

# Innovation Takes Off as Fixed-Rate Annuities Enter a 'Golden Age'

Fixed-rate annuity sales in the first quarter, which ends Friday, are expected to more than double over a year ago, according to the latest forecast.

By Cyril Tuohy | March 27, 2023

Last year more than one-third of annuities sold to consumers went to one product: fixed-rate.

The explosion of this category to \$113 billion in sales (the second-most popular annuity, fixed-indexed, didn't even clear \$80 billion, **Limra** data shows) is increasingly looking like a trend that may last. Fixed-rate products, also known as multi-year guaranteed annuities, are decidedly having a moment.

The simple, commoditized products were easily overlooked by agents in search of higher commissions, but they've become impossible to ignore. Not only are their rates soundly beating those of certificates of deposit, but also innovation is starting to take off, making CDs look even more inadequate.

"For any agent out there, this is the golden age of MYGAs right now," **Bobby Samuelson**, president of Life Innovators, an independent life and annuity product development company, said during a recent webinar.

With the shaky state of some banks, **Nicholas Ross**, chief strategy officer of **Financial Independence Group**, an independent marketing organization, added that advisors and investors will rely even more heavily on the products.

First-quarter sales are expected to be between \$37 billion and \$41 billion, more than double the \$16 billion sold a year ago, according to **Limra** forecasts.

"What I'm hearing from practitioners in the field, agents and financial advisors, is they like the flexibility of the terms," said **Chuck DiVencenzo**, president of the **National Association for Fixed Annuities**.

"The question is can we satisfy client needs with having a product that fits the investment portfolio in the right way."

That's become easier as fixed-rate annuities come in more flavors than ever. Some make it easier to have access to ready cash in exchange for higher fees, others waive surrender charges, and still others try to goose their interest rates a little by linking to an external index.

## Hybrid Product

Last summer **Ibexis Life** rolled out MYGA Plus, a hybrid design combining guaranteed interest with an index-linked option.



*NAFA CEO Charles "Chuck"  
DiVencenzo*



*Nathan Gemmiti, CEO, Ibexis Life*

Risk allocation falls in between a traditional multiyear guaranteed annuity and a fixed-indexed product. "That's the way to think about it," said **Nathan Gemmiti**, CEO of Ibexis.

The traditional option, or fixed-rate part of a five-year MYGA Plus contract offers a current rate of 5.8%, but the index-linked version is 7.5% if the S&P 500 rises over each one-year period.

If the benchmark index stays level or falls, the client doesn't earn any interest on the money allocated to that option, he said. If the S&P 500 goes up each year over the five years, the client would earn a total of 6.7% if funds were split between the traditional and index-linked option.

The contract is being sold through nine independent marketing organizations. "We're very happy with our sales numbers," Gemmiti said, declining to offer any details.

He, too, sees fixed-rate products entering a golden age helped by market tailwinds that include people living longer, baby boomers nearing retirement and corporate pension plans evaporating faster than the Great Salt Lake.

"MYGAs offer the safety and guaranteed returns that many desire," Gemmiti said in an interview.

Higher interest rates have turbocharged sales of fixed-rate and other types of fixed annuities, and on Wednesday the U.S. central bank raised interest rates by a quarter point, the ninth increase in a year, adding still more rate fuel to the fire.

### Tracking Rates

**Security Benefit Life's** RateTrack, which has been on sale since 2016, has worked well in a rising environment. The contract offers a combination base rate plus the Secured Overnight Financing Rate, or SOFR, floating rate, a benchmark that financial institutions use to price loans for business and consumers.

RateTrack annuities issued last March had a base rate of 1.6% and an initial SOFR rate of .44% for a total of 2.04%. On their first-year anniversary, SOFR is at 5.04%, and the interest rate for products being renewed has jumped to 6.64%, said **David Byrnes**, head of distribution at Security Benefit.

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Samuelson, in a follow-up email, said fixed-rate annuities will first and foremost be about the offered rate and the carrier's ratings, but that there's clearly room for differentiation. "We've seen several companies take creative approaches to the product structure."

Among them are **Fidelity & Guaranty, Aspida, Silac** and **Oceanview**, he said. Aspida has an annuity that reduces the guaranteed interest rate by 5 to 30 basis points in exchange for the ability of someone to freely withdraw cash at any time and other provisions, he said.

Today's insurers are investing in assets that allow fixed-rate products to pay better returns, he said. Insurers are an "industrial consumer of structured credit," which has historically offered above-market yields and relatively low realized risk. Multi-year guaranteed annuities have benefited, he noted.

## Customer Service

Meanwhile insurers are scurrying to keep up with demand.

F&G has ramped up its operations team to support the company's growth "with a focus on teams aimed to quickly on-board, train and flex staffing to maintain the highest service levels," **Catherine James**, senior VP of retail operations at Fidelity & Guaranty, said in an email.

Last year, the company was ranked No. 2 in customer satisfaction, according to **J.D. Power's** individual annuity survey. Sales of the company's fixed-rate products soared by triple digits last year, according to Limra data.

At **Athene**, 2022 sales of fixed-rate products surged by more than 15 times, according to Limra.



*Mike Downing, executive VP and  
COO, Athene Holding*

In order to meet demand, the insurer last year tripled new business processing capacity, grew operations staff by 60% and improved operating efficiency by 47%, said **Mike Downing**, chief operating officer of **Athene Holding**, parent of the company's U.S. operations.

The rapid expansion was completed in about six months. "As a result, Athene is meeting all new business service level requirements, 95% of new business with cash and in good order is issued within a day, even with continued record industry volumes," Downing said.

**Todd Taylor**, head of retail annuities for **New York Life**, said in an email that the company has built its external distribution team with people with expertise across different products to enable the carrier to dedicate resources to areas seeing big jumps in volume.

The strategy has been tested over the last year, he added, but appears to have paid off as the company finished 2022 as the No. 1 annuity seller in the country.

Sales in the company's career agency channel were up 38% last year to \$9.7 billion and in its external distribution channel more than doubled to \$13.2 billion, he said.

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