

Annuity Sales Drop 7%

By Howard J. Stock

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Total annuity sales fell almost 7% from the fourth quarter 2009 to the first quarter of this year, from \$50.9 billion to \$47.4 billion, according to a new report by the Insured Retirement Institute.

If that doesn't sound like much of a decline, bear in mind that year-over-year annuity sales are down a full 27%, from \$64.4 in the first quarter 2009.

Fixed annuities proved to be the real drag, with sales falling 14.7% from \$19 billion to \$16 billion. FA sales are down a whopping 51.9% from a year earlier, when sales stood at \$34 billion.

Jeremy Alexander, president and CEO of Beacon Research, the Evanston, Ill.-based firm that supplied IRI with the fixed-annuity data, says that FAs may be down, but they're not out. First quarter sales were hampered by investors' renewed interest in mutual funds, which grew after months of outflows, and by investors' reluctance to lock in low rates on an annuity now when many pundits expect them rise soon. "Things will get brighter for fixed annuities," he says. "We just have to wait and see how this year shakes out."

Variable annuity sales only dropped by 1.5%, from \$31.9 billion to \$31.4 billion in the first quarter. Year-over-year sales of VAs were actually up by 3%, from \$30.4 billion.

"More confidence out there means more people will spread across variable options rather than at fixed rates," says Marco Chmura, team leader for Morningstar's VA data management group.

But while market enthusiasm spared VAs from too far a tumble, Chmura notes that higher fees, fewer benefits and restrictions on how aggressive investors can be, prevented VA sales from experiencing the spike that mutual funds enjoyed.