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Flight To Safety Drives Annuity Sales

Annuity sales continue to climb rapidly as investors look for a safe haven after the past years of volatility, according to the Insured Retirement Institute and Beacon Research.

Second-quarter sales results for all types of annuities were \$60.4 billion, a dramatic 10 percent increase from \$55 billion in second quarter sales for 2010, IRI says. Second quarter sales this year also were up 4 percent over first quarter sales of \$58.1 billion.

“The second quarter data definitively show that this year will indeed be a record setting one for the industry,” says Cathy Weatherford, IRI president and CEO. “This expansive growth not only demonstrates the growing interest in insured retirement strategies but also reflects the long-term confidence that investors are increasingly placing in these products.”

The sales increases are happening despite a decrease in interest rates from a year ago.

“Though (interest) rates have continued to decline, there has been a general flight to safety that may make third quarter another strong one for fixed annuities,” says Jeremy Alexander, president and CEO of Beacon Research, an independent research company.

The IRI is a not-for-profit organization representing the insured retirement industry.

Variable annuity year-to-year second quarter sales were up 15 percent to \$40 billion from \$34.6 billion, IRI says.

Year-to-year second quarter sales of fixed annuities remained flat at \$20.4 billion, but this year’s second quarter sales represented a 7.9 percent increase over first quarter 2011 sales of \$18.9 billion.

All but one type of fixed annuity saw dramatic second-quarter increases in sales compared to the first quarter, Beacon says. Income annuity sales were up 30 percent to \$2.3 billion, while indexed annuities grew 18 percent to \$8.4 billion. Fixed-rate market value adjusted annuities rose 4 percent to \$1.5 billion. Fixed rate non-market value adjusted annuities were the only ones that fell 5 percent to \$8.2 billion.

Bruce Ferris, senior vice president of sales and distribution for Prudential Annuities, attributes the increase in sales to investors remembering their experiences from three years ago.

“In 2008, investors lost 35 percent of their portfolios and most of it was from retirement nest eggs. That stimulated interest and education in annuities as an income you cannot outlive,” Ferris says. “I anticipate the interest will continue.”

For Prudential, sales in annuities were at \$10 billion in 2008 and increased to \$16 billion in 2009 and to \$22 billion in 2010, he says. Other companies have had similar experiences. New York Life Insurance Company ranked third in the nation in fixed annuity sales with a record of more than \$1 billion in sales during the first half of 2011. Chris Blunt, executive vice president in charge of Retirement Income Security, called fixed annuities a part of a safe and secure income retirement plan.

Laurence Greenberg, president Jefferson National Financial, has a slightly different view of the issue.

“While the overall variable annuity industry has seen a solid rise in sales, which many experts attribute to a continued focus on enhanced living benefits as well as the market rebound of late 2010 and early 2011, Jefferson National is focused on serving the growing market of registered independent advisors and fee-based advisors,” Greenberg says. “Sales of our flat-insurance fee VA have increased more than 50 percent year over year at the end of the second quarter, greatly exceeding the growth rate of the traditional commission based VA industry.”

Taylor K. Ranker II, CFS, of Ranker-Hanshaw Financial Group in Harrisburg, Penn., believes in the use of variable annuities but says his firm is not typical of all firms. When suggesting portfolio composition, the firm will present variable annuities as an alternative and found increased interest in 2008 through 2010 but has seen it cool a bit lately.

The increase in interest, Ranker believes, was because it made clients feel more secure after having experienced the market instability. At that time there was an increase in purchases of variable annuities with guaranteed income riders.

“A guaranteed income annuity can be one tool to use in a thoughtfully structured portfolio,” he says.

—*Karen DeMasters*

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