Income-Generating Annuities Prospered in 2012

By Editor Test *Thu, Mar 28, 2013*

Investors are avoiding low-yield, accumulation-style fixed deferred annuities. Meanwhile, babyboomers seem to be flocking to fixed indexed annuities with rich living benefits or to deferred income annuities. Both provide guaranteed lifetime income streams.

The end-of-year 2012 results for fixed annuity sales are in, and, despite a few bright spots, they suffer from the effects of the Fed's equity-friendly rate-suppression policy. Here are the important news headlines for fixed annuities, according to the latest *Beacon Research Fixed Annuity Premium Study*:

- Total fixed annuity sales fell 6.5% in 2012, to $66.8 billion from $75.6 billion in 2012. Fourth quarter sales were down 2.2% from the previous quarter.
- Allianz Life was the top fixed annuity seller for calendar 2012, but Security Benefit Life was the top seller in the fourth quarter. Its Total Value Annuity, a fixed indexed annuity, broke into the ranks of the five top-selling fixed annuity products in the fourth quarter.
- Indexed annuities with guaranteed lifetime withdrawal benefits—a product with features that can help mitigate market risk, inflation risk and longevity risk—continued to thrive, with sales up 3.7% to an annual record $34.2 billion.
- Sales of income annuities grew 8.5% to $9.2 billion in 2012, with deferred income annuities (DIA) accounting for all of the gains. DIA sales increased 150% from the first to fourth quarters and surpassed $1 billion by year-end.
- Sales of fixed-rate non-MVA (market-value adjusted) annuities, their yields suppressed by Federal Reserve policy, saw a 33% drop in 2012 compared to 2011, falling to $18.8 billion from $28.1 billion.

Fourth quarter sales

Total fixed annuity results were $16.2 billion in fourth quarter, down 6.5% from a year ago and 2.2% sequentially. Annual sales fell 11.6% to $66.8 billion. Large losses in fixed rate annuity sales were responsible for the annual decrease. Most issuers of these products chose to lose sales rather than cut prices further, Beacon said.

Fourth quarter's income annuity results of $2.4 billion were up 7.2% from a year ago and 0.3% from the prior quarter. It was the third consecutive quarterly improvement. Indexed annuity sales were $8.5 billion in fourth quarter, 1.2% above a year ago but 3.2% below the prior quarter.

Looking ahead, Beacon Research CEO Jeremy Alexander said, "We think that 2013 will be another record year for indexed and income annuities. But we don't expect overall fixed annuity sales to change significantly."

The surprise success of deferred income annuities on the part of New York Life has inspired other carriers, including MetLife, MassMutual, Guardian and others to either step up sales of existing products or enter the market for the first time.

Several years ago, these products were called Advanced Life Deferred Annuities. The typical ALDA was envisioned as longevity insurance, since it wouldn't pay out until or unless the owner lived past age 85. Given mortality rates and a long deferral period, such coverage could be purchased cheaply.

But that was how academics and actuaries envisioned DIAs (or ALDAs). In practice, babyboomers in their late 50s and early 60s have been buying the latest generation of DIAs for income beginning around 10 years after purchase. As one life insurer put it, people are buying them as "personal replacement" rather than as longevity insurance.

Estimated Fixed Annuity Sales by Product Type (in $ millions)					
	Total	Indexed	Income	Fixed Rate Non-MVA	Fixed Rate MVA
Q4 '12	16,200	8,452	2,381	4,369	999
Q3 '12	16,570	8,735	2,374	4,434	1,026
% Δ	-2.2%	-3.2%	0.3%	-1.5%	-2.6%
Q4 '12	16,200	8,452	2,381	4,369	999
Q4 '11	17,330	8,352	2,221	5,409	1,346
% Δ	-6.5%	1.2%	7.2%	-19.2%	-25.8%
YTD 2012	66,810	34,198	9,197	18,840	4,584
YTD 2011	75,570	32,978	8,481	28,117	5,996
% Δ	-11.6%	3.7%	8.5%	-33.0%	-23.6%

Allianz was the top fixed annuity company in 2012, followed by New York Life, Aviva, American Equity and Security Benefit Life, a first-time annual top-five company. In fourth quarter, Security Benefit Life moved up from fourth place to take the lead for the first time. Fourth quarter results for the top five Study participants were as follows:

Fixed Annuity Sales ($000), 4Q 2012	
Security Benefit Life	1,398,773
Allianz Life	1,247,064
New York Life	1,122,196
American Equity	1,068,853
Lincoln Financial Group	908,694
Source: Beacon Research, March 27, 2013.	

In specific product sales, New York Life's Lifetime Income Annuity was the fourth quarter's best seller, as it was for all of 2012. Indexed annuities from Allianz and American Equity remained top products, with the Allianz Endurance Plus rejoining the top five in third place. Security Benefit Life's indexed Total Value Annuity joined the top five for the first time.

Top selling fixed annuities products, 4Q 2012			
Rank	Company	Product	Type
1	New York Life	NYL Lifetime Income Annuity	Income
2	American Equity	Bonus Gold	Indexed
3	Allianz Life	Endurance Plus	Indexed
4	Security Benefit Life	Total Value Annuity	Indexed
5	Allianz Life	MasterDex X	Indexed
Source: Beacon Research. March 27, 2013.			

In the fourth quarter, Security Benefit Life jumped from 14th place to take the lead in bank channel sales. Jackson National regained #1 status in the independent broker-dealer channel. Lincoln Financial Group was the new leader in fixed rate non-MVAs. The other top companies in sales by product type and distribution channel were unchanged from the prior quarter.

Security Benefit's formula

Some people in the annuity industry have been wondering how Security Benefit, which is owned by private equity firm Guggenheim Partners, has been able to offer such rich benefits and to achieve unprecedented sales levels. Judith Alexander, director of marketing at Beacon Research, said she did not know the answer, but she was willing to speculate.

"There are two possible answers," she told *RIJ*. "They may have made some investments that have seen high returns and they are using those returns to back the liabilities and to offer generous rates and rollups. Or they are willing to price the business at a lower margin than the more traditional carriers. They can do that because they're not publicly held companies. They may have a business plan that calls for taking lower margins in order to grab a larger market share. Both of those things could be true. They're not mutually exclusive."

Security Benefit has an A- strength rating from Standard & Poor but only a B++ strength rating from A.M. Best, Alexander said. Traditionally, products with less than an A rating couldn't make it onto the shelf of broker-dealers and banks, she said, so it surprised her that Security Benefit was able to become the top fixed annuity seller in the bank channel.

"I have heard that banks and broker-dealers are a little less stringent in their financial strength requirements than they used to be," she said. "In a more normal rate environment you might have needed an A from *both* A.M. Best and S&P to get in. Now it appears that you need an A- from one of them. Banks are desperate to get some higher-crediting fixed-rate products on their shelves."

If insurers elect to buy slightly lower-quality bonds or longer-term bonds in order to earn a bit more yield than is otherwise available, they run the risk that ratings agencies will reduce their strength ratings. But some insurers might be willing to sacrifice a notch of their ratings in order to offer customers more competitive interest crediting rates—especially if the strategy doesn't disqualify them from distribution by banks and broker-dealers, Alexander explained.