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## Fixed Annuities Outsold Variable in 2016: LIMRA SRI

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By Editorial Staff      Wed, Mar 22, 2017

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Despite a fourth quarter stumble, total fixed annuity sales reached \$117.4 billion in 2016, a new record. Sales were 14% above 2015 levels and nearly \$7 billion higher than the previous peak in 2009, according to LIMRA Secure Retirement Institute's Fourth Quarter U.S. Annuity Sales survey.

Overall, 2016 was a good year for every type of annuity except variable, whose sales dropped 21%, to \$104.7 billion from \$133 billion. Fixed indexed annuity (FIA) sales hit record levels in 2016, up 12% to \$60.9 billion, a record. Fixed-rate deferred product sales reached \$38.7 billion, up 25% from 2015. DIA sales increased 4% to \$2.8 billion in 2016.

Because of the softening in variable annuities, which represent such a large part of the market, total annuity sales fell 6% to \$222.1 billion. In 2008, total sales were \$265 billion.

The top five sellers of variable annuities were Jackson National Life (\$18.6 billion), TIAA (\$13.0 billion), AXA US (\$10.4 billion), Prudential Annuities (\$7.98 billion) and AIG Companies (\$7.86 billion).

The top five sellers of fixed annuities were Allianz Life (\$10.2 billion), New York Life (\$9.95 billion), AIG Companies (\$9.26 billion), American Equity Investment Life (\$7.13 billion), and Athene Annuity & Life (\$5.3 billion).

Since the end of 2008, VA sales have fallen by about one-third, or about \$51 billion. While Jackson National's VA sales have risen to \$17.2 billion from \$6.5 billion over that time, three major issuers in 2008—ING, John Hancock and Hartford—have all vanished from the top 20.

MetLife's annual VA sales have dropped to \$4.3 billion in 2016 from \$13.9 billion in 2008 and Lincoln Financial's to \$6.7 billion last year from \$11.1 billion eight years ago. TIAA, AXA US (previously AXA Equitable), AIG Companies, Lincoln Financial, Nationwide and Prudential Annuities were all among the top 10 variable annuity issuers in both 2008 and 2016.

### Year-end fade

The final quarter of 2016 was a bloodbath for annuities. Overall, fixed annuity sales fell 13% to \$25.7 billion, after strong results in the first three quarters. Fixed indexed annuity sales were down 13%, to \$14.0 billion from \$16.1 billion. Sales of fixed-rate deferred annuities, (Book Value and MVA) fell 9%, to \$7.7 billion. Variable annuity sales totaled \$25.3 billion in the fourth quarter, down 20% from the same quarter in 2015.

Income annuity sales also suffered in the fourth quarter. Despite the 85 basis point jump in the 10-year Treasury interest rate, fixed immediate annuity sales fell 23% in the fourth quarter to \$2.0 billion. Deferred income annuity (DIA) sales fell 30% to \$575 million.

Overall annuity sales declined for the third consecutive quarter and recorded the lowest quarterly sales since the first quarter 2002—\$51.0 billion in the fourth quarter, down 17% year over year.

“Unlike the last several years where indexed annuities propelled overall fixed annuity growth, in 2016, fixed-rate deferred was the primary driver of fixed sales in 2016,” said Todd Giesing, assistant research director, LIMRA Secure Retirement Institute.

“A large block of fixed-rate deferred annuities purchased in 2009 came due in the first half of the year, creating a significant amount of money in motion.” The Institute expects sales to rebound in the first quarter 2017, responding to the post election interest rate spike late in 2016.

## **Waiting for yields**

“This marks the ninth consecutive year of growth for FIAs,” noted Giesing. “We have noticed FIA sales have declined quarter over quarter since the Department of Labor (DOL) reclassified FIAs under the best interest contract exemption (BICE). Until there is some clarity on the DOL fiduciary rule, the Institute expects sales to continue to drop in 2017.”

“Until yields come up, consumers are going to resist giving up liquidity for the guaranteed income offered through income annuities,” said Giesing. “That said, demographics are in our favor, we expect slow steady growth in the income annuity market.”

Great American, Allianz Life and Lincoln Financial have begun wholesaling no-commission FIAs for brokers and agents who switched to a fee-based advisory model to avoid the impact of the BICE. But, even if the Obama fiduciary rule remains intact and in effect, they may not prove as popular as commission-paying products.

Advisors may find it difficult to levy a full advisory fee on assets that are in a packaged product. “I’m not sure how you can justify charging a management fee on a fixed annuity that typically has one time per year that you can change or modify the index option choices,” said Stan Haithcock, who is known professionally as “Stan the Annuity Man.”

“First of all, FIAs are fixed annuities, so the advisor is not managing risk. Secondly, the index option choices were designed in 1995 to compete with CD returns, and that is how they have historically performed. The caps and spreads—the upside limitations—are a little higher with these fee-based FIAs, but not as high as I expected with all of the commissions stripped out. I do not see these fee-based FIAs catching on with the advisors, who are the ones needed to push the strategy out to the consumer.”

### **Variable annuities’ long slide**

VA sales have been below \$30 billion every quarter of 2016 and have seen yearly sales declines for five consecutive years. VA sales are nearly \$80 billion lower than their peak in 2007 and are at their lowest level since 1998.

“Aside from the DOL fiduciary rule, one of the factors driving VA sales declines has been a drop in sales of products with guaranteed living benefit riders,” noted Giesing. “LIMRA Secure Retirement Institute is expecting sales of variable annuities with a GLB rider to be around \$50 billion in 2016. This is a decrease of nearly \$20 billion from last year, and a drop of over 50% from just five years ago.”

LIMRA Secure Retirement Institute’s fourth quarter U.S. Individual Annuities Sales Survey represents data from 96% of the market.

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