Retirement Income
JOURNAL

Honorable Mention

By Editorial Staff *Fri, Jun 4, 2021*

Annuity sales will rebound in 2021: Secure Retirement Institute; 'Income-oriented' models are a growth category: Cerulli; Equitable and Venerable close transaction.

Annuity sales will rebound in 2021: Secure Retirement Institute

The Secure Retirement Institute (SRI) is forecasting all individual annuity product lines except traditional variable annuities and fixed-rate deferred annuities to rebound in 2021. Overall individual annuity sales could see a slight increase in 2021, as the US and the insurance industry slowly transition from the global pandemic.

Longer term, SRI expects the total annuity market to benefit from improving economic conditions, shifts in demographic, as well as technology implementations. By 2025, SRI is forecasting the annuity market to grow as much as 30%.

There are several factors that will likely drive the annuity market:

- While economic conditions are forecasted to improve, historic low interest rates will continue to be a headwind.
- Products with protection features will continue to be in high demand.
- Demand for guaranteed income is expected to grow.

"The most significant factors that drive annuity sales are the economic and regulatory environment," noted Todd Giesing, assistant vice president of SRI Annuity Research. "How, and how quickly, manufacturers and distributors respond to external factors will dictate the ultimate impact of these changes. The rate of change and adoption of solutions to the challenges created by the 2020 global pandemic were accelerated, as companies looked for ways to adapt and show resilience amidst massive disruption."

A look at the individual products:

Traditional Variable Annuities (VA): SRI is projecting traditional VA sales to decline slightly in 2021. By 2022, traditional VA sales will flatten out as economic conditions improve. Slow growth will come back to the traditional VA market in 2023 through 2025. Improving interest rates will help carriers with pricing efficiencies in products with guaranteed living benefits, and smooth equity markets will aid in the slow growth of investment-focused traditional variable annuities.

Registered Index-Linked Annuities (RILA): The RILA market has experienced remarkable growth over the past few years and this trend is expected to continue through 2025. New manufacturers continue to enter the market and SRI expects some to introduce guaranteed lifetime benefits riders to broaden the appeal of these products to investors. By 2025, RILA sales are expected to be double what they are today.

Fixed Indexed Annuities (FIA): The indexed annuity market faced an extremely challenging environment in 2020, and as a result saw sales decrease by nearly $20 billion in 2020. Looking ahead, as interest rates improve, indexed annuities should slowly return to growth mode in 2021, but will face challenges as RILA's continued success will likely take a portion of flows away from FIA sales, particularly in the independent BD and bank channel. SRI does expect FIA sales to enjoy slow and steady growth through 2025, and to reach or exceed 2019 record sales levels.

Fixed-Rate Deferred Annuities (FRD): Record market volatility and highly competitive crediting rates drove 2020 FRD sales to their highest annual level since 2009, as consumers sought investment protection and guaranteed growth. Despite improving interest rates and market stability — which would normally drive investors toward other products with greater growth potential — FRD sales will be bolstered by the nearly $150 billion invested in short-term fixed-rate deferred products over the past three years that will be coming out of their surrender periods. Given the current market conditions, we expect many investors will likely reinvest in fixed-rate deferred annuity products due to the rising rates, driving sales to close to $50 billion over the next few years.

Income Annuities: Despite improving economic conditions, low interest rates will continue to challenge the value proposition of income annuities through 2025. In addition, more flexible income solutions, such as guaranteed living benefits, will continue to capture a majority of the flows for investors seeking income guarantees in their retirement portfolio. While the growing aging population will benefit these products, the challenges of limited liquidity and the inability for insurers to provide robust pricing to attract individuals to income annuities will limit income annuity sales growth.

'Income-oriented' models are a growth category: Cerulli

The latest issue of *The Cerulli Edge—U.S. Monthly Product Trends* includes an analysis of mutual fund and exchange-traded fund (ETF) product trends as of April 2021, explores asset managers' desire to expand their product offerings, and discusses why outcome-oriented solutions may serve as an entry point for registered investment advisors (RIAs) into model portfolios.

Highlights from this research:

- In April, mutual fund assets rose 3.7% to more than $19.6 trillion. Net flows were positive in April ($50.0 billion), although at a lesser scale than experienced in March ($61.0 billion) and February ($57.1 billion). ETF assets surged past $6 trillion during April, climbing 5.0% during the month to end at $6.2 trillion. In addition to April's equity market performance, net flows continue to propel the vehicle's assets, having added $75.3 billion during the month.
- Over the last decade, financial advisors have become far more confident in implementing ETFs in client portfolios. This greater comfort, along with greater model use and fee compression, has spurred many large asset managers, including former mutual-fund-only stalwarts, to expand their product offerings to include ETFs. Cerulli anticipates vehicle diversification will continue in coming years, as asset managers hoping to gain size and scope will need to give their clients the ability to access their investment capital in the vehicle that best suits their needs.
- Model providers may be better served providing targeted goals-oriented solutions that RIA practices can use to address specific needs than trying to contend with the sea of options competing for a limited market of true RIA outsourcers. Cerulli believes that income-oriented completion models are a meaningful growth opportunity for asset managers and model providers. The independent RIA channel may offer an ideal arena for establishing a foothold with its lower barriers to entry, especially for those with proven investment expertise that are launching new strategies.

Equitable and Venerable close transaction

Equitable Holdings, Inc. announced this week that it has successfully closed its transaction to reinsure legacy variable annuity policies sold between 2006 and 2008 with Venerable Holdings, Inc. and that AllianceBernstein will serve as the preferred investment manager for the transferred general account assets.

As part of the transaction, the Company also announced that its in-force variable annuity reinsurance entity, Corporate Solutions Life Re, has been acquired by Venerable. With the close of this transaction, Venerable's pro forma assets under management and reinsurance increase to approximately $70 billion.

On a pro forma basis, Venerable has more than doubled its general account assets from $9 billion to $19 billion, in addition to over $51 billion in separate account reinsured. The transaction includes reinsurance of a legacy variable annuity block from Equitable Financial Life Insurance Company with the combined deal representing $36.5 billion of underlying account value and general account assets. Venerable has also reinsured its existing business into CS Life Re, enabling operating efficiencies and optimizing liquidity for its collective book of business.

In accordance with the terms of the agreement, Equitable Holdings has acquired a 9.09% equity stake in Venerable's parent holding company, VA Capital Company LLC. In connection with such investment, the Company will have the right to designate a member of the Board of Managers of VA Capital Company LLC.

Equitable Holdings, Inc., is a financial services holding company comprised of Equitable and AllianceBernstein. It has about 12,000 employees and financial professionals, $822 billion in assets under management (as of 3/31/2021) and more than 5 million client relationships globally.