As Equities Rise, So Do VA Sales—A Little

By Editor Test *Tue, Aug 20, 2013*

Prudential's variable annuity sales fell by 42% and MetLife's by 21% in the second quarter of 2013, compared to the first quarter, but other market leaders appeared to make up for the lost capacity, according to Morningstar's quarterly VA report.

Prudential and MetLife both experienced steep and, presumably, deliberate reductions in new variable annuity sales in the second quarter of 2013, but others—Jackson National Life, Lincoln Financial and American General—helped make up the difference.

Prudential gross VA sales were down 42% from the first quarter of this year, to $2.44 billion from $4.21 billion, while MetLife's sales were down 21%, to $2.75 billion from $3.52 billion, quarter over quarter. All figures are according to Morningstar's Variable Annuity Sales and Asset Survey for 2Q 2013.

In its second quarter results, Prudential reported net VA sales of $517 million. From July 2011 through June 30, 2013, Prudential has repurchased 35.2 million of its common shares for $1.9 billion, and has board authorization to spend up to $1 billion more to buy back shares before next June 30.

Prudential reduced its VA benefits and its compensation for intermediaries this year. Mark B. Grier, Prudential vice chairman, said in an August 8 conference call with analysts:

> "Our gross annuity sales for the quarter were $2.5 billion, down from $5.4 billion a year ago. The lower level of current quarter sales reflects actions we've taken to adapt our products to the current environment. As we discussed at our Investor Day in June, we've responded to market changes by pulling a number of levers to maintain appropriate return prospects and improve our risk profile.
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> "In February of this year, we introduced our current living benefit feature called HDI 2.1. The biggest changes in HDI 2.1 brought down some of the value of the guarantee by adjusting payout rates at various age bands. For example, to get a 5% annual income payout, the client must be aged 70 when payouts commence as compared to age 65 in the previous version of the product. We also eliminated the guaranteed doubling of the protected withdrawal value after 12 years.
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> "While leaving the rider fees unchanged at 100 basis points for individual contracts, and 110 basis points for spousal contracts, we also reduced the commission rates that we pay in February to maintain an appropriate balance between the value proposition to customers and compensation to our distribution partners. We implemented the commission change in a transparent manner, working with our broker dealer partners and we have maintained strong distribution relationships.
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> "Over the past year, we've also withdrawn our ex-shares or bonus product and suspended acceptance of subsequent premiums on generations of products offered before 2011. Additionally, in late July, we implemented a cap on subsequent purchase payments on the HDI products we offered prior to last August. We believe that our product continues to offer a solid value proposition in an attractive market and we regard our sales level as an outcome rather than a target."

Including TIAA-CREF's 403(b) variable annuity, the top five sellers—Jackson, Lincoln, TIAA-CREF, American General and MetLife—accounted for more than half of all VA sales in the second quarter. The top 10 sellers accounted for more than 75%.

Overall, thanks perhaps to the ongoing bull market in equities, second quarter 2013 variable annuity new sales were up 7.7% over the first quarter, to $36.9 billion from $34.3 billion. Sales were slightly lower than the $37.7 billion sold in the second quarter of 2013.

Morningstar reported a 37% gain in new sales at American General/SunAmerica, a 32% gain for Lincoln National and 25% for Jackson National. Variable annuity assets were up slightly ($331 million) at about $1.72 trillion. In a healthy sign, net cash flow was up.

"Net cash flow improvement was more pronounced in the second quarter, with $2.5 billion of positive net flow adding to $0.9 billion of positive flow in the first quarter to move the industry further away from a state of net redemption," wrote Morningstar Annuity Research Center project manager Frank O'Connor.

"While still low by historical standards, the improvement reflects an increase in new dollars deposited to VA products – a welcome development. As with new sales, the improvement is significant as it was broader based than in prior quarters… Cash drains from group contracts and exited companies continue to be the main culprits driving the low industry numbers."