Fiduciary Rule Hurts First Quarter Annuity Sales

By Kerry Pechter *Thu, May 25, 2017*

Sales of certain fixed annuities were lifted by the recent uptick in the Fed's benchmark interest rate, but sales of variable and indexed annuities were depressed in the first quarter of 2017 by uncertainty over the future of the DOL fiduciary rule.

Year-over-year U.S. annuity sales were depressed in the first quarter of 2017 by uncertainty over the Obama Department of Labor's fiduciary rule, which President Trump's Secretary of Labor, Alexander Acosta, said will be allowed to take effect on June 9 despite the objections of annuity industry trade groups and lobbyists.

Overall U.S. annuity sales were $52.0 billion in the first quarter. That was a slight rise from the fourth quarter of 2016 but a 12% percent decline from the first quarter of 2016, according to LIMRA Secure Retirement Institute's *First Quarter 2017 U.S. Retail Annuity Sales Survey*. 1Q2107 witnessed the fourth consecutive quarter of declines in overall annuity sales.

"Despite an improvement in the equities market and interest rate environment, uncertainty around the DOL rule overwhelmed any impact it may have had on annuity sales," said Todd Giesing, assistant research director, LIMRA Secure Retirement Institute, in a release.

Total first quarter indexed annuity sales were just over $12.9 billion. Sales were down almost 3% from the previous quarter, and down over 14.3% from the same period last year, according to Wink. (According to LIMRA, "Indexed annuity sales fell 13% percent to $13.6 billion. Much of this decline can be attributed to a drop in sales by the top two carriers.")

"The Department of Labor's fiduciary rule is imminent, and taking a toll on indexed annuity sales," said Sheryl J. Moore, president and CEO of both Moore Market Intelligence and Wink, Inc., in a release. "Insurance distributors have been so busy preparing for the rule that they haven't been able to focus on marketing products. Sales show it."

In the first quarter, variable annuity (VA) sales totaled $24.4 billion, down 8% year-over-year. VAs have seen only one quarter of sales growth when compared to prior years since 2012.

"While we believe the DOL is playing a significant role in the declining VA sales, this downward sales trend began before the DOL announced their rule," said Giesing. "Sales with a guaranteed living benefit (GLB) continued to decline at a much faster rate than products without. In fact, where we are seeing growth is in the structured VA market. In the first quarter, structured settlements grew 60% compared to first quarter 2016. This segment represents about five to 10 percent of the total VA market." (See LIMRA first quarter 2017 annuity sales chart below.)

Rank	Company name	Total	Company name	Variable	Company name	Fixed
1	Jackson National Life	4,698,105	Jackson National Life	4,459,109	New York Life	3,091,289
2	New York Life	3,908,072	TIAA	3,236,896	AIG Companies	2,177,802
3	AIG Companies	3,869,168	AXA US	2,666,109	Allianz Life of North America	1,703,065
4	TIAA	3,236,896	AIG Companies	1,691,366	Great American	1,270,447
5	AXA US	2,673,772	Lincoln Financial Group	1,554,915	Global Atlantic Financial Group	1,242,834
6	Nationwide	2,212,400	Prudential Annuities	1,423,882	Nationwide	1,108,900
7	Allianz Life of North America	2,195,217	Nationwide	1,103,500	Athene Annuity & Life	1,099,331
8	Lincoln Financial Group	2,117,087	RiverSource Life Insurance	948,165	Symetra Financial	1,080,295
9	Pacific Life	1,707,729	Transamerica	852,515	American Equity Investment Life	1,079,046
10	Prudential Annuities	1,521,345	New York Life	816,783	Pacific Life	1,029,076
11	Global Atlantic Financial Group	1,314,117	Thrivent Financial for Lutherans	703,957	Security Benefit Life	745,859
12	Great American	1,276,844	Pacific Life	678,654	Midland National	662,851
13	Athene Annuity & Life	1,099,331	Allianz Life of North America	492,152	Fidelity & Guaranty Life	596,308
14	Symetra Financial	1,082,390	Fidelity Investments Life	411,985	Principal Financial Group	572,706
15	American Equity Investment Life	1,079,046	Brighthouse Financial	399,440	Lincoln Financial Group	562,172
16	RiverSource Life Insurance	1,004,570	Northwestern Mutual Life	338,138	Brighthouse Financial	534,251
17	Brighthouse Financial	933,691	MetLife	245,315	Massachusetts Mutual Life	497,972
18	Transamerica	888,837	Ohio National Life	235,288	Delaware Life	480,919
19	Thrivent Financial for Lutherans	881,186	CMFG Life Insurance Company	183,806	Voya Financial	470,943
20	Security Benefit Life	793,104	Massachusetts Mutual Life	167,170	North American Company for Life and Health	460,330
	Top 20	**$38,492,907**		**$22,609,146**		**$20,466,396**
	Total industry	**$51,995,000**		**$24,400,000**		**$27,595,000**
	Top 20 share	**74%**		**93%**		**74%**

