

Fixed Annuity Sales Drop 51.9% in Year, IRI/Morningstar/Beacon Report Shows

2010 data can't match last year's flight to safety, says Beacon chief in first-ever report

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Fixed annuity sales plummeted 51.9% in the first quarter of 2010 compared to a year ago, the Insured Retirement Institute (IRI) said in its first-ever quarterly annuity sales report, released Tuesday, May 18, with data provided by Morningstar Inc. and Beacon Research.

The 51.9% decline in year-to-year quarterly sales of fixed annuities reflected an \$18 billion drop from \$34.8 billion in the first quarter of 2009. Fixed annuity sales for the first quarter were about \$16.7 billion, down from \$19.6 billion as of December 31, 2009, representing a 14.7% quarterly decline.

“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,” said Beacon Research President and CEO Jeremy Alexander in a release. “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.”

Compared to fixed annuity sales, overall annuity sales also were off. Year-to-year quarterly sales of overall annuities were down 27%, declining from \$64.4 billion in first-quarter 2009. Sales for the first quarter were \$47.4 billion, down from \$50.9 billion in the previous quarter, representing a 6.9% decline.

Variable annuity sales for the first quarter were \$31.4 billion, down 1.5% from \$31.9 billion in the previous quarter, the IRI survey showed. Year-to-year quarterly sales of variable annuities were up marginally, posting a 3% increase from first-quarter 2009 sales of \$30.4 billion.

“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 Director of Insurance Solutions Frank O'Connor in the release. “Products offering lifetime guaranteed withdrawal benefits with value enhancers such as step-ups and bonus credits represented the lion's share of sales. This is a reflection of the variable annuity 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.”

Using Morningstar and Beacon data, Washington, D.C.-based nonprofit IRI designed its new annuity report to offer an industry overview on trends in both variable annuity and fixed annuity sales. As of March 31, Morningstar data show 48.6% of variable annuity assets in equity, 21.1% in fixed accounts, 15.7% in allocation, 11.7% in bonds and 2.8% in money markets.