

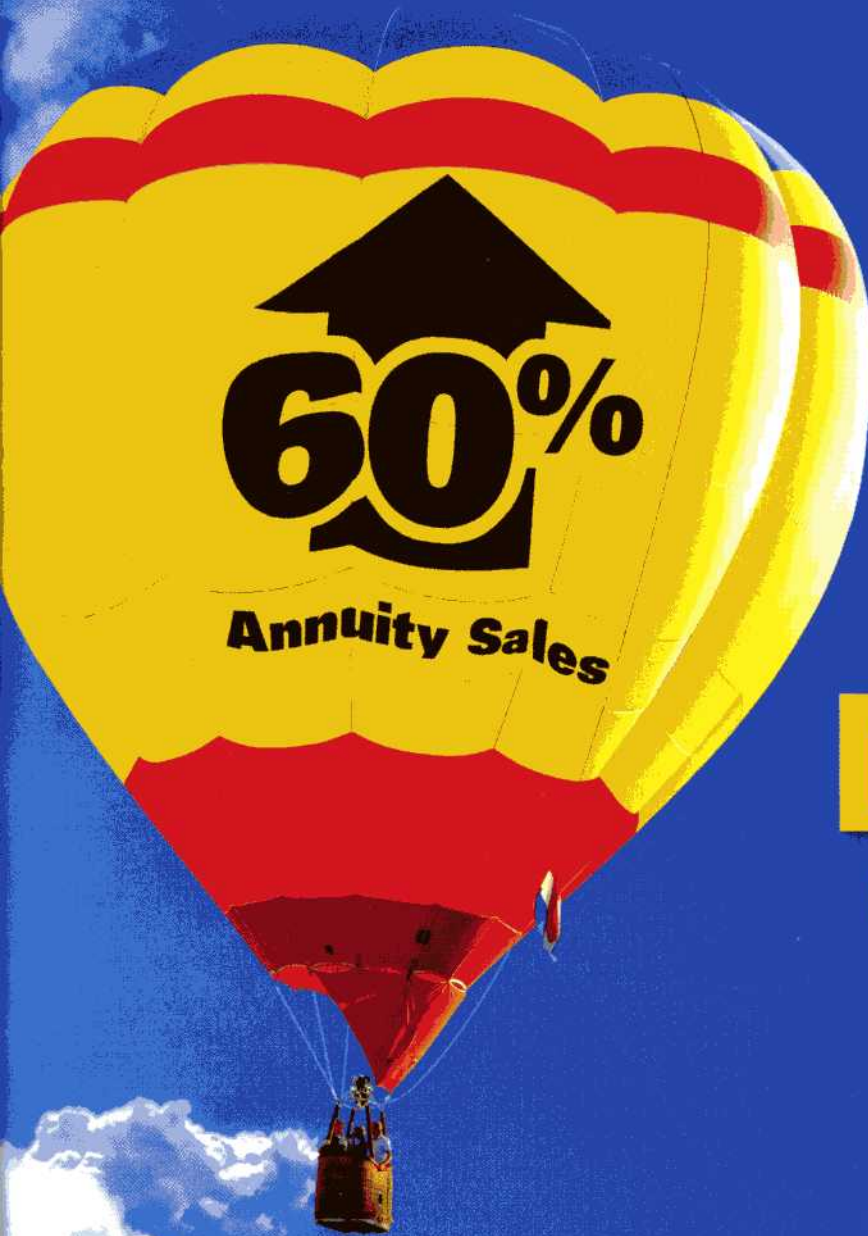
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The Annuity Issue

Life • Annuities • Health

MAGAZINE

April 2009



DANGEROUS DEMAND

SOARING ANNUITY SALES FORCE SUPPLY CUTS

INSIDE

Tough Economy Hits Life, VAs, and LTCi Hard

What You Need to Know About the Voluntary Benefits Shift

EVANSTON IL 60202-1145
1434 CRAIN ST
BEACON RESEARCH
JEREMY ALEXANDER
2125427
*****AUTO**SCH 3-DIGIT 600

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AGE OF THE ANNUITY

FIXED ANNUITIES WERE UP 60% LAST YEAR, AND IT LOOKS LIKE THE MOMENTUM WILL CONTINUE IN 2009

BY JEREMY ALEXANDER

Forgive fixed annuities if they do a little victory dance. They won the brutal marathon of 2008 while many standby insurance products stumbled along with the rest of the financial market.

Fixed annuities sprinted to a \$107 billion finish, up 60 percent from 2007. As the economy slumps into 2009, so grows the momentum for another good annuities year.

But hold your cheers if you are an independent producer, because you are getting pushed back in the annuities crowd, elbowed out by captives and banks.

Even though independent producers remained the most important channel for annuities sales, their share dropped to 38 percent of the market in 2008, down from 50 percent. One of the key surprising findings from the Beacon Research 2008 Fixed Annuity Premium Study is that independent producers

had a great sales year but might not have even noticed that the market shifted underneath them.

First, we'll take a look at what happened in 2008, then we'll see how independent producers ended up with a shrinking piece of the market.

Conditions Ripen for Maximum Annuities Performance

As 2008 began, the economy struggled with fallout from the subprime mortgage debacle, along with inflationary pressures from rising commodities prices and the declining dollar. These problems intensified over the year until all hell broke loose in September, when one major financial institution after another failed, credit markets froze and the federal government scrambled to stave off disaster.

Dominoes fell across the economy for the rest of the year, until the S&P 500 ended almost 38 percent lower

than it was at the beginning of 2008. The flight to safety took off in 2008 but it hit the stratosphere on Sept. 17, when the three-month Treasury bill yield turned negative.

Conservative investments such as fixed annuities became more attractive. Credited rates at the important 5 percent threshold level were available throughout 2008. Thanks to a positive yield curve and a widening spread between Treasuries and corporate bonds, fixed annuities also had a competitive rate advantage over bank certificates of deposit (CDs) and other conservative alternatives. The first quarter's estimated sales of \$19.6 billion were up from the prior quarter, and things really took off from there, with sales rising in each consecutive quarter to set successive six-year records. The year ended with estimated fourth-quarter sales of \$34.1 billion, 90 percent higher than a year earlier. As fixed annuities took off, variable-annuity sales were falling, and, by fourth quarter, fixed annuities outsold VAs.

Fixed Annuities Break Out of the Pack

In dollar terms, fixed-annuity sales increased \$40.1 billion in 2008. More than two-thirds of this gain came

