter, representing a 17.7% increase. Year-to-year quarterly sales of fixed annuities were down 30.2%, declining from \$27.8 billion in the second quarter of 2009.

New York Life topped the chart of fixed-annuity providers, followed by **Allianz Life of North America** and **Aviva Life Insurance Company**. In 2003, when Beacon Research first tracked sales of fixed annuities, New York Life was not part of the group of top 10 providers by sales.

Sales of fixed and indexed annuities also were spurred by the widening of the spread between Treasury and corporate bond yields, which made fixed annuities' credit rates more competitive, Jeremy Alexander, president and CEO of Beacon Research, said in the IRI press release. "Those reluctant to lock in the quarter's low rates purchased indexed annuities, which offered upside potential, downside protection and attractive guaranteed lifetime income," he said.

Advisors are looking at solutions that are different from what they were using before, Toland says, and many are looking at income annuities as alternatives.