Personal Finance: Record Annuities Sales Tempt New Investors

By Linda Stern
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** Investors are pushing annuity sales to record levels*

** Demand coming when fixed annuity payouts are low*

** New products and features are in the pipeline*

Not too long ago, if you mentioned the word "annuity" to investors, their eyes glazed over. But now individual investors, panicked by stock market selloffs that threaten their retirement dreams, have been doing something they have never done before: asking for them.

Paradoxically, they are looking for these retirement insurance products that come with guarantees at a time when many annuity payouts are puny, thanks to ultra-low interest rates.

"This year will indeed be a record-setting one for the industry," said Cathy Weatherford, president of the Insured Retirement Institute, an annuities trade group that is hyping its annual meeting with a "Get Ready for Boom Time!" call to members.

Sales of annuities hit $60.4 billion in the second quarter of 2011, up 10 percent from the second quarter of 2010, the group reported.

Savers have been investing in both variable annuities, which allow investors to choose underlying investments and are typically used to accumulate retirement savings, and fixed annuities, which offer a guaranteed, preset monthly payment for life and are typically bought during a person's retirement years.

While there's no data on how many annuities are "sold" because they are pushed by insurance agents and brokers, there's anecdotal evidence of increasing demand.

In one month, New York Life [NYLIN.UL] exceeded its annual sales goal for a new deferred fixed annuity it unveiled in mid-July. "Retirees and those near retirement are searching for ways to safeguard their nest eggs and increase their payouts. This is fueling a growing hunger for guaranteed income," a spokesman said.

For years, annuities got a bad rap for high fees, confusing choices and poor investment performance.

"For the most part, annuities have historically been oversold," said Sheryl Garrett, a Kansas City fee-only financial adviser. "Right now, they may be being overbought."

American investors now seem to care more about guarantees and security than they do about wealth, according to a July survey by SunAmerica Financial Group and demographic research firm Age Wave. Some 65 percent of investors said they want investments that are guaranteed not to lose value and 60 percent seek to protect their income from market loss.

But Garrett contends that many advisers are too quick to meet consumer demand for security with annuities when there may be better solutions.

LOW RATES, LOW RETURNS

The new demand for secure payouts is unsurprising, given the rocky returns posted by stocks - the S&P 500 index is down 3.3 percent so far this year and has had several scary selloff days this summer. There's also minuscule interest paid by bank accounts and bonds. The benchmark 10-year U.S. Treasury is yielding 1.94 percent, near a generational low.

While low interest rates are driving the hunt for income, those same low rates also mean that immediate annuity payouts are exceptionally low, too. Buy-high, sell-low consumer investors may be racing to the right place at the wrong time.

"The resiliency of second quarter's fixed annuity sales is remarkable, given that interest rates were below those of the year-ago or prior quarters," said Beacon Research President and CEO Jeremy Alexander. "Though rates have continued to decline, there has been a general flight to safety that may make third quarter another strong one for fixed annuities."

Those low rates can make a significant difference to consumers.

Because insurance companies back their annuity promises by investing in bonds, low bond market rates translate into lower annuity payouts by hundreds of dollars a month.

In an article titled "The dangers of buying an annuity when interest rates are low," Thomas Cochrane, founder and publisher of Annuity Digest, offers this example: Robert, a 65-year-old man, buys a $100,000 annuity when 10-year Treasuries are yielding 5.4 percent and receives a guaranteed monthly payout for life of $835. If those Treasuries were yielding 3.4 percent, his monthly payout would be $708. And at recent yields of 2.29 percent, that same $100,000 would only buy Robert a monthly payment of $633.

Since immediate annuities are rarely indexed for inflation, locking one in at a time of record low rates could hurt the retiree who is counting on that payout to last for decades. After 20 years of 3 percent inflation, Robert would still be getting that same $633 a month, but it would only be buying him as much as $350 in today's dollars.

NEW SOLUTIONS

The annuities industry is trying to meet investor concerns by refining products. ING USA Annuity and Life Insurance Company now allows investors to benchmark their annuities to short-term interest rates, so they can take advantage of rising rates in the future.

The New York Life plan is a deferred fixed annuity, so savers can spread out their purchases over years, presumably taking advantage of rising interest rates along the way.

Retirees who want to lock in immediate fixed annuities can do that gradually, spreading out their purchases so they end up buying several smaller annuities over years instead of buying them all at once.

Consumers should also make sure they aren't paying too much for the warm comfort they think they are getting from annuities. "The monthly payouts of the best and worst deals among financially secure insurers usually vary by about 20 percent. That's a 20 percent difference in your monthly income every month of your life," said Bob Carlson, a financial adviser and editor of Retirement Watch newsletter.

Some web sites that offer comparison shopping for annuities include immediateannuities.com, fidelity.com and incomeannuities.com. Fee-only financial advisers who recommend annuities often steer clients to low cost versions such as those offered by Vanguard and Jefferson National.

Retirement savers may want to wait, not just for interest rates (and payouts) to rise, but for more of these new and improved products to come on the scene. "Income products are improving," said J. Mark Iwry, a senior Treasury Department official tasked with helping to formulate Obama administration retirement policy. "There is evidence of creativity and innovation in the market," he told Reuters in a recent interview.

Safety-seeking consumers can also take their concerns to a financial planner who doesn't sell annuities for a more objective opinion. Advisers who bill hourly, for example, don't have any incentive to sell annuities - or to talk investors out of them - as a financial planner who charges a percentage of assets under management might.

A good planner can compare annuities and review a client's entire financial picture to make sure that such an insurance product is a good fit in the first place. Some of those frightened investors may not need a change in strategy, just an attitude adjustment and a hand to hold.

This article can be found at http://www.reuters.com/article/2011/09/20/us-annuities-recordsales-idUSS1E78I1R120110920. Reporting by Linda Stern; Editing by Lauren Young, Beth Gladstone and Walden Siew.