Fund Intelligence

Annuity providers trade ranks after market upheaval

Top players adjusting strategies, tactics after tumultuous Q1, but sales remain in line with prior quarters

Randy Plavajka
May 29, 2020

The annuity space has yet to show signs of a full return to form following a first quarter marred by the ongoing coronavirus pandemic, holding onto pre-crisis momentum to sustain sales.

Limra, a Windsor, Connecticut-based research group, found that sales of these products remained relatively flat to mixed in Q1 2020. Although these results somewhat dampened experts' outlook for a market that grew at a firm pace in 2019, some feel that the financial impact of the pandemic on the annuities was not as severe as initially anticipated.

Todd Giesing, head of annuity research at Limra, said industry players across insurance and asset management had every reason to believe that annuity adoption would tick upward in 2020 at the same rate as the year prior.

However, the March arrival of widespread Covid-19 cases in the US brought about nationwide shutdowns and an immediate move to digital channels for annuity sales and marketing teams accustomed to in-person dealings.

The annuity landscape would need to evolve at a rapid clip to handle the shift to remote work on top of the pressure from the interest rate environment, he argued.

Dylan Huang, senior vice president and head of retail annuities at New York Life, told Fund Intelligence that the increased pressure has led all carriers to make material changes to or outright discontinue certain products in order to be more resilient in the current market conditions.

"That said, solutions that provide protected growth are becoming more attractive and that is true for us as well," Huang said. "In fact, since the beginning of March, we've seen the demand for our investment protection guarantee in our variable annuity increase by nearly 50%."

The Covid-19 crisis has served as a wake-up call, Huang argued, reminding retirement investors that products with built-in stability and opportunity for growth with guarantees are the key to helping ride out market shocks.

Movement in the ranks

The top 10 players in the fixed and variable annuity sectors clambered for higher spots atop their respective rosters between Q4 2019 and Q1 2020. Firms like Lincoln Financial Group and Pacific Life gained steam in the VA space as longtime rivals lost sales momentum.

Lincoln specifically overtook TIAA for the third spot in the VA ranks. The Radnor, Pennsylvania-based firm took in an estimated $2.7bn in sales during Q1 compared to TIAA's $2.4bn.

TIAA remained flat from the prior quarter when it similarly registered $2.4bn and finished the year with $9.9bn in total VA sales over the 12-month span. Meanwhile, Lincoln finished 2019 with $9.8bn in VA sales after having pocked up $2.8bn in sales during Q4 alone.

Pacific Life made up considerable ground in the VA space too. After finishing 13th overall with $3.3bn in sales throughout 2019, the firm hurtled a handful of peers in Q1 to take the eighth spot with its estimated $1.1bn of sales. In Pacific Life's wake, Nationwide fell to the 10th spot in the VA ranks behind RiverSource, registering sales just shy of $1.1bn in Q1 2020 after picking up $4.7bn in 2019.

Nationwide found more success in the fixed annuity market. The firm generated $1.5bn in fixed annuity sales in Q1 to place fifth overall after finishing 2019 in the seventh spot, with $6.1bn of sales.. The firm sold an estimated $1.6bn worth of fixed annuities in Q4 2019, outpacing Athene, Pacific Life and Lincoln who all clocked in with Q4 2019 sales of $1.2bn or less.

Both Jackson National and AIG continued their dominance at the top of the variable and fixed annuity leaderboards, respectively.

Jackson took in nearly $4bn across its VA lineup during Q1 after picking up $3.7bn in Q4 2019. AIG took in $2.5bn across its fixed annuity lineup in Q1 2020, slipping from the $2.8bn of fixed annuity sales it totaled in Q4 2019.

For combined annuity sales, Jackson led the pack in Q1 in part because of its move toward fixed annuity offerings. The Lansing, Michigan-based firm took in an estimated $1bn of fixed annuity sales in the first quarter, landing in the 11th spot for the category behind Lincoln.

The entire annuity market racked up $55.9bn in sales throughout Q1, with the top 20 providers accounting for $43.1bn of the total, according to Limra. Fixed annuity sales finished at nearly $29.9bn on the quarter, outpacing VA providers and their $26bn of sales.

Annuity sales were down slightly from the year prior, as the industry took in $60.8bn during Q1 2019. Fixed annuity sales drove the bulk of the result, with $38bn at the end of the quarter, while VA sales comprised $22.8bn of the total.

Despite the drop, some industry watchers have cited the Secure Act as a possible driver for future growth and sales opportunities in the annuity space.

Shawn O'Brien, analyst at Cerulli Associates, told Fund Intelligence that BlackRock's partnership with Equitable and Brighthouse Financial represents the impact of the Secure Act on product development in the annuity space.

O’Brien said BlackRock’s approach falls in line with Cerulli research that suggested providers would and should start taking to incorporate lifetime income products into 401(k) plans. BlackRock’s LifePath Paycheck specifically was made to be a simple, cost-conscious solution using a fixed annuity to allow retirement investors to roll a portion of their target-date fund balance into a fixed annuity upon retirement, he noted.

Capital Group and its fund arm made a similar play in January alongside Lincoln as the pair launched a variable annuity underpinned by American Funds’ target-date series. The move was touted as unique for the annuity space at the time of its launch.

***