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# Fixed Annuity Offerings Are Up

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When reviewing the Fixed Annuity Trends chart on this page, my first reaction is to note how many insurance companies have disappeared from the fixed annuity market.

In fact, my figures show that one in five has been merged into other companies over the past five years while the number of annuities offered has increased by nearly 14%.

Five years ago, only 20% of the companies shown in the *Fisher Annuity Index* offered annuities that included a Market Value Adjustment (MVA). Now, 40% of the companies offer annuities with MVAs.

Simply put, an MVA will increase or decrease the surrender penalty, depending upon market rates at surrender compared to the contract period guaranteed rate.

Five years ago, 19% of fixed annuities included an MVA; now 34% do.

The trend is definitely on the rise for more companies to offer more annuities with an MVA.

Actuarial beliefs about MVAs can be compared to a religion. It depends on which "sect" you are in as to the values or perils of an MVA clause.

The "Believers/Actuaries" are almost rabid about their particular belief. Some believe it allows the company to pay a higher rate, while others don't.

All agree that the MVA generally allows a smaller drain on surplus and better protects the company from lapse rates during rising rate periods. Marketing firms and agents all agree that annuities without MVA features are easier to sell, but guaranteed rates, as found in "CD" type annuities can overcome the MVA obstacle.

**The trend is definitely for more insurers to offer more annuities with MVA features**

The absolute "hottest" trend in fixed annuities is with "CD" type annuities, where the rate guarantee period matches the surrender penalty period. The number of companies offering a "CD" type annuity has doubled in the last five years.

Five years ago, only 25% of the companies offered a "CD" type annuity, but now the percentage has grown to 61%.

The percentage of "CD" types has grown from 21% to 36% of all fixed annuities found in the *Fisher Annuity Index*. Significantly, 70% of the "CD" types include an MVA.

The "CD" type sales figures I hear and read about are almost mind-boggling.

For example, the "Set Rate" annuity now represents 95% of all American General annuity premiums, totaling about $4.5 billion in the last 12 months. In less than two years,"CD" type annuities now represent over 75% of USG sales. Prior to that time, USG didn't offer one.

Basically, the same thing has happened at Clarica and American Equity. National Health Insurance Company, Presidential Life, and F&G Life have had similar results. "CD" type sales represented over 90% of American Heritage and Columbia Universal just before Allstate stopped their annuity sales.

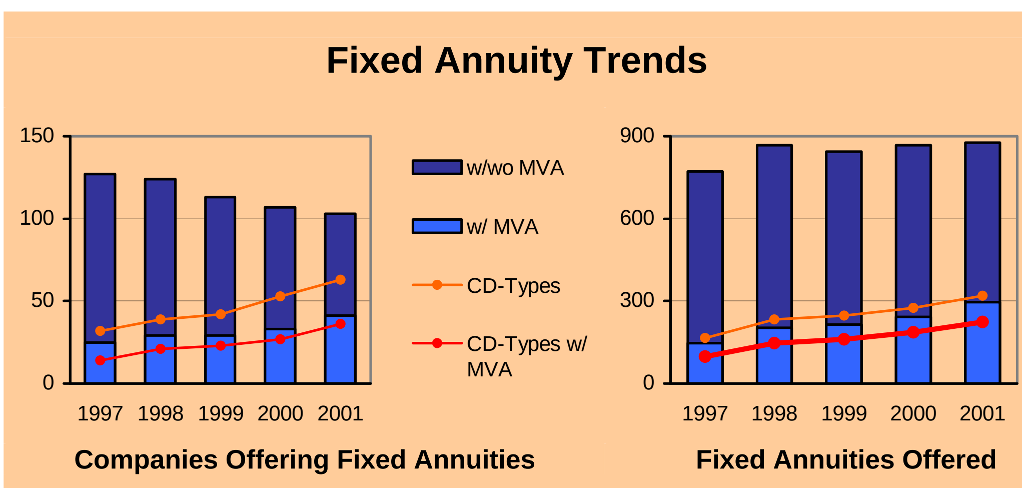
These stories can be told over and over.

The problem with "CD" type annuities is the drain on surplus, which causes most companies to come in and out of the market as they can accept premium.

While insurers can enter and exit the annuity sales arena at whim, it causes marketing firms unbelievable marketing problems, particularly in large metropolitan areas. When agents don't offer the best rates available, some one down the street will.

For example, a friend of mine for over 30 years and a member of my church recently called to ask what my current best deal was. I told her and she said she would be in my office in about an hour with a $100,000 check.

She never showed up. However, she did call the next day to tell me she had seen an ad in the paper on an annuity paying 10 basis points higher and she bought from the other firm.




*Abbreviation: With or With Out an MVA (W/WO MVA)*

Source: Fisher Annuity Index

The bottom line is that annuities with MVA features are here to stay and "CD" types will continue to dominate the fixed annuity arena.