

Fixed Annuity Sales Rise 18% in 2Q

By Howard J. Stock

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Total sales of fixed annuities across all channels rose 18% from the previous quarter to \$19.4 billion in the second 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 CDs," fixed annuities main competitors," says Jeremy Alexander, CEO of Beacon Research in Evanston, Ill. "Rates were more attractive to both consumers and carriers," the latter of which buys bonds to cover guarantees on fixed annuities. When the spread between yields on fixed annuities and bonds is low, insurers often lower rates on their products to make them less attractive, because there isn't much incentive to guarantee a fixed annuity rate is you're only making 25 basis points or so profit on the bonds you buy to cover those guarantees.

However, the recent market has seen such tremendous demand for safe investments, such as Treasuries and CDs, that yields have dropped on both simply as a function of supply and demand. Corporate bonds, which insurers buy to back annuities, haven't been so popular and their yields are higher, widening the spread, which means insurers have more of an interest in making their fixed-annuity yields attractive, which has in turn led to higher sales.

Alexander is predicting this trend will continue for at least another quarter, and expects fixed-annuity premium growth rates of at least 10% in the third quarter.

Tempering this bullishness, though, are record fixed-annuity sales figures a year ago, when blind panic about market volatility sent investors careening toward anything with a guarantee. Compared to the second quarter 2009, "this is the fourth consecutive quarter numbers have been down," Alexander says. He notes that banks in particular, usually kings in the fixed annuity space, aren't recovering as well as he'd expect. While second-quarter sales were down only 3% year over year, first-quarter sales were off by 25%. This difficult recovery, Alexander postulates, may have a lot to do with many banks' loss-leading efforts to make their CDs more attractive than competitors, which is having a knock-on effect on fixed annuities their advisors sell.

Meanwhile, independent insurance agents have continued to do a roaring trade in indexed annuities, which offer some exposure to market gains but which for the time being fall in 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.