

## AIG Tops Annuity Sales Chart Again

By Kerry Pechter      Thu, Aug 18, 2016

*Eight years after collapsing under the weight of CDS losses and four years after emerging from federal ownership, AIG is again atop the annuity sales charts, with \$9.78 billion sold in the first half of 2016. (Pictured: AIG CEO Peter Hancock).*



For the second consecutive quarter, AIG has reached the top of the list of annuity sellers in the U.S., with combined fixed and variable annuity sales of \$9.78 billion in the first half of 2016, according to LIMRA Secure Retirement Institute, which published its *Second Quarter U.S. Annuity Sales* survey this week.

AIG-owned annuity issuers (including American General Life and SunAmerica) sold \$4.12 billion worth of individual variable annuities (Portfolio Director and Polaris) and \$5.66 billion worth of fixed annuities (including fixed rate, fixed indexed and both immediate and deferred income annuities and qualified longevity annuity contracts or QLACs) through June 30, 2016.

AIG was bailed out and acquired by the U.S. Treasury during the financial crisis of 2008, after massive [losses](#) on the sale of derivatives called credit default swaps, a form of insurance against the failure of fixed income investments, drove it to insolvency. It emerged from federal ownership in 2012. AIG recently announced a \$3 billion increase in its stock buyback program.

Overall, sales of fixed annuities jumped 32% in the second quarter, to \$31.5 billion. Year-to-date, fixed annuity sales totaled \$63.8 billion, an increase of 39% compared with the same period in 2015. A continued drop in VA sales pulled the overall annuity sales results down, however. In the second quarter 2016, total U.S. annuity sales were \$58.4 billion, three percent lower than the prior year.

The Institute forecasts VA sales to drop 15-20% in 2016 and another 25-30% drop in 2017 when the Department of Labor's fiduciary rule goes into effect next April. It also expects the DOL rule to slow the momentum of indexed annuities, as wholesalers and broker-dealers adjust to the new regulatory environment.

In the meantime, total annuity sales in 2016 should be in line with 2015's results, because the drop in VA sales should be offset by growth in the fixed annuity market, LIMRA said.

LIMRA Secure Retirement Institute's second quarter U.S. Individual Annuities Sales Survey represents data from 96% of the market.

## Indexed annuities

Fixed indexed annuity (FIA) sales were \$16.2 billion in the second quarter of 2016, LIMRA reported. That figure, a new quarterly sales record for indexed annuities, was 30% higher than the second quarter of 2015.

<b>Annuity Industry Estimates</b> (Dollars in billions)						
	Q2 2015	Q2 2016	Pct Chg Q2/Q2	YTD 2015	YTD 2016	Pct Chg 2016/2015
<b>Variable</b>						
Separate accounts	28.7	20.3	-29%	54.4	40.4	-26%
Fixed accounts	7.3	6.6	-10%	14.0	13.1	-6%
<b>Total Variable</b>	<b>36.0</b>	<b>26.9</b>	<b>-25%</b>	<b>68.4</b>	<b>53.5</b>	<b>-22%</b>
<b>Fixed</b>						
Fixed-rate deferred	7.2	10.5	46%	13.5	22.5	67%
Book value	4.6	6.1	33%	8.9	12.8	44%
Market value adjusted	2.6	4.4	69%	4.6	9.7	111%
Indexed	12.5	16.2	30%	24.1	31.9	32%
Fixed deferred	19.7	26.7	36%	37.6	54.4	45%
Deferred income	0.61	0.87	43%	1.2	1.6	37%
Fixed immediate	2.2	2.5	14%	4.2	5.0	19%
Structured settlements	1.4	1.4	0%	2.8	2.8	0%
<b>Total Fixed</b>	<b>23.9</b>	<b>31.5</b>	<b>32%</b>	<b>45.8</b>	<b>63.8</b>	<b>39%</b>
<b>Total</b>	<b>59.9</b>	<b>58.4</b>	<b>-3%</b>	<b>114.2</b>	<b>117.3</b>	<b>3%</b>
Industry estimates reported for the second quarter 2016 based upon data from 64 companies, representing 96 percent of total sales.						
Source: LIMRA Secure Retirement Institute, U.S. Individual Annuity Sales Survey (2016, 2nd quarter)						

"The decline in interest rates benefited indexed annuity sales once again as consumers seek out 'safe yield'," said Todd Giesing, assistant research director, LIMRA Secure Retirement Institute, in a release. "The indexed market is extremely competitive at this time as indexed products remain an attractive alternative to variable annuity (VA) products. This has been beneficial for independent broker-dealers, and in fact, we expect this channel to post record indexed annuity sales this year."

In the first half of the year, indexed annuity sales increased 32% to \$31.9 billion, compared with the first six months of 2015. The Institute expects indexed annuity sales to exceed \$60 billion by the end of the year.

"We expect the sales gains attained in 2016 to be erased in 2017 when the DOL fiduciary rule goes into effect," said Todd Giesing, assistant research director, LIMRA Secure Retirement Institute.

Nearly two thirds of indexed annuity sales in 2015 (\$34 billion) were funded through IRAs or rollovers from retirement accounts (qualified assets). Under the DOL fiduciary rule,

financial professionals who sell indexed annuities purchased with qualified assets will need to sign a BIC [best interest contract] and pledge to act as fiduciaries for their clients to prevent these sales from being considered “prohibited transactions” under the Employee Retirement Income Security Act of 1974.

“The challenges of implementing the BIC exemption will have a negative impact on indexed annuity sales in 2017,” Giesing said in a release on August 2. “For that reason, we are projecting a 30-35% decline in indexed annuity sales in 2017, bringing sales totals down to 2013 levels (nearly \$40 billion).”

The DOL fiduciary rule also will have a significant impact on independent agents who work through Independent Marketing Organizations (IMOs). This distribution channel accounted for two thirds of the indexed annuities sold in 2015.

Under the new DOL rule, IMOs are not recognized as financial institutions. As such, these organizations cannot execute the best interest contract with the policyholder on behalf of the agent.

While industry analysts expect many IMOs will eventually change their status and become broker-dealers, which are recognized as financial institutions by the DOL, there will likely be others who leave the market or consolidate with another organization, shrinking the overall channel’s reach.

## **Fixed annuities**

Other fixed annuity sales continued to see strong sales growth in the first half of 2016. Sales of fixed-rate deferred annuities, (book value and market value adjusted) improved 46% in the second quarter to \$10.5 billion. Year-to-date, fixed rate deferred annuity sales were \$22.5 billion, or 67% higher than in the first six months of 2015.

**Fixed immediate annuities.** Fixed immediate annuity sales totaled \$2.5 billion in the second quarter, up 14% from the prior year. In the first half of 2016, immediate annuity sales increased 19% to \$5 billion. “Many of the top companies have put more of an emphasis on their income annuity sales, with seven of the top ten writers experienced growth of 25% or higher,” the LIMRA release said. The Institute expects fixed immediate annuity sales to exceed \$10 billion in 2016, or 10-15% higher than 2015 totals.

**Deferred income annuities.** In the second quarter, deferred income annuity (DIA) sales jumped 43% in the second quarter, to \$870 million. This is the highest quarterly sales total

for DIA products since the Institute started reporting DIA sales results. Nine of the top ten writers experienced growth of 25% or more. In the first half of 2016, DIA sales rose 37% to \$1.6 billion. Institute analysts expect DIA sales to have an upward trajectory in the second half of the year driving DIAs to a record sales year in 2016, exceeding \$3 billion.

## **Variable annuities**

In the second quarter, VA sales totaled \$26.9 billion, down 25%. VA sales fell 22% in the first six months of 2016 to \$53.5 billion. This is lowest first half of the year for VA sales since 1998 and the first time VA sales have been below \$30 billion for two consecutive quarters since 2002.

“Low interest rates and a focus on implementing the DOL fiduciary rule have hampered product innovation, [where] we usually see strong activity in the second quarter,” noted Giesing.

## **Links**

The second quarter 2016 Annuities Industry Estimates can be found in LIMRA’s updated [Data Bank](#). To view the top twenty rankings of total, variable and fixed annuity writers for second quarter 2016, please visit [Second Quarter 2016 Annuity Rankings](#). To view the breakout of indexed and fixed-rate annuity sales rankings, please visit: [Second Quarter Fixed Annuity Breakout Rankings](#). To view variable, fixed and total annuity sales over the past 10 years, please visit [Annuity Sales 2006-2015](#).

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