Annuity sales survive COVID-19, but trail 2019: LIMRA SRI

By Editorial Staff *Wed, Oct 28, 2020*

The bright spot continues to be registered index-linked annuities, or RILAs. Third-quarter RILA sales jumped to $6.4 billion, or 33% over 2Q2020. Year-to-date, RILA sales were $15.8 billion, up 26% from 2019 results.

Total annuity sales were $54.8 billion in the third quarter of 2020, up 13% from the second quarter 2020 but 8% lower than prior year results, according to preliminary results from the Secure Retirement Institute (SRI) US Individual Annuity Sales Survey.

“Annuity manufacturers and distributors have largely overcome the operational hurdles caused by COVID-19 and social distancing measures, which has helped improve sales of most product lines, compared with second quarter results,” said Todd Giesing, senior annuity research director, SRI. “However, extremely low interest rates and continued market uncertainty are keeping many investors on the sidelines. As a result, the annuity market remains below 2019 sales levels.”

The bright spot continues to be registered index-linked annuities, or RILAs. They saw their 23rd consecutive quarter-over-quarter sales growth, rising 33% to $6.4 billion. Year-to-date, RILA sales were $15.8 billion, up 26% from 2019 results.

“In this economic environment, RILA products are very attractive to investors seeking downside protection with greater growth potential,” Giesing said in release. “In addition, we are seeing more carriers enter the RILA market, also spurring RILA growth.”

U.S. Annuity Third Quarter Sales Estimates

Variable	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q3 YTD 2019	Q1 2020	Q2 2020	Q3 2020	Q3 YTD 2020	Q3 2019 / Q3 2020	YTD 2020 / YTD 2019
Traditional VA (Less RILA)	19.3	21.7	21.7	21.9	62.6	21.1	16.3	17.5	54.9	-19%	-12%
RILA	3.5	4.1	4.8	4.9	12.5	4.9	4.5	6.4	15.8	33%	26%
Total Variable	22.8	25.8	26.5	26.8	75.1	26.0	20.8	23.9	70.7	-10%	-6%
Fixed											
Fixed-rate deferred	15.1	13.1	9.9	9.4	38.1	9.8	12.8	14.6	37.2	47%	-2%
Indexed	18.0	20.0	18.6	16.9	56.6	16.2	12.0	13.2	41.4	-29%	-27%
Deferred income	0.63	0.73	0.59	0.53	2.0	0.47	0.35	0.41	1.23	-31%	-37%
Fixed immediate	2.8	2.7	2.3	2.1	7.8	1.9	1.4	1.2	4.5	-48%	-42%
Structured settlements	1.5	1.6	1.5	1.9	4.6	1.5	1.2	1.5	4.2	0%	-9%
Total Fixed	38.0	38.1	32.9	30.8	109.1	29.9	27.8	30.9	88.5	-6%	-19%
Total U.S. Annuities	60.8	63.9	59.4	57.6	184.2	55.9	48.6	54.8	159.2	-8%	-14%

Source: LIMRA Secure Retirement Institute, October 28, 2020. $ in billions.

While total variable annuity (VA) sales dropped 10% in the third quarter of 2020 (from 3Q2019) to $23.9 billion, this was 7% higher than second quarter results. In the first nine months of 2020, VA sales were $70.7 billion, down 6% from the first three quarters of 2019. SRI expects VA sales to remain steady in the fourth quarter and to reach $89-$94 billion by the end of 2020.

Total fixed annuity sales were $30.9 billion in the third quarter, 11% higher than second quarter but 6% below prior year's results. In the first nine months of 2020, fixed annuity sales dropped 19% to $88.5 billion. Fixed annuities represented 56% of the total U.S. annuity market.

Fixed indexed annuity (FIA) sales continued to falter in the third quarter. FIA sales fell 29% to $13.2 billion. Year-to-date, FIA sales totaled $41.4 billion, falling 27% compared with 2019. Fixed-rate deferred annuity sales were $14.6 billion, up 47% from third quarter 2019. Year-to-date, fixed-rate deferred annuity sales totaled $37.2 billion, 2% lower than prior year results.

"Fixed-rate deferred annuities recorded the second highest sales since the Great Recession. For investors seeking a safe place to put their money during this period of increased volatility, there isn't another product that can compete with fixed-rate deferred crediting rates, which are, on average, 50 basis points higher than CDs," the release said.

“That said, demand for this product declined as the quarter unfolded,” Giesing added. “We expect fixed-rate deferred annuity sales will drop to $10-$12 billion in the fourth quarter but overall sales should be level with or exceed 2019 sales results, despite the challenging interest rate environment.”

Historically-low interest rates continue to undercut income annuity sales. Single premium immediate annuities (SPIAs) were $1.2 billion in the third quarter, 14% below second quarter results and 48% below third quarter 2019. This is the lowest quarterly level of SPIA sales in 16 years. Year-to-date, SPIA sales were $4.5 billion, down 42% compared with sales results from the first nine months of 2019.

Deferred income annuity sales (DIA) fell 31% in the third quarter to $410 million. Year-to-date, DIA sales were $1.23 billion, dropping 37% from prior year results. “Income is expensive under current market conditions. Investors are likely waiting for interest rates to improve before purchasing an income annuity,” said Giesing.

Preliminary second quarter 2020 annuities industry estimates are based on monthly reporting, representing 88% of the total market. A summary of the results can be found in LIMRA’s Fact Tank.

The top 20 rankings of total, variable and fixed annuity writers for the first half of 2020 will be available around mid-November, following the last of the earnings calls for the participating carriers.

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