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WEAK ANNUITY SALES SHOW NO SIGNS OF RECOVERY, ANNUITY FYI SAYS

Sales Could Stay Depressed For Years, Adds The Online Informational Resource

PORTLAND, OR – (Marketwired - July 30, 2015) – Despite the retirement and pending retirement of Baby Boomers -- the most affluent and second-biggest generation in American history --annuity sales are faltering and may not rebound, according to AnnuityFYI, an online informational resource for annuity shoppers.

Data from the Insured Retirement Institute (IRI), Morningstar Inc, Beacon Research and LIMRA Secure Retirement Institute underscore the dip in sales of annuities, which are insurance products that generally guarantee income for life. According to IRI, the leading association for the retirement industry, total annuity sales in the first quarter of 2015, the latest official figure available, reached $52.7 billion – down 6.9 percent from $56.6 billion in the previous quarter and 6 percent from $56.1 billion in the first quarter of 2014.

Annuity sales typically decline between the fourth quarter and the first quarter for seasonal reasons, but not year-over-year. Annuity sales in all of 2014 rose 3.8 percent to $229.4 billion. That was a modest increase compared to earlier years, such as 2006 (up 10.3 percent), 2007 (up 8 percent) and 2008 (up 4.6 percent), according to IRI data.

Most Recent Numbers Show Continued Decline

In addition, preliminary data from Morningstar Inc., a leading provider of independent investment research, shows that the downward trend apparently continues. Morningstar tracks sales only of variable annuities, the biggest selling annuities with 59 percent of the market. Annuity sales fell 3.4 percent to $137.9 billion in 2014, and in fact, have been declining every quarter since 2Q 2014.

Morningstar also has variable annuity data for the first two months of the second quarter, when they continued to decline. Sales in April declined 3.5 percent to $11.11 billion and by 4.6 percent to $10.6 billion in May, according to Kevin Loffredi, senior product manager of annuity products at Morningstar.

“The balance in annuities between value and price has teetered too far to the wrong side,” Loffredi said. “That makes annuities less attractive.”

“There are people, including me, who hope that annuity sales will rebound, but that may not happen,” said Andrew Murdoch, senior vice president of market research at AnnuityFYI.

See-Saw Pattern in Annuity Sales

Over time, annuity sales have largely followed a see-saw pattern, IRI data show. But that pattern has been deteriorating, Murdoch noted. For example, 2012 was a particularly bad year, with sales declining 8.4 percent to $211.9 billion, according to IRI data. IRI data shows that sales typically fluctuate over time, impacted by shifting interest rates and a fluctuating stock market.

Murdoch said things now may be different, however. Interest rates, which strongly influence annuity sales, have been at record-low levels for years. The Federal Reserve is widely expected to begin increasing rates later this year, but it has said increases would be mild. If rates do not rise much, annuity sales will not rise much, Murdoch said. As it is, U.S. interest rates, as low as they are, are high by the standards of most industrialized nations, significantly trailing only rates in China, Murdoch added.

There is no guarantee that the U.S. economy will meaningfully rebound from this point, Murdoch said. U.S. economic growth in the first half of the year was only 1.5 percent at an annual rate, well below the average pace of the six-year economic recovery. Murdoch noted. Many other major economies have been faring materially worse for years, he added. European economics have wobbled in or on the edge of recession since 2008 and Japan, the world's third-biggest economy, still suffers from stagnant growth and deflation in the wake of the so-called "Lost Two Decades" from 1991 through 2010.

Annuity Sales Could Stay Depressed Indefinitely

"It would not surprise me if annuity sales remain depressed for the foreseeable future," Murdoch said.

Kevin Loffredi of Morningstar was more optimistic because he expects insurance companies to make annuities more attractive. Historically, that has required interest rate increases.

Loffredi said variable annuities, for example, once were much more attractive, generally charging fees between a quarter and a half percent a year and paying annual interest rates of 6 percent. Today, he said, fees are typically 1 percent to 1.25 percent a year and interest rates are commonly 4 percent to 5 percent. There are also more restrictions on equity sub-accounts, or mutual funds, he said.

Annuities are still good for some people, Loffredi said, "but the guard rails are up."

About Annuity FYI

Annuity FYI, founded in November 2000, is the nation's leading resource for learning about, comparing and selecting annuities. It offers annuity basics, describes the different types of annuities, and also helps annuity owners evaluate their annuities. In addition, it compares annuity rates, spotlights particularly attractive annuities and publishes informative articles about annuities. It attracts nearly 30,000 unique visitors a month.. Learn more at www.annuityfyi.com.

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