
Despite Crisis, Total Annuity Sales Lag By Just 3%

By Editor Test *Tue, Sep 8, 2009*

Almost 90% of purchasers of new variable annuity contracts are electing living benefits and almost 60% are electing guaranteed lifetime income riders, despite industry-wide pull-backs in those benefits.

Higher fixed annuity sales offset lower variable annuity sales in the first half of 2009, so that total combined annuity sales were only three percent lower than in the first half of 2008, according to [LIMRA's U.S. individual annuities quarterly sales estimates](#).

Total quarterly individual annuity sales dropped to \$60.5 billion in the second quarter, down 9% from the first quarter of 2009 and 11% below the second quarter of 2008, LIMRA reported.

In the first six months of this year, individual annuity sales totaled \$126.8 billion. Year-to-date, fixed annuity sales rose 39% to \$64.2 billion while variable annuity (VA) sales fell 26% to \$62.6 billion, as compared to the first six months of 2008.

The top trends were: a “flight to quality” from weaker to stronger insurers, a relative recovery of variable annuity sales in the second quarter, and a slight decline in fixed annuity sales in the second quarter.

“Second quarter fixed sales fell quarter-over-quarter due to a decline in fixed annuity interest rates and their corresponding spreads in addition to annuity companies pulling back on issuing new business due to capital constraints,” said Joe Montminy, research director for LIMRA’s annuity research, in a release.

“You had a flight to fixed in the first quarter, but that started reversing itself in second quarter,” added Dan Beatrice, a senior analyst at LIMRA. “By the middle of the year, fixed sales were dropping off considerably and VA sales picked up. The equity markets have improved, and the spread has shrunk for fixed annuities.”

The volume of 1035 exchanges has dropped sharply, mainly because so many contract owners have in-the-money lifetime income riders and have little or no incentive to replace them with new contracts.

“We know anecdotally that there’s a tremendous reduction in exchange activity. That’s always been a challenging figure to quantify,” Beatrice said. “We know from the data we collect on persistency, and from speaking to people in the industry, that surrender rates have gone down,” said Dan Beatrice, a senior analyst at LIMRA. But he did not have net new sales figures.

Almost 90% of purchasers of new variable annuity contracts are electing living benefits and almost 60% are electing guaranteed lifetime income riders, suggesting that the financial crisis has not made those riders less attractive to investors.

“Despite the fact that there’s been tinkering with the riders, they’re still being elected. Almost 90% of the new contract owners are taking the riders. We can’t speculate on exactly why that is, but the drawback in

the rider benefits hasn't hurt the rate of election.

VA sales reached \$31.9 billion in the second quarter and experienced a shift when compared to first quarter results, increasing 4%. This was the first improvement in quarter-over-prior quarter VA sales since the second quarter of 2008. However, VA sales declined 24% when compared to the second quarter of 2008.

Second quarter fixed annuities sales hit \$28.6 billion, down 20% from the first quarter of 2009 but 11% higher than the second quarter of 2008. Fixed annuity sales have not declined on a quarter-over-quarter basis since the first quarter of 2007.

Sales of book value products fell 25% from last quarter but improved 17% from one year ago, recording a 53% growth year-to-date. MVA annuity sales were cut in half compare to the first quarter of 2009 and were down 6% compared to the same quarter last year but still increased 76% in the first half of 2009.

Indexed annuities experienced 14% growth for the quarter, resulting in a record high of \$8.1 billion in sales, which propelled year-to-date indexed annuity sales up 20% to \$15.2 billion.

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