
Nervous Americans Not Flocking to Annuities

By Editor Test Tue, May 18, 2010

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Annuity sales are suffering, despite reports that volatility-shocked Americans want guarantees. (See [“Total First Quarter Annuity Sales.”](#)) Low interest rates are hurting fixed annuity sales while variable annuity issuers, still hurting from the financial crisis, have not enjoyed the bounce that a recovering stock market often brings.

Total annuity sales for the first quarter were \$47.4 billion, down 6.9% from \$50.9 billion in the previous quarter, and down 27%, from \$64.4 billion in the first quarter of 2009, according to a combined report from the Insured Retirement Institute, Morningstar, Inc., and Beacon Research.

Fixed annuity sales for the first quarter were \$16 billion, down from \$19 billion in the previous quarter, representing a 14.7% decline. Year-to-year quarterly sales of fixed annuities were down 51.9%, declining from \$34 billion in the first quarter of 2009.

“The quarter-to-quarter drop in fixed annuity sales was due mainly to lower book value and MVA results. It appears that prospective buyers expected higher rates in the future and did not want to lock in first quarter’s credited rates,” said Beacon Research President and CEO Jeremy Alexander.

“A year ago, fixed annuity sales hit a record high because of the flight to safety and strong fixed annuity rate advantage. It’s not surprising that year-over-year results were down substantially,” he added.

Variable annuity sales for the first quarter were \$31.4 billion, down 1.5% from \$31.9 billion in the previous quarter. Year-to-year quarterly sales of variable annuities were up marginally, posting a 3% increase from first quarter 2009 sales of \$30.4 billion. First quarter 2009 net sales were \$3.4 billion. There were \$21.7 billion in qualified sales and \$9.6 billion in non-qualified in the first quarter.

“While total sales were down slightly from fourth quarter levels, we saw continued strength in the sales of products offering robust living benefit guarantees,” said Morningstar, Inc. Director of Insurance Solutions Frank O’Connor.

“Products offering lifetime guaranteed withdrawal benefits with value enhancers such as step-ups and bonus credits represented the lion’s share of sales,” he said. “This is a reflection of the VA investor’s desire for higher returns in a low rate environment coupled with a willingness to exchange a percentage of those potential returns for the protection offered by these benefits.”