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Investors Pour Cash Into Higher-Yielding Fixed Annuities; Sales of fixed-rate annuities expected to log record for second quarter amid market turmoil

By Leslie Scism

Losses on stocks and bonds, plus higher interest rates, have turned investors toward fixed-rate annuities, a haven that is offering decent yields for the first time in years.

Second-quarter sales of various types of annuities are projected to top $74 billion, setting a record, according to life-insurance-industry-funded research firm Limra. That would be more than $5 billion above the previous record, which occurred in the volatile fourth quarter of 2008 at the peak of the financial crisis.

"It is a huge influx of money," said Todd Taylor, head of retail annuities at New York Life Insurance Co. At the 177-year-old company, sales of fixed-rate deferred annuities, a basic version of the product, roughly doubled in the first half of this year and are close to crossing the company's full-year record this month, he said. New York Life doesn't release specific sales figures.

The sales surge is good news for the life-insurance industry. Insurers make a substantial portion of their income by investing premiums to earn more than they must pay out to customers, and the ultralow interest rates of recent years made this tough to do with many products. The Federal Reserve's campaign to fight inflation with higher interest rates is bolstering investment income.

Fixed-rate deferred annuity contracts typically run three to five years. Interest accumulates at a set rate, akin to a bank certificate of deposit. For now at least, the annuities in general are paying substantially higher yields than bank CDs, according to financial advisers.

One of the appeals of fixed-rate annuities is that they don't lose value the way bond funds have in recent months as interest rates rose, said Todd Giesing, Limra's head of annuity research.

New York Life's biggest seller is a three-year contract with an annual rate of 3.2%, up from 1.6% a year ago. In addition to the higher interest, sales "are part of a de-risking strategy" by consumers, stemming from "the double whammy of stocks and bond funds both going down," Mr. Taylor said.

The average purchase size at New York Life is $150,000, and buyers typically range in age from the late 50s into the 70s.

The money is coming from both stock and bond holdings as well as older lower-yielding annuities, said Lauren Mitchell, vice president of annuity solutions at independent broker-dealer LPL Financial Holdings Inc.

Some money also may be coming from bank CDs, she said. The average three-year fixed-rate deferred annuity rate was 2.98% as of June 30, according to Limra, while the average three-year CD yield was less than 0.7%, according to websites that track CD rates. Smaller and online banks are offering higher yields.

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How are you approaching annuities in the midst of the current market volatility? Join the conversation below.

In one of the highest-yielding five-year fixed-rate annuity offerings from a carrier approved by LPL for use by its brokers, buyers can get 4.25% in annual interest for contracts of $100,000 and above, and 4.1% for those below $100,000, Ms. Mitchell said. That compares with 2.45% for such contracts a year ago.

Annuities aren't backed by federal government deposit insurance, as are bank CDs, but instead are protected through a state-based, industry-funded system of guarantee associations.

One drawback to annuities is that they can include surrender charges as high as about 7% if the buyer withdraws more than a specified amount before the end of the contract. Contracts typically allow specific penalty-free annual withdrawal amounts.

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