



Second-Quarter US Sales of Fixed Annuities Drop 30%, but Rate Advantage Over Treasuries Improved

EVANSTON, Ill. August 30 (BestWire) — Total second-quarter U.S. sales of individual fixed annuities, including equity-indexed, declined 30% from the same period a year ago, to about \$19.4 billion, according to Beacon Research and the Insured Retirement Institute.

The second quarter marks the fourth consecutive quarter that sales dropped year over year. For the first six months of this year, sales for these retirement-savings and income products were down 43% from the first half of 2009, according to Beacon and IRI.

Sales fell year over year because, compared with both last year's second quarter and the first half of 2009, credited rates on fixed annuities were lower, and so was their advantage over Treasury rates, Jeremy Alexander, president and chief executive officer of Beacon Research, said.

However, "this rate advantage has been rising steadily" since April, which makes new business more profitable for insurance companies, and helps sales representatives sell these products, he said. Compared with the first quarter, sales increased 18%.

There were no changes in company ranking from the first quarter.

New York Life remained No. 1 overall, with total second-quarter sales of \$1.74 billion, according to Beacon. The company also remained first place in sales of immediate annuities. Immediate annuities also are known as payout and fixed-income annuities.

Capturing second place was Allianz Life Insurance Company of North America, a unit of Allianz SE, with sales of \$1.68 billion. Aviva USA, a unit of Aviva plc, ranked third, with sales of \$1.61 billion, while Western National Life Insurance Co., a unit of American International Group (NYSE: AIG), took fourth place, with sales of \$1.29 billion.

Rounding at the top five was American Equity Investment Life Insurance Co., a unit of American Equity Investment Life Holding Co. (NYSE: AEL), with sales of \$1.04 billion, according to Beacon.

Allianz Life, Aviva and American Equity are all top writers of indexed annuities. Allianz Life kept its No. 1 spot in the second quarter, with sales of \$1.63 billion, according to AnnuitySpecs.com, a firm

that tracks indexed sales (BestWire, Aug. 17, 2010).

By product type, estimated results were indexed, \$8.2 billion; book value, \$7.2 billion, which declined 48% from last year's second quarter; immediate, \$2.4 billion; and market-value adjusted, \$1.5 billion, which declined 57%, according to Beacon.

During the second quarter, credited rates fell, with top rates on multiyear guarantee annuities dropping from more than 4% to 3.75%, Alexander said in a statement.

Sales improved from the first quarter, however, because although rates were falling, the spread between Treasury and corporate bond yields widened, which allowed writers to offer competitive credit rates, according to Alexander.

A flatter yield curve is negative for a writer of fixed annuities, Alexander said. The corporate bond yield curve is usually pretty much in line with the Treasury yield curve and insurance companies tend to buy somewhat longer term bonds to back fixed annuities with somewhat shorter rate terms and surrender charge periods, he said.

When there's a bigger difference between the shorter and the longer rates, their own profit is larger, Alexander said.

Buyers also "apparently got tired of waiting for rates to rise," and those reluctant to lock-in the quarter's low rates bought indexed annuities, according to Alexander.

New York Life Insurance Co. currently has a Best's Financial Strength Rating of A++ (Superior).
(By Fran Matso Lysiak, senior associate editor, BestWeek: fran.lysiak@ambest.com)BN-NJ-08-30-2010 1647 ET #