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A bit of recovery in variable annuity sales

By Michael Manetta *Thu, Sep 6, 2018*

'2012- and 2013-vintage contracts remain the best-sellers both by average sales volume and total sales volume by year. Of the top 100 selling VAs in Q2 2018, 25 were first issued in 2012 or 2013,' writes Morningstar's VA analyst.

New sales of variable annuities reached $23.6 billion in the second quarter of 2018, compared with $22.4 billion in Q1 and $23.2 billion in Q2 2017. This marks the first period of positive year-on-year sales growth in nearly four years and only the second in the past six years.

Still, the pace of VA sales growth (1.6% year on year) paled in comparison to fixed-index annuities: According to LIMRA, FIA sales reached $17.6 billion in Q2 2018, up 17% from the year prior. Moreover, VAs continued to experience net outflows as policyholders continued to take withdrawals and/or annuitize their contracts.

The top three carriers in terms of sales volume—Jackson National, AXA Equitable, and TIAA-CREF—all saw sales growth slow in Q2, continuing a trend of slowing sales growth that began in mid-2017 (only Jackson has posted a quarter of positive year-on-year sales growth in the past year).

However, five of the seven remaining firms in the top 10 by sales saw double-digit sales growth in Q2, led by Prudential, which posted an impressive 35% increase in new sales year on year. These results have led to a notable shift in market share, with the top three companies accounting for 40% of VA sales versus 44% a year ago, while the next seven now account for 41% (versus 37% a year ago).

Given the heterogeneity of VA products, it is difficult to identify characteristics that may be driving sales in one direction or the other within the industry. However, there are a few patterns to note.

First, contracts that recorded positive sales growth in Q2 tended to have lower minimum fees than contracts recording negative sales growth year on year by around 5 to 15 basis points on average, depending on which subset of the universe one looks at. This appears to hold true when comparing only contract fees, contract fees plus subaccount fees, as well as living benefit fees.

Second, there is a significant difference in the number and type of optional benefits offered among the best-selling contracts, suggesting that the market for VAs (and their various benefit options) remains diverse.

Furthermore, 2012- and 2013-vintage contracts remain the best-sellers both by average sales volume and total sales volume by year. Of the top 100 selling VAs in Q2 2018, 25 were first issued in 2012 or 2013, while more than 40% of total sales volume in Q2 came from contracts of these vintages. Also, 2015 and 2016-vintage contracts sold well in Q2, while 2017-18 vintages were somewhat less popular.

That somewhat older vintages are dominating VA sales may reflect changes in how VAs are sold. Independent advisors accounted for more than 42% of all VA sales in Q2 2018, up from 36% a year earlier and 38% in Q1.

Meanwhile, captive agency sales have declined to less than 30% from 37% in the past year. Independent advisors may be more comfortable offering established products to their clients, possibly explaining the popularity of 2012-13 vintage VAs.