Variable Annuities Suffer Steep Net Outflows

By Editorial Staff *Thu, Jun 8, 2017*

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Variable annuity sales dipped to their lowest level in a decade in the first quarter of 2017, and annual sales are on track to fall below $100 billion. The industry suffered net outflows of 17.9% in the first quarter.

At $22.95 billion, new sales of variable annuities were down 4.22% from Q4 2016 and down 10.43% from the same quarter last year, according to Morningstar's quarterly VA Sales and Asset Report.

In the shrinking market, Jackson National, TIAA and Lincoln Financial were the only top-10 sellers to see a sales increase from the previous quarter. The rest of the top 10—who accounted for 80% of VA sales in the quarter—had double-digit sales declines from the previous quarter. Nearly every issuer had negative growth for the quarter.

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The evolving VA market has been buffeted by both positive and negative crosswinds. The rising stock market has been a tailwind; the interest rate environment has been a headwind for VAs while favoring fixed indexed annuities. Some firms have left the business. MetLife, once a big seller, has pulled back and spun-off its retail annuity business to fledgling Brighthouse Financial.

Voya Financial will soon be out of the book of VA business built by its predecessor, ING US. AXA has shifted its focus in part to a structured variable annuity that has no living benefits and therefore has low capital requirements. Jackson National's popular Elite Access B, an accumulation-only product, also has relatively low reserve requirements.

Most recently, the VA business has been hurt by the weight of its own product fees and by the DOL fiduciary rule, which makes it harder for advisors to accept third-party commissions when selling VAs to IRA owners.

With new sales of $4.46 billion in the quarter and a 19.43% market share, Jackson was by far the overall leader. Not counting TIAA, which sells group variable annuities, Jackson, had a big sales lead over the next biggest seller of individual variable annuities, AXA, which sold $2.5 billion in the quarter. Three firms, Jackson, TIAA and AXA, accounted for 58% of variable annuity sales in the quarter.

Among other firms with more than $100 million in sales, only five firms had increased sales compared to last year's first quarter and the previous quarter: Jackson, AXA, Fidelity, Northwestern Mutual, and Great-West.

"Much of [Jackson's sales surge] can be attributed to the fact that their living benefits, which are not the richest in the industry, require no managed volatility subaccounts or limits on equity exposure," wrote Morningstar senior project manager Kevin Loffredi, in the quarterly report.

Jackson's sales lead was most conspicuous in the Independent broker-dealer channel, where two-thirds of its sales in the quarter took place. The Lansing, MI-based insurer, a unit of the UK's Prudential plc, was also the top seller in the wirehouse and bank/credit union channels.

The top-selling product in the first-quarter was Jackson's Perspective II 7-year contract, which offers living benefit riders. Jackson's Elite Access B, an accumulation-focused contract that offers exposure to alternatives, was the eighth best seller. AXA's Structured Capital Strategies indexed variable annuity rose to third place in quarterly sales from 53rd place a year ago.

The captive agent channel, where TIAA dominates, led all channels in sales share with 39%, down slightly from 39.9%. The Independent channel share was 35.5%, up 1.8%. Each of the four other channels each had less than 10% share and were relatively unchanged.

TIAA, which started selling group variable annuities in 1952, has a 24% share of the total variable annuity assets under management, with $460.6 billion as of March 31, 2017. The next four largest AUM holders—MetLife, Jackson National. Prudential and Lincoln—have a combined 32% of the assets. The next five life insurers manage about 22.5% of the assets.

MetLife did not report sales of the MetLife branded contracts, Loffredi said. Morningstar is still receiving their assets and are combining their numbers with those of Brighthouse Financial.