

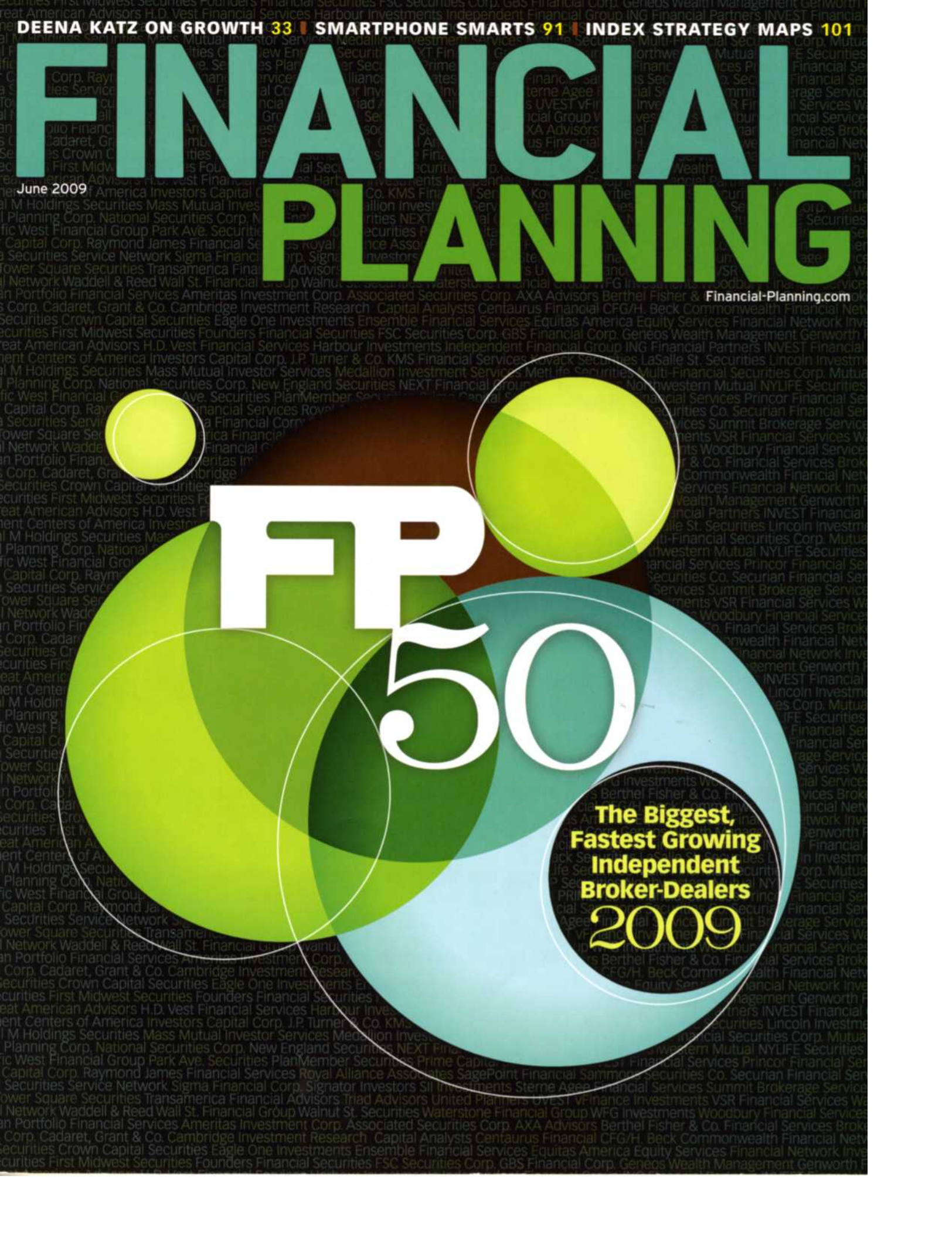
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Post-Boom

As insurers try to sell annuities to jittery consumers, many are turning back the clock on product design. By Paul Menchaca



Jeremy Alexander, CEO of Beacon Research, says that fixed annuity sales shone in the market downturn.

IT IS NO SECRET THAT AS INVESTORS continue their flight to safety, the variable annuity boom has at least deflated, if not entirely gone bust. More conservative retirement products are now in favor.

Sales of variable annuities topped out at \$151.63 billion last year, representing a 15% drop from 2007, according to Morningstar. Meanwhile, U.S. sales of fixed annuities hit an estimated \$107 billion in 2008, up 60% from 2007, according to data from the *Beacon Research Fixed Annuity Premium Study*.

In the fourth quarter of 2008, sales of fixed annuities reached roughly \$34.1 billion, the third straight quar-

ter of record sales since the study began six years ago. Jeremy Alexander, chief executive officer of Beacon Research in Evanston, Ill., is expecting this sales trend to continue when first quarter 2009 numbers are released.

"The fourth quarter was a pivotal quarter," he says. "That was the quarter that fixed surpassed sales of variable. But there was sort of an underlying story going on even before that—a large portion of dollars going into variable annuities were actually being put into fixed accounts and that's been increasing for awhile."

The trend points to another underlying story, one that now calls into question the efficacy of the industry's

strategy to pour so many resources into variable annuities as it awaits the estimated \$17 trillion in assets that will enter the market as baby boomers begin to retire *en masse*. What if, like Detroit's doomed dedication to the SUV, insurers find themselves caught up in a bear market with a suddenly unattractive product on their hands?

"What will be interesting is how things shape up going forward," Alexander says. "Will there be a permanent flight to safety after being hurt so badly? Clearly there has been some serious damage done to the variable side of the business."

KEEP IT SIMPLE

Al Close, senior vice president of Symetra Financial's insurance subsidiaries in Bellevue, Wash., says that investors are looking toward more conservative, more traditional annuities. For those in retirement, this means fixed deferred or immediate annuity products.

"They basically want to get one of those pensions that their parents had," he says. "Really the only way you can do it, frankly, is through some sort of income annuity strategy."

Which is not to say, however, that Symetra's variable annuity business has bottomed out as the company's other products draw more interest. In fact, Close notes that its variable annuity sales—specifically its Focus VA—have remained relatively steady through the market downturn.

