Amid ‘Trump Bump,’ annuities go begging

By Editor Test   *Wed, Nov 29, 2017*

LIMRA Secure Retirement Institute's third quarter 2017 annuity sales survey reflects the fact that few Americans are taking profits from the aging bull market and locking them into safe retirement income. Pity.

Sustained low interest rates, a relentless bull market in equities and uncertainty over the regulation of annuity sales to IRA owners have all conspired to frustrate the annuity industry at the very moment in history when Baby Boomers should arguably be buying annuities for safe lifetime income. Go figure.

At $46.8 billion in the third quarter of 2017, total U.S. annuity sales were below the $50 billion mark for the first quarter since 2002, according to the LIMRA Secure Retirement Institute’s (SRI) quarterly retail annuity sales survey.

In the first nine months of 2017, overall annuity sales were $152.7 billion, 11% lower than in 2016. For seven straight quarters, fixed sales have outperformed variable annuity (VA) sales. That last happened nearly 25 years ago. The Institute predicts overall 2017 annuity sales to be around $200 billion.

Sales were down 13% from the same period in 2016, and fell for the sixth consecutive quarter. LIMRA expects VA sales to drop 10-15% in 2017, to below $100 billion. VA sales haven’t been below $100 billion since 1998.

LIMRA SRI’s Annuity Research director, Todd Giesing, blamed the decline on the Department of Labor’s fiduciary rule, whose fate has been delayed until at least July 2019. “We are confident the initial implementation of the DOL’s fiduciary rule on June 9th had a negative effect on sales, particularly on IRA contracts,” he said in a release. “We expect the environment to improve in 2018.”

For the first three-quarters of 2017, Jackson National was the top seller of VAs ($12.9 billion), New York Life was the top seller of fixed annuities ($8.5 billion) and AIG had the highest level of sales ($10.6 billion) among issuers with a balanced VA-FA offering. Allianz Life sold the most indexed annuities ($5.82 billion).

Annuity Industry Estimates

(Dollars in billions)

	Q3 2016	Q3 2017	Pct Chg Q3/Q3	YTD 2016	YTD 2017	Pct Chg 2016/2017
Variable						
Separate accounts	19.2	17.0	-11%	59.6	54.8	-8%
Fixed accounts	6.7	4.8	-28%	19.8	16.1	-19%
Total Variable	**25.9**	**21.8**	**-16%**	**79.4**	**70.9**	**-11%**
Fixed						
Fixed-rate deferred	8.5	7.4	-13%	31.0	26.8	-14%
Book value	4.6	4.6	-0%	17.4	16.3	-6%
Market value adjusted	3.9	2.8	-28%	13.6	10.5	-23%
Indexed	15.0	13.7	-9%	46.9	42.9	-9%
Fixed deferred	23.5	21.1	-10%	77.9	69.7	-11%
Deferred income	0.61	0.52	-14%	2.2	1.7	-25%
Fixed immediate	2.2	2.0	-9%	7.2	6.2	-14%
Structured settlements	1.6	1.4	-13%	4.4	4.2	-5%
Total Fixed	**27.9**	**25.0**	**-10%**	**91.7**	**81.8**	**-11%**
Total	**53.8**	**46.8**	**-13%**	**171.1**	**152.7**	**-11%**

Industry estimates reported for the third quarter 2017 based upon data from 64 companies, representing 96 percent of total sales.

Source: LIMRA Secure Retirement Institute, U.S. Individual Annuity Sales Survey (2017, 3rd quarter)

Variable annuities

Indeed, qualified VA sales dropped 24% in the third quarter, versus a 3% dip in non-qualified sales. Overall, third quarter variable annuity (VA) sales were $21.8 billion, down 16% from prior year. This is the 15th consecutive quarter of declines and the lowest level of quarterly VA sales in 20 years. Year-to-date, VA sales were $70.9 billion, 11% lower than in the first nine months of 2016.

The momentum of structured (or "indexed") variable annuities, which represent 8% of the total VA market, also flagged in the third quarter of 2017. Sales of these accumulation-focused products were $1.7 billion, up 15% from the third quarter 2016 but down 5% from the prior quarter.

Fee-based VA product sales were $560 million in the third quarter, more than 50% higher than third quarter 2016, but a slight decline from the previous quarter. Fee-based VA sales represent 2.5% of the total VA market.

Fixed annuities

Fixed annuity sales were not immune to the impact of the initial implementation of the DOL fiduciary rule. Third quarter sales were $25 billion, down 11% from 2016. Year-to-date, fixed sales also fell 11% to $81.8 billion.

Fixed indexed annuity (FIA) sales were $13.7 billion in the third quarter, 9% lower than in the third quarter 2016. In the first nine months of 2017, FIA sales were $42.9 billion, down 9% from prior year.

“A continued shift to accumulation focused-indexed products continues in the industry,” Giesing noted. “Sales of indexed annuities with a guaranteed living benefit (GLB) dropped significantly (27%) in the third quarter, compared with last year’s results; while sales without a GLB increased by 14%.”

The Institute is forecasting FIA sales to decline close to 10% in 2017, compared with 2016 sales results. In the third quarter, sales of fee-based indexed annuity products were $48 million, representing less than half of one percent of the indexed market.

“With nearly 60% of the FIA market sold through independent agents [who sell on commission], it is unlikely fee-based FIAs will experience significant growth unless regulations compel them,” the LIMRA release said.

Sales of fixed-rate deferred annuities (Book Value and MVA) fell 13% in the third quarter, to $7.4 billion. Year-to-date, fixed-rate deferred sales totaled $26.8 billion, down 14% from prior year.

Despite steady interest rates, SPIA sales fell 9% in the third quarter to $2 billion. For the past several quarters, SPIA sales have stayed in the $2-$2.2 billion range. Year-to-date, SPIA sales fell by 14%, totaling $6.2 billion. Deferred income annuity (DIA) sales dropped 14% to $520 million in the third quarter. In the first three quarters of 2017, DIA sales totaled $1.67 billion, down 25% from prior year.