FINANCIAL SERVICES INDUSTRY GROUP

The $432B Boom is Just the Beginning: Why Margin Strategy Will Determine the Winners in Annuity's Golden Age

2024 was a record year for annuities – individual annuity sales were up 12 percent year over year, to a record $432.4 billion, according to LIMRA[1]. And 2025 looks to continue this trend of increasing annuity sales. For the sixth consecutive quarter, annuity sales topped $100 billion in Q1 2025.

	Q1 2025 Sales[2]	YoY Change vs. Q1 2024
Registered index-linked annuity (RILA)	$17.5B	21 percent increase
Variable annuity (VA)	$15.6B	14 percent increase
Fixed-rate deferred (FRD)	$39.5B	8 percent decrease
Fixed indexed annuity (FIA)	$26.7B	7 percent decrease
Single premium immediate annuity (SPIA)	$3B	17 percent decrease
Deferred income annuity (DIA)	$950M	19 percent decrease
Total Annuity Sales	**$105.6B**	**1 percent decrease**

As annuity carriers attempt to gain market share, perspective must shift from only cost reduction to maintaining and improving margins. Improving margins is the key to sustainable growth. To capture that growth, annuity carriers will need to contend with several key trends:

1 Market Uncertainty

Amid lowering interest rates and general uncertainty in the economy and broader regulatory environment, we expect this environment will invite broader interest into the annuity space. While annuity sales will continue to climb and be carried by MYGA and FIA products, we anticipate a resurgence of interest in riskier annuity products, including RILA and VA annuities. This shift will directly impact both the types of products sold and the channels through which they are distributed.

2 Greater Reliance on Third-Party Distribution

The largest share of annuities will continue to be sold through third-party distributors. Approximately 80% of all annuity sales are made through independent brokerages, agents, and other third-party distributors[3]. This will reinforce the strength of distribution partners. To win market share, carriers will need to differentiate themselves from other competitors, both with customers and distribution partners.

1 "2024 Retail Annuity Sales Power to a Record $432.4 Billion", limra.com

2 "Preliminary U.S. Annuity Sales Top $105 Billion in First Quarter 2025," limra.com

3 "Redefining Life And Annuity Distribution", McKinsey.com

3 Continued Decline of Defined Benefit Plans

Employees continue to see the decline of defined benefit plans and are less likely to believe that federal retirement plans like Social Security will be able to meet their retirement needs, if they will even be around at all. Coupled with the fear of inflation eating away at their retirement income, consumers are looking to address perceived income gaps.

4 Shifting Customer Expectations

Simple protection products are no longer enough for customers. There has been a shift away from life insurance as the center of a product portfolio. Instead, consumers are needing solutions to increasingly complex financial scenarios, and annuities are being used as the tool to achieve those goals. Personalization and product flexibility will be key to meeting these expectations.

5 Longevity Risks Breed New Challenges

People are living longer—this is challenging traditional retirement calculations. Instead of living for only 10 years after retirement, Americans are finding themselves living for 20 years or more. These assumptions are challenging key longevity assumptions, both for carriers in developing products and customers who purchase them. And these longevity concerns are creating additional questions around the quality of life they will have and how retirees will cover the inevitable unexpected costs, particularly around healthcare.

The struggle for carriers and insurance providers is simple — where are the next opportunities to support sustainable growth?

In our perspective, there are three opportunities for immediate and long-term sustainable growth:

1 In-Plan Annuitization

40% of Plan Sponsors Considering In-Plan Annuities in $11 Trillion Workplace Retirement Market[4]

2 Customer Education

Annuity Customers Who Don't Understand Their Product Have - 19 NPS vs. +55 for Those Who Do[5]

3 Distribution Strategy

Strategic Distribution Partnerships are Essential as Market Consolidates[6]

Growth Through In-Plan Annuitization

Employees face several key savings-related risks. In retirement, they face a serious longevity risk — will their fixed assets carry them through decades of living? They also face market volatility risks, where they can no longer assume a simple investment in the stock markets will protect their assets. The last few years have further highlighted the challenges of persistent inflation, particularly for those on fixed incomes. If the cost of eggs doubles, what does it mean for retirees? Do they simply withdraw more from their nest eggs?

This leaves retirees at risk of another shock – a personal spending shock. According to recent surveys, 59 percent of Americans cannot cover a $1000 emergency expense[7]. In retirement, a medical bill not covered by insurance—or any other unexpected cost—has the potential to jeopardize a retiree's financial stability.

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4 LIMRA, "In-Plan Annuities Are Gaining Momentum in the Workplace, Are They Poised to Be the Next Big Thing? Maybe," 2024. https://www.limra.com/en/newsroom/industry-trends/2024/in-plan-annuities-are-gaining-momentum-in-the-workplace-are-they-poised-to-be-the-next-big-thing-maybe/

5 2024 Study: J.D. Power, "2024 U.S. Individual Annuity Study," October 17, 2024. https://www.jdpower.com/business/press-releases/2024-us-individual-annuity-study

6 Boston Consulting Group. "Winning the Digital Future of Insurance Distribution." BCG Publications, May 24, 2024. https://www.bcg.com/publications/2023/insurance-industry-competitive-advantage-with-digital-distribution.

Arthur D. Little. "Designing Insurance Sales Channels for Maximum Impact." ADL Viewpoints, 2024. https://www.adlittle.com/en/insights/viewpoints/designing-insurance-sales-channels-maximum-impact.

Deloitte Consulting LLP. "Differentiating distribution to boost middle-market commercial insurance partnerships and production." Deloitte Insights, December 12, 2024.

7 "Most Americans Cannot Afford A $1000 Emergency Expense," cbsnews.com

One form of protection against these risks is guaranteed lifetime income. In a world where defined benefit plans are disappearing, in-plan annuitization provides a similar benefit to employees. Regular contributions through defined contribution plans can be used to purchase annuities, either as a part of a target fund or as a stand-alone product.

For employees, this offers real income protection against the risks mentioned above, while also providing the flexibility to choose the annuity that best fits their retirement goals. Historically, the main barrier for carriers and annuity providers has been securing plan-sponsor buy-in, but now may be a tipping point. A favorable regulatory environment, combined with growing competition among employers for talent, may create the right conditions for a fundamental shift in employer behavior.

Growth Through Customer Education and Segmentation

Conversations with annuity leaders and customers reveal persistent challenges in selling annuities:

- Educating consumers on how annuity contracts and benefits work is essential for both the initial sale and long-term retention.
- The diversity of annuity products means there is a wide variety of customer profiles, requiring marketing and sales strategies that meet consumers wherever they are.
- Since most annuities are sold through non-captive agents, carriers often struggle to own and grow direct customer relationships.

Educational opportunities