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## Low Rates Squeeze Fixed Annuity Issuers

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By Editor Test      *Wed, Nov 24, 2010*

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U.S. sales of fixed annuities were an estimated \$19.5 billion in third quarter 2010, according to Beacon Research's *Fixed Annuity Premium Study*. Sales were essentially flat quarter-to-quarter, with only a 0.3% increase, and were down 12% relative to third quarter 2009.

Estimated year-to-date sales of \$55.4 billion were 35% below YTD 2009, which was the strongest three quarter period in the eight-year history of the Beacon study. The data excluded structured settlements and employer-sponsored retirement plans.

Credited rates fell during third quarter, with top rates on multi-year guarantee annuities dropping to 3.5% from 3.9%. But the fixed annuity advantage over Treasury rates grew, and this helped MVA sales increase for the second consecutive quarter. The yield curve flattened, and fixed rate annuity sales by interest guarantee period shifted somewhat shorter as a result.

"Sales of fixed annuities were essentially flat quarter-to-quarter. This is puzzling because, although rates declined in third quarter, the spread between 5-year fixed annuity and Treasury rates widened, and that usually stimulates an overall sales increase," said Beacon Research president and CEO Jeremy Alexander. "But the current interest rate environment poses a challenge for issuers of these annuities because it pressures profitability. Until the interest rate environment changes, these profit pressures will motivate many issuers to limit sales."

"But MVA sales did grow 14% sequentially, so it seems that these annuities were the ones offering attractive rates. Issuers may have chosen to emphasize MVA sales because market value adjustments help to insulate them from interest rate risk. Indexed annuity sales were up 4%, partly because owners could potentially earn more interest relative to fixed rates on annuities and certificates of deposit. However, we believe indexed annuities did well mainly because of attractive lifetime income benefits, along with premium bonuses."

### Sales by category

Indexed annuity sales hit a record-high 44% of fixed annuity sales in the quarter, (42% YTD) climbing to \$8.6 billion, up 4% from the second quarter and up 17% from the third quarter of 2009. They Estimated results of the other product types were:

- Book value fixed annuities, which pay a declared rate for a specific period, \$6.9 billion, down 5% from the prior quarter but down 31% from the same quarter of 2009.

- Immediate and deferred income fixed annuities, \$2.3 billion, down five percent from the second quarter, up 17% year over year.
- Market value-adjusted (MVA), which pay a declared rate but may adjust in value on early withdrawal, \$1.8 billion, up 14% for the quarter and down 39% year over year.

On a year-to-date basis, indexed annuities also had Study-record sales and share of sales. Estimated YTD results by product type were: indexed, \$23.4 billion; book value, \$21.0 billion; fixed income, \$6.5 billion; MVA, \$4.5 billion. Income annuity sales improved 7% and indexed annuities were up 4% compared to YTD 2009. Book value sales fell 51%, and MVAs dropped 65%.

### Sales leaders by company

Allianz moved up a notch to become the quarter's sales leader, replacing New York Life, which came in third. Aviva advanced to second from third place. American Equity moved up a notch to come in fourth. Lincoln Financial Group rejoined the top five in fifth place. Results for the top five Study participants were as follows:

#### Fixed Annuity Sales Leaders (in \$thousands)

|                            |             |
|----------------------------|-------------|
| Allianz Life               | \$1,970,632 |
| Aviva USA                  | 1,655,341   |
| New York Life              | 1,442,571   |
| American Equity Investment | 1,220,590   |
| Lincoln Financial Group    | 956,277     |

### Sales leaders by product

Third quarter results include sales of more than 500 products, a Beacon Study record. By product type, Allianz Life remained the leading issuer of indexed annuities. New York Life replaced Western National as book value sales leader and continued as the dominant income annuity company. Great American led in MVA sales, supplanting American National. Top sellers included:

| Issuer            | Product                        | Contract Type |
|-------------------|--------------------------------|---------------|
| Allianz Life      | MasterDex X                    | Indexed       |
| Lincoln Financial | New Directions                 | Indexed       |
| American Equity   | Retirement Gold                | Indexed       |
| New York Life     | Lifetime Income Annuity        | Income        |
| Aviva USA         | BalancedAllocations Annuity 12 | Indexed       |

### **Sales leaders by channel**

In the bank channel, New Directions was the new bestseller and the first indexed annuity to dominate bank sales in the Study's history. Among independent producers, MasterDex X was again the leader. New York Life Lifetime Income Annuity was the top channel among captive agents and the New York Life Select Five Fixed Annuity led again among large/regional broker-dealers. In the wirehouses, Pacific Frontiers II (an MVA) replaced another Pacific Life product as the bestseller. Among independent broker-dealers, MassMutual's RetireEase income annuity repeated as the favorite product.

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