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Variable annuities selling at fever pitch

Clients' demand for income, principal protection fueled 2Q sales growth

By Darla Mercado InvestmentNews
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Investors, attracted by the allure of guarantees, gobbled up variable annuities during the second quarter, placing some insurers on pace to beat estimates and bringing broker-dealers closer to pre-crisis VA sales levels.

Major VA sellers reported leaps in volume. MetLife Inc.'s sales soared to $6.9 billion during the second quarter, an increase of 55% from a year earlier.

Allianz Life Insurance Co. of North America reported an increase of 24% to $981 million in the second quarter from a year earlier.

Its year-to-date sales total $1.9 billion — slightly ahead of its target, according to Robert DeChellis, president and chief executive of Allianz Life Financial Services LLC.

Lincoln National Corp. had an 8% bump in VA sales, reaching $2.4 billion.

The broker-dealers that are selling these products report a growing buzz from clients and a rise in volume.

Commonwealth Financial Network's VA volume is up nearly 20% year-to-date and is approaching pre-crisis figures, according to Ethan Young, annuity research manager at the firm. He declined to provide the dollar amounts.

Sales at Raymond James Financial Services Inc. are up for the fiscal third quarter and calendar year second quarter, climbing to $562 million, from $466 million.

“It's been a long time since we've seen that level of percentage increases,” said Scott Stolz, president of Raymond James Insurance Group, noting that it has been five years since sales increased this much.

The highest industrywide VA inflows in a quarter was $47 billion in the fourth quarter of 2007, according to Morningstar Inc.

There were about $38.7 billion in VA sales in the first quarter this year. Second-quarter industry sales aren't available yet.

Advisers, broker-dealer executives and insurance leaders all point to a common source of the VA boom: Customers are more interested in the principal protection and guaranteed income of an annuity, particularly at a time when other investments seem less certain, due to low interest rates. To some extent, larger tickets and attractive products from some providers also play a role in increased sales.

FEAR OF FLUCTUATION

“There's hesitation to do a conventional bond portfolio that would include mid- and long-term maturity bonds because of the concern of principal fluctuation,” said Mitchell Kauffman, principal of Kauffman Wealth Services, an affiliate of Raymond James Financial Services.

“It's a sign that clients are getting past the trauma of the economic downturn and recognizing they still have to contend with their financial security and planning needs,” he said.

That sentiment was echoed by Mark Casady, chief executive of LPL Investment Holdings Inc., during a second-quarter conference call with analysts last month.

“The variable annuity business is benefiting from something a little different from what we've seen before,” he said during the call. “We have end-client demand for protection we have not seen out of previous market cycles.”

LPL hasn't yet broken out its VA commission revenue for the second quarter, but first-quarter results suggest an upward trend: The firm made some $195 million in commission revenue from VAs, compared with $155 million last year.

Advisers note that clients don't necessarily come right out and ask for an annuity, but often ask for features readily found in an annuity. One client recently approached Richard Dragotta, a branch manager with LPL, in search of a 6% return on his assets.

“Clients say they need a way to protect their principal and make sure their checks are coming,” he said. “You need other ways to get educated risk in a balanced way with a safety net.”

SEEKING SECURITY

Advisers also report that wealthier clients have been asking more questions about variable annuities, resulting in larger tickets.

“Those ultrahigh-net-worth clients are looking to have a part of their portfolio backed by a reputable insurance company more so than in the past,” Mr. Kauffman said.

His firm has about $40 million in potential new VA business in process.

Although the second quarter wasn't a barnburner for product development, advisers were excited about the second-quarter release of MetLife Inc.'s guaranteed minimum income benefit. The so-called GMIB Max offers 6% compounded growth and 6% withdrawals per year of the benefit base.

MetLife was among the top three most popular options at independent broker-dealers.

“With a 6% benefit, where else can you pull that much money off of your portfolio? I don't know where that bond is,” said Brian Horn, a financial adviser at Somerset Wealth Strategies Inc., an affiliate of Raymond James Financial Services.

Not all insurers experienced a sales boost.

Prudential Financial Inc.'s gross annuity sales slowed to $4.5 billion in the second quarter, a 15% decline from $5.3 billion a year earlier.

The insurer had anticipated quarterly sales would fall following changes it made to its VA features in January.

CAN IT BE SUSTAINED?

Still, as sales rise, broker-dealer executives question how much longer insurers can continue taking on massive inflows, especially as sales come in above expectations.

“The question is, "At what point do you reach capacity?'” Mr. Stolz asked. “Insurers only want to write X dollars of variable annuities.”

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