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Fixed Annuity Sales Up 18%

■ BY HOWARD STOCK

Sales of fixed annuities through all channels totaled \$19.4 billion in the second quarter, a jump of 18% from the first quarter, according to a report by Beacon Research, which tracks fixed annuity sales.

"This is a nice increase, primarily due to spread advantages over Treasuries and" certificates of deposit, fixed annuities' main competitors, said Jeremy Alexander, the CEO of Beacon Research in Evanston, Ill.

"Rates were more attractive to both consumers and carriers"; the latter buy bonds to cover guarantees on fixed annuities.

When the spread between yields on fixed annuities and bonds is low, insurers often reduce rates on their products to make them less attractive; there is not much incentive to guarantee a fixed annuity rate when the profit is small on the bonds bought to cover those guarantees.

The recent market, however, has seen such tremendous demand for safe investments that yields have dropped on both fixed annuities and Treasuries and CDs, simply as

a function of supply and demand.

Corporate bonds, which insurers buy to back annuities, have not been so popular, and their yields are higher, widening the spread, which means insurers have a bigger interest in making their fixed annuity yields attractive, which has in turn led to higher sales.

Alexander predicted that this trend would continue for at least

The 2Q rise is "primarily due to spread advantages," a researcher says.

another quarter, and he said he expects fixed annuity premium growth rates of at least 10% this quarter.

Tempering this bullishness, though, are record fixed annuity sales figures from a year ago, when blind panic about market volatility sent investors careening toward anything with a guarantee.

Compared to the second quarter of 2009, "this is the fourth consecutive quarter numbers have been down," Alexander said.

He noted that banks, in particular, which are usually kings in the fixed annuity space, are not recovering as well as he would expect.

Though second-quarter bank sales declined 3% year-over-year, first-quarter sales dropped 25%.

The difficult recovery, Alexander postulated, may have a lot to do with many banks' loss-leading efforts to make their CDs more attractive, which is having a knock-on effect on the fixed annuities their advisers sell.

Meanwhile, independent insurance agents have continued to do a roaring business in indexed annuities.

They offer some exposure to upward market movement but for the time being are categorized with fixed annuities.

These agents' sales of indexed annuities are up 20%, year-over-year, as fixed-income investors, turned off by low yields but afraid of direct market exposure, hunt for greater returns. ■

IN BRIEF

Aite Criticizes IRA Legislation

A bill before Congress that would increase worker retirement savings would be a burden to small employers, according to a report from **Aite Group**.

The Automatic IRA Act of 2010 would offer employees who currently lack an employer-sponsored retirement plan the opportunity to default 3% of their income in a Roth individual retirement account through a payroll deduction.

If the bill is passed, employers with 100 or more employees would have to offer the auto-enrollment IRA retirement plans in the first year. Smaller employers would be required to offer it in subsequent years.

Employers that already offer a workplace retirement savings plan would be exempt.

Although Aite calls the government's efforts a "noble charter," its report says the processing procedure for the proposed plan would require employers to make many small monthly payments that could prove to be "unduly onerous."

Instead, Aite proposes integrating the IRA savings into the annual tax refund process, which would reduce the number of payments by 12.

Participants would then see "the direct tax benefit of saving for their retirement, and eligibility for tax credits would be directly integrated into the process," the report says. This would eliminate the operational burden on employers and save the government \$500 in tax credit per employer.

The report named three financial companies that would not have to make major changes to comply with the Automatic IRA Act: **Fidelity Investments**, which offers direct deposit from payroll into IRAs; **Charles Schwab Corp.**, which offers direct deposit from payroll into IRAs, and whose MoneyLink establishes an automated account transfer from a checking account into a designated Schwab account; and **Vanguard Group**, which offers a service similar

to those of Fidelity and Schwab.

Vanguard would likely have to make some minor adjustments to its infrastructure to establish a payroll deposit into a Roth IRA. — Paul Manchaca

Fine-Tuning for WealthCentral

Fidelity Investments said Tuesday that it has enhanced WealthCentral, its custodial platform for registered investment advisers.

It is now possible to create block orders from the portfolio modeling and rebalancing tool, and the search mechanism is more effective, the company said.

These and other enhancements, including automated alerts on short-term redemption fees, are in response to client feedback, Fidelity said.

The platform was launched in December 2008 and has more than 600 clients, and that number is expected to double in the next year.

Other functions include detailed fixed-income holding reports. The platform also features Oracle-powered customer relationship management, financial planning tools, portfolio rebalancing and trading, all on a unified, open architecture workstation.

Fidelity client Rick Adkins, president and chief executive officer of **Arkansas Financial Group**, commented, "With single sign-on connecting you to all of WealthCentral's applications and integration allowing these systems to share information, WealthCentral has proved to be a time saver, allowing us to spend less time on maintaining our technology infrastructure and more time taking care of clients."

Capstone Financial Solutions Vice President Doug Willingham said that, because his company used to use a stand-alone contact management system, it was necessary to export data to the wealth management platform. "With the integration of the systems and tighter controls, it's giving us more accurate data," Willingham said. — Lee Barney