



Insured Retirement Institute

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IRI Issues First-Quarter 2017 Annuity Sales Report

Annuity Sales Up, VA Assets Hit Two-Year High

WASHINGTON, D.C. – The Insured Retirement Institute (IRI) today announced final first-quarter sales results for the U.S. annuity industry, based on data reported by Beacon Research and Morningstar, Inc. Industry-wide annuity sales in the first quarter of 2017 totaled \$49.2 billion, a 2.1 percent increase from sales of \$48.2 billion during the fourth quarter of 2016, and an 18 percent decline from \$56.0 billion in the first quarter of 2016.

According to Beacon Research, fixed annuity sales during the first quarter of 2017 rose to \$25.9 billion, an 8.6 percent increase over sales of \$23.8 billion during the fourth quarter of 2016 and a 13.9 percent decline from sales of \$30.0 billion during the first quarter of 2016. Variable annuity total sales were \$23.3 billion in the first quarter of 2017, according to Morningstar. This was a 4.6 percent decline from sales of \$24.4 billion in the prior quarter and a 10.2 percent decline from \$26.0 billion in the first quarter of 2016.

“With the onus of providing for financial security during retirement falling more on the individual, it is encouraging to see continuing growth in the sale of annuity solutions,” said **IRI President and CEO Cathy Weatherford**. “We are pleased to also report that assets under management in variable annuities hit a two-year high this quarter, driven by positive returns on the retirement investments held in these products. As large numbers of Americans continue to reach retirement age every day, it is our belief that demand for annuities will continue to rise and the innovative retirement industry will continue to develop products which allow Americans to turn their savings into secure, lifetime income.”

According to Beacon Research, fixed annuity sales increased across all product categories except fixed indexed. Fixed indexed annuity sales declined 2.5 percent to \$13.6 billion from \$13.9 billion in the fourth quarter of 2016, and were down 10.1 percent from first quarter 2016 sales of \$15.2 billion. Overall fixed annuity sales rose on strong sales of book value and market value adjusted (MVA) annuities, combined sales of which were \$9.8 billion, up 32.6 percent over fourth quarter 2016 sales of \$7.4 billion. For the entire fixed annuity market, there were approximately \$15.0 billion in qualified sales and \$10.9 billion in non-qualified sales during the first quarter of 2017.

“\$25.9 billion (up 8.7% or \$2.059 billion) is a strong quarter. Q1 2017 sales of fixed index products sold thru independent producers and captive agents declined \$704 million (9.2%) and \$110 million (14.9%) respectively verses Q4 2016. This decline was partially offset by the \$468 million (22.4%) increase posted by banks and Savings & Loans (S&L). Sales of traditional, non- MVA fixed rate annuities by



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Banks and S&Ls increased \$1 billion or 53.6%. Not to be outdone, large and regional broker-dealers saw sales of fixed rate MVA products leap by \$750 million or 52.8%,” said **Beacon Research CEO Jeremy Alexander**. “There has been a marked shift in sales of fixed annuity products away from independent producers and captive agents towards the more highly regulated banks and broker dealers.”

Fixed Table 1. Quarterly Fixed Annuity Sales by Product Type

| (\$ Millions) | Quarter Ended | | | | |
|-----------------------|---------------|----------|---------|---------|-----------|
| | 3/31/17 | 12/31/16 | 9/30/16 | 6/30/16 | 3/31/2016 |
| Total Sales (Rounded) | 25,866 | 23,807 | 25,980 | 29,480 | 30,040 |
| Book Value | 5,913 | 4,366 | 4,582 | 5,752 | 6,190 |
| Market Value Adjusted | 3,847 | 2,995 | 3,635 | 4,138 | 5,080 |
| Indexed | 13,574 | 13,921 | 14,972 | 16,069 | 15,169 |
| Income | 2,531 | 2,525 | 2,792 | 3,524 | 3,602 |

Source: Beacon Research *Fixed Annuity Premium Study*

Fixed Table 2. Quarterly Market Share by Product Type

| (As a percent of total sales) | 3/31/17 |
|-------------------------------|---------|
| Indexed | 52.5% |
| Book Value | 22.8% |
| Market Value Adjusted | 14.9% |
| Income | 9.8% |

Source: Beacon Research *Fixed Annuity Premium Study*

According to Morningstar, variable annuity net assets rose 2.3 percent to \$1.94 trillion during the first quarter of 2017. On a year-over-year basis, assets increased 3.5 percent, from \$1.87 trillion at the end of the first quarter of 2016, as positive market performance overcame the impact of lower sales and negative net flows. Net flow in variable annuities fell to a record low of -\$17.8 billion in the first quarter, however this was partially offset by a revision to fourth quarter net flow, which was revised to -\$4.5 billion from the originally reported -\$7.8 billion. Within the variable annuity market, there were \$15.6 billion in qualified sales and \$7.7 billion in non-qualified sales during the first quarter of 2017.

