In 2010, VA Industry Thrived and Consolidated

By Editor Test *Wed, Mar 9, 2011*

Of $136.6 billion in total sales, $21.5 billion represented new cash flow, up from $17 billion in 2009. But the net cash flow was the third lowest in 12 years, after 2005's net flow of $20.4 billion.

"Variable annuities ended the year on a strong note by virtually all measures," writes Frank O'Connor in Morningstar's Variable Annuity Sales and Assets Survey for the final quarter of 2010.

Total sales reached $136.6 billion in 2010, up 10.3% from $123.9 billion in 2009. Of total sales, $21.5 billion represented new cash flow, up 26.7% from $17 billion in 2009.

"Not since 2006 has the change in year-over-year net flow been more positive than the change in sales," the report said. VA sales typically follow the fortunes of equity markets, which have gotten a boost over the past six months from the Fed's quantitative easing policy.

But the net cash flow was also the second-lowest in 12 years, after 2005's net flow of $20.4 billion. And last year's total sales were well off the 2007 sales peak of $179.5 billion.

For details on changes to specific annuity contracts in the fourth quarter, see the latest report from Ernst & Young's Retirement Income Knowledge Bank. Note also that Prudential has released a new white paper, *The Importance of Financial Risk Management in Today's Variable Annuity Market*.

In the fourth quarter of 2010, new sales of $37.1 billion reached a two-year quarterly high and posted a 17.4% increase over new sales of $31.6 billion in the fourth quarter of 2009.

The industry continued to consolidate. The top five issuers—Prudential, MetLife, Jackson National, TIAA-CREF and Lincoln National—accounted for $77.73 billion in sales for the year, or 57% of the total, and the top 10 issuers accounted for over 77% of sales. In 2005, the top five companies had a 42.8% share.

In terms of total VA assets, the biggest gains in 2010 were enjoyed by Protective (assets up 37.9% over 2009) Jackson National (up 27.8%) and Prudential Financial (up 14.6%). Declines were registered by Hartford (-11.7%), John Hancock (-4.6%), Pacific Life (-5.5%), Genworth Financial (-8.3%), Security Benefit (-10%) and Phoenix Life (-12.2%).

After TIAA-CREF's group variable annuity, the top-selling contract was Jackson National's Perspective II (7-year surrender period), followed by the B, L, and X shares of Prudential's Premium Retirement VA. Jackson National's Perspective L share contract was the fifth-best seller.

The survey also showed that:

- Year-end assets under management reached a milestone of just over $1.50 trillion, an 11.2% increase over year-end 2009 assets of $1.35 trillion and $3.2 billion more than the all-time record set in 2007.

- New cash flow in the 4th quarter slipped a bit from 2nd and 3rd quarter levels, but at $5.4 billion it was 84% higher than the 4th quarter 2009 net flow of $2.9 billion.
- At 15.7% the ratio of net flow to new sales was the highest since 2007; both measures point to improvement in terms of new money vs. exchange fueled sales.