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## **FIA sales will exceed VA sales by end of 2021: Cerulli**

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By Editorial Staff    *Thu, Dec 13, 2018*

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*This article combines Cerulli's latest assessment of the annuity market with third-quarter annuity sales data from the Insured Retirement Institute, Beacon Research and Morningstar, Inc.*

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Fixed-indexed annuities (FIAs) and structured annuities are expected to see improved sales growth over the next few years, according to new research from Cerulli Associates.

“This finding could create new growth for insurance carriers looking for new opportunities to innovate their product offerings. Today, only 22% of surveyed carriers offer structured products,” a Cerulli release said.

Cerulli projects that FIAs will grow to 40% of total annuity production by 2023, which would put them on track to exceed sales of traditional variable annuities (VAs) by year-end 2021. Insurers continue to develop and enrich FIAs as many believe they offer advantages in almost any market environment: if interest rates rise, insurers can raise crediting rates; if rates are low, clients can focus more on index strategies, knowing they have downside protection.

“Indexed and structured annuities will likely fuel overall annuity industry sales growth over the coming years, although a rebound to the record years of 2007 and 2008 is unlikely to come any time soon,” said Donnie Ethier, director at Cerulli, in the release.

“As already seen to an extent in 2018, rising interest rates will add to the value proposition of traditional fixed annuities and income annuities. Any market downturn would also help FIAs continue to outpace VA sales.”

Total annuity industry sales were down in 2017, as a result of downward pressure from the Department of Labor Conflict of Interest Rule. However, the delayed implementation and subsequent repeal of the rule fueled a sales recovery, specifically for FIAs and VAs. Now insurers need to watch potential state-specific decisions.

“Cerulli forecasts that annuity sales will become more balanced across the major product types over the next five years,” explains Ethier. “Indexed annuity sales are expected to grow steadily and outpace traditional VA sales by 2021.” Ethier said, “Although a few VA carriers have increased the attractiveness of their optional guarantees, Cerulli does not see the sales trend reversing unless a greater number of VAs follow.”

Cerulli's latest report, "U.S. Annuity Markets 2018: Remaining Well Capitalized and Adaptive," analyzes the U.S. annuities marketplace, including distribution, product development, and asset management opportunities.

### **FIA sales, VA assets hit record highs in 3Q2018: IRI**

Fixed index annuity sales (\$18 billion) and variable annuity assets (\$2 trillion) hit record quarterly highs in the third quarter of 2018, according to the Insured Retirement Institute (IRI), Beacon Research and Morningstar, Inc.

"While sales dipped a bit in the third quarter, we believe annuity sales will continue to improve given the reduction in disruption and uncertainty following the demise of the DOL fiduciary rule last spring," said IRI President and CEO Cathy Weatherford, in a release. "We expect fourth quarter sales to remain strong and continue into 2019."

For the entire fixed annuity market, there were approximately \$17.9 billion in qualified sales and \$13.9 billion in non-qualified sales during the 2018 third quarter.

"We expect all fixed annuity product types to continue showing robust growth in 2019 in an investment environment that is likely to be marked by higher interest rates and increased market volatility," said Beacon Research CEO Jeremy Alexander.

Variable annuity net assets rose in the third quarter as the bull market in equities continued to drive higher valuations in subaccount assets, according to Morningstar. Assets reached \$2.0 trillion, up 1.9% from the second quarter and up 2.4% from the year-ago third quarter. Net asset flows in variable annuities were again in negative territory, at -\$19.4 billion in the third quarter, but that was an 8.1% improvement over -\$21.1 billion in the second quarter of 2018.

Within the variable annuity market, there were \$14.9 billion in qualified sales and \$8.1 billion in non-qualified sales during the third quarter of 2018. Qualified sales fell 3.7 % from second quarter sales of \$15.5 billion, while sales of non-qualified variable annuities were down 5.5 % from second quarter non-qualified sales of \$8.6 billion.

"Strong market performance pushed assets under management past [a record] \$2 trillion," said Michael Manetta, Senior Quantitative Analyst at Morningstar. "While we still see weakness in VA sales, levels are recovering from record lows reached last year, and sales should continue to improve in 2019 as rising interest rates have a positive effect on lifetime income benefit features and insurer risk capacity."

#### **Total annuity sales**

- \$54.9 billion. Industry-wide annuity sales in the third quarter of 2018
- 0% decrease from sales of \$56.0 billion during the second quarter of 2018
- 20% higher versus third quarter of 2017 sales of \$45.8 billion
- \$159.3 billion. Year-to-date total annuity sales
- Up 7.1% from 2017 third quarter year-to-date sales of \$148.8 billion

#### **Fixed annuity sales**

- \$31.8 billion in 2018 third quarter fixed annuity sales; flat compared to second quarter
- Up 40.9% from 2017 third quarter sales of \$22.6 billion

#### **Variable annuity sales**

- \$23.0 billion in 2018 third quarter variable annuity total sales
- Down 4.4% from 2017 second quarter sales of \$24.1 billion
- 1% higher than 2017 third quarter VA sales of \$20.9 billion

#### **Fixed indexed annuity sales**

- \$18.0 billion in 2018 third quarter sales, a record
- 1% increase versus 2018 second quarter sales of \$17.6 billion
- 7% higher versus 2017 third quarter sales of \$13.0 billion
- At \$7.0 billion, book value annuities sales were virtually flat in 2018 third quarter
- 2018 third quarter sales 56.4% higher versus 2017 third quarter sales of \$4.4 billion
- \$4.1 billion in market value adjusted (MVA) annuities sales, down 4.3% from 2018 second quarter sales of \$4.3 billion
- Up 53.3% from third quarter 2017 sales of \$2.7 billion

#### **Income annuity sales**

- 8% decrease from 2018 second quarter income annuity sales of \$2.9 billion
- 3% higher than 2017 third quarter income annuity sales of \$2.5 billion