“The first quarter is repeating the pattern of recent quarters; small decline in sales, more dollars coming out than going in, and an increasing amount in variable annuity assets. The equity markets deserve the credit for the increased net assets. Some of the pressures on sales are the same, interest rates and



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regulatory uncertainty and they don't show any signs of changing," said **Kevin Loffredi, Senior Product Manager at Morningstar**. "As in previous quarters we saw annuities with lifetime income options and investment freedom gaining more and more market share. We also saw healthy sales increases with the index-linked, or "structured" annuities, which provide a level of protection against downside risk."

Variable Table 1. Variable Annuity Net Assets

| (\$ Millions) | 3/31/17 | 12/31/16 | 9/30/16 | 6/30/16 | 3/31/16 |
|------------------|-----------|-----------|-----------|-----------|-----------|
| Total Net Assets | 1,941,226 | 1,896,741 | 1,920,970 | 1,880,176 | 1,874,682 |

Source: Morningstar, Inc., and Insured Retirement Institute

Variable Table 2. Quarterly Variable Annuity Total Premium & Net Sales*

| (\$ Millions) | Quarter Ended | | | | |
|---------------------------------|---------------|----------|---------|---------|---------|
| | 3/31/17 | 12/31/16 | 9/30/16 | 6/30/16 | 3/31/16 |
| Total Sales | 23,299 | 24,413 | 25,362 | 26,420 | 25,955 |
| Net Sales** | -17,803 | -4,525 | -10,763 | -5,586 | -9,794 |
| Net Sales as % of total sales** | -76.4% | -18.5% | -42.4% | -21.1% | -37.7% |

Source: Morningstar, Inc.

*Total Premium Sales, also called Total Premium Flows, represents the sum of new sales [all first-time buyers of a contract, including inter- and intra-company exchanges] and additional premiums from existing contract owners. Net Sales, also called Net Flows, represents Total Premium Sales minus surrenders, withdrawals, inter- and intra-company exchanges, and benefit payments.

**Morningstar estimates net sales based on a calculation methodology used across all investment universes for which Morningstar collects and publishes asset and performance data, including global open end mutual funds, separate accounts, and exchange traded funds.

Variable Table 3. Variable Annuity Assets by Asset Class

| (As a percent of total assets) | 3/31/17 |
|--------------------------------|---------|
| Equity | 39.4% |
| Allocation | 32.8% |
| Fixed Accounts | 17.6% |
| Bonds | 9.0% |
| Money Market | 1.2% |

Source: Morningstar, Inc.



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About Morningstar, Inc.: Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. The company offers an extensive line of products and services for individual investors, financial advisors, asset managers, retirement plan providers and sponsors, and institutional investors in the private capital markets. Morningstar provides data and research insights on a wide range of investment offerings, including managed investment products, publicly listed companies, private capital markets, and real-time global market data. Morningstar also offers investment management services through its investment advisory subsidiaries, with more than \$200 billion in assets under advisement and management as of March 31, 2017. The company has operations in 27 countries.

About Beacon Research: Beacon Research is an independent research company and application service provider founded in 1997 and based in Northfield, Ill. Beacon tracks fixed and variable annuity features, rates and sales. Its quarterly *Fixed Annuity Premium Study* is the first and only source to analyze fixed annuity sales at the product level, and the first to make a decade's worth of sales information available to subscribers online at www.annuitymarketstudy.com. Beacon lowers compliance risk and increases fixed annuity sales with 100% carrier-approved, comprehensive product profiles, spreadsheets and search tools for the advisor/rep websites of banks, TPMs, broker-dealers and marketing organizations. Carriers and financial institutions use its systems at www.annuitynexus.com for compliance review of 1035 exchanges, sales support, conservation and product research. Beacon also licenses information to other platforms. Directly and through licensees, Beacon information can be accessed by hundreds of financial institutions and thousands of advisors.

About the Insured Retirement Institute: The Insured Retirement Institute (IRI) is the leading association for the retirement income industry. IRI proudly leads a national consumer coalition of 40 organizations, and is the only association that represents the entire supply chain of insured retirement strategies. IRI members are the major insurers, asset managers, broker-dealers/distributors, and 150,000 financial professionals. As a not-for-profit organization, IRI provides an objective forum for communication and education, and advocates for the sustainable retirement solutions Americans need to help achieve a secure and dignified retirement. Learn more at www.irionline.org.

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