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Fed easing clobbers fixed annuities

By Editorial Staff *Wed, Apr 22, 2020*

But sales of registered index-linked annuities (RILAs, aka 'structured variable annuities') posted a record high. RILAs offer more upside potential but less downside protection than fixed indexed annuities.

Fixed annuities of all kinds were collateral damage of the Fed's interest-rate easing move in March, as the central bank responded to the COVID-19 related crash in prices of stocks and bonds by lowering its target overnight rate to between zero and 0.25%.

Along with a new round of Fed purchases of bonds, the easing seems to have calmed investors. A drop in the overnight rate lowers the cost of borrowing generally and helps support the prices of existing bonds, but it also reduces the yield that issuers of fixed annuities can afford to offer to new buyers.

At $29.5 billion, total fixed annuity sales were 22% lower than in first quarter 2019, according to preliminary results from the Secure Retirement Institute (SRI) U.S. Individual Annuity Sales Survey.

"At the end of 2019, we had forecasted fixed annuity sales to fall in 2020. However, the economic fallout from the coronavirus pandemic—prompting the Federal Reserve to cut interest rates to record low levels—created a challenging environment for annuity manufacturers," said Todd Giesing, annuity research director at SRI, in a release. "All fixed products recorded double-digit declines."

On the other hand, sales of registered index-linked annuities (RILAs), which are considered variable annuities, were $5.1 billion in the first quarter, up 44% from the prior year. It was a sales record for RILAs, which AXA (now Equitable) introduced in 2010. Overall variable annuity sales rose 16% in the first quarter, marking the fourth consecutive quarter of sales increases.

"RILAs are positioned to do well under these economic conditions," Giesing said. "They offer the potential for growth with downside protection. We are forecasting RILAs to continue to grow in 2020."

Within the fixed annuity category, fixed indexed annuity (FIA) sales fell for the third quarter in a row. At $15.8 billion, sales were down 12% from first quarter 2019, before President Trump succeeded in pressuring Fed chairman Jerome Powell to lower rates last summer.

The spike in equity market volatility in March helped FIA sales, even as the 10-year Treasury rate dropped by 113 basis points.

Sales of fixed-rate deferred annuities fell 35% in the first quarter to $9.8 billion, compared with prior year results. However, this was 4% higher than sales results in the fourth quarter as investors sought the principal protection these products offer.

"As we saw during the Great Recession, we expect fixed-rate deferred product sales to improve in the second quarter as consumers seek to protect their investment from market volatility and losses," the SRI release said.

Sales of single premium immediate annuities (SPIAs) fell to their lowest quarterly level in nearly seven years, as the annual payout rate for a joint-and-survivor SPIA fell to only about 5%.

At just $1.9 billion, first quarter SPIA sales were down 32% from first quarter 2019. Deferred income annuities, which don't start paying out income until at least 13 months after purchase, totaled $530 million in the first quarter, down 16% from 2019.

Preliminary first quarter 2020 annuities industry estimates are based on monthly reporting, representing 82% 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 first quarter 2020 will be available around mid-May, following the last of the earnings calls for the participating carriers.