The Institute is forecasting a 10% to 15% drop in VA sales in 2017, to a total of less than $100 billion, which hasn't happened since 1998. In the first quarter, sales of fixed annuities fell 15%, totaling $27.6 billion. All fixed product lines sales experienced declines.

"Despite the decline in first quarter fixed annuity sales, this is the fifth consecutive quarter fixed sales outperformed variable sales," said Giesing. "The last time this happened was nearly 25 years ago."

In an op-ed piece in the *Wall Street Journal* on May 23, Labor Secretary Alex Acosta announced that the fiduciary rule would take partial effect on June 9, as the Obama administration intended. Indexed annuity distributors, as represented by the National Association of Fixed Annuities, expressed their disappointment in a release the following day.

Acosta said he would, nonetheless, ask for public comment with the possible intent of revising the rule in the future. It wasn't clear when he intends to hold new hearings or open new comment periods immediately, or if he might try to reverse the rule before January 1, 2018, when, barring reversal, the rule will go into full effect.

The delay will keep some parts of the annuity industry unsure how to proceed. Some brokerages and 401(k) recordkeepers have already changed their procedures, pricing, training and other business policies to conform to the rule. Tens of millions of dollars have already been spent on such changes.

Seven of the top 10 indexed annuity writers reported declines in the first quarter, according to LIMRA. Sales of indexed annuities with GLBs dropped off significantly in the first quarter, to the point where more indexed annuity sales were without a GLB than with one.

"While we typically see a seasonal decline in the first quarter, we suspect there are some companies reevaluating their product mix in anticipation of the DOL rule," added Giesing. "Unless there is a change in the DOL fiduciary rule rollout, we are anticipating indexed sales in 2017 to decline for the first time in a decade."

The Institute is forecasting indexed annuity sales will drop 5% to 10% in 2017 and another 15% to 20% in 2018 when the DOL's so-called BICE (Best Interest Contract Exemption) goes into effect. The BICE requires brokerages to pledge that advisors who sell indexed or variable annuities on commission will act solely in their clients' best interests, and to be legally liable for violations of that pledge.

Sales of fixed-rate deferred annuities, (Book Value and MVA) fell 16% in the first quarter to $10.1 billion. Excluding 2016, first quarter 2017 results were better than sales in the first quarter of each year since 2009.

First quarter 2016 was an atypical quarter. A large block of business came to term with a sizable amount reinvested in the new fixed annuity products, LIMRA said. The Institute forecasts fixed-rate deferred products to grow as much as 5% in 2017, and by as much as 15% to 20% in 2018.

Income annuities had a tough quarter despite steady interest rates, as the flexibility features in deferred annuities trumped the higher payouts typically seen in income annuities. First quarter single premium immediate annuity (SPIA) sales were $2.0 billion, down 20% when compared to the same quarter last year. Deferred income annuity (DIA) sales were down 26% in the first quarter, to $545 million.

The Institute projects income annuity sales to drop 5% to 10% in 2017, but then rebound by 10% to 15% in 2018. The Institute expects overall annuity sales in 2017 to fall below $200 billion, about a 5% to 10% decline, which will be the lowest sales level since 2001.