

Fixed Annuity Sales Booming in Michigan, Nation

BY JAY GREENE

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One of the more positive developments during the seemingly ongoing meltdown in the stock and bond markets is the tremendous growth in fixed annuity sales nationally and in Southeast Michigan.

Several financial services professionals have told me over the past few months that investors are seeking the safer haven of fixed annuities because of the ups and downs, mostly downs, of the stock market.

They are excited, naturally.

"The incredible volatility and turmoil in the market has caused a flight to safety," said Ari Fischman, a financial services professional in the Southfield office of **New York Life Insurance Co.**

"Some people have lost half their net worth, with some bond funds down 25 percent. People are at a loss at what to do," Fischman said. "There is a flight to the guarantees of fixed annuities."

U.S. fixed annuity sales for 2008 totaled \$107 billion, up 60 percent over 2007, said **Beacon Research**. The Evanston, Ill.-based company surveys 51 insurance companies that represent 87 percent of the market.

Moreover, the fourth quarter results topped \$34 billion – a full 90 percent higher than the fourth quarter of 2007. It was the highest volume of sales in the six years that Beacon has tracked annuity sales.

Those are numbers my hospital executive sources would love to experience once again.

"It is no secret what we are going through tough economic times with the impact on the stock market and investments," said Nick Valenti, president of Southfield-based **Michigan Financial Cos.** "As a result, clients are looking at their 401(k) statements and it has not been a very pretty picture as far as returns."

Over the last year, Valenti said there has been a rapid increase in Michigan Financial clients' purchasing fixed annuities. The variable annuity contracts also are growing, but at a slower rate than fixed annuities.

"People want financial products that have guarantees, and fixed annuities have guarantees," said Valenti. Michigan Financial sells annuities through its affiliation with Boston-based John Hancock.

Nationally, New York Life closed 2008 with an 84 percent increase on total sales of \$2.4 billion compared with \$1.3 billion in 2007, company officials said.

In Michigan, New York Life sold 456 contracts that were worth \$42.2 million during the first 10 months of 2008, company officials said. Contracts sold were up 94 percent over the same period in 2007 and the contracted dollars were up 112 percent.

"My fixed annuity sales are up 200 percent," Fischman said. "I expect people to continue to leave investment banks and transition towards putting money with insurance companies."

While variable annuities have higher expenses than mutual funds and some other investment vehicles, fixed annuities are low-cost alternatives for investors and are similar to bank certificates of deposit.

The one downside of fixed annuities, which are sold by insurance companies and brokers as investment contracts that grow on a tax-deferred basis, is that they have surrender penalties if withdrawn early, Valenti said. The contracts typically are set at one to seven years.

"Some companies have much longer surrender charges (than seven years), but not the ones we market," he said.

But when interest rates rise, fixed annuities are a conservative investment vehicle along with CDs and Treasury securities. Fixed annuities can earn a 3 percent to 5.5 percent annual return. Rates for bank CDs are between 2 percent and 3 percent, and Treasuries have been yielding close to zero percent, experts said.

"I expect sales will continue to skyrocket because there still is a tremendous amount of uncertainty," Fischman said. "The government is pumping a lot of money into the economy and we don't know how it will turn out."

Fischman said, however, he expects that returns on fixed annuities will decline slightly this year as bank CD rates flatten.

Ed Eberle, president of **Seizert Capital Partners** in Birmingham, said people should take into consideration the rate of return over the life of the annuity as well as any expenses.

"I always tell clients that the market is teaching everyone what their true asset allocation should be and helping everyone understand their own risk tolerance," Eberle said.

Seizert manages funds for individual pension plans, high net-worth families and investors and charitable organizations.

"If someone can live with a fixed-rate of return and it is high enough to generate that I would not tell

them not to invest in a fixed annuity," Eberle said.

Annuity contracts also offer a guaranteed distribution of income until the death of the person or persons named in the contract. The first phase of the annuity requires the investor to deposit money into the account; the latter phase allows customers to receive annual income payments, depending on the contract.

"When annuities were first manufactured, it was a way to set money aside for a future date then get an income every month," Valenti said. "Most people today are not buying fixed annuities for that purpose, they are buying them for the guarantees in the contracts and a fixed rate of return."

Most customers now use annuities to accumulate funds and then take lump-sum withdrawals without using the guaranteed-income-for-life feature, Valenti said.

Valenti said the typical annuity buyer is someone over the age of 45 who is looking for a safe and guaranteed form of investment.

A number of Michigan Financial's clients are former automobile industry workers who have received buyouts or are rolling over their pension or 401k investments into individual retirement accounts with annuity contracts, Valenti said.

"Some invest in mutual funds, variable annuities and fixed annuities," Valenti said. "The guarantees in fixed and variable annuities has been very attractive to people."

Despite the massive losses in the equity market, Eberle said Seizert's clients are sticking to their long-term investment plan.

"They are conservative by nature but also recognize this environment is a time to be opportunistic," he said. "As fear becomes the prevailing mood, there could be bargains out there."

Eberle said some investment analysts take shots at annuities, saying they are too expensive.

"I am not that type. The key to remember is there are a lot of tools out there," he said.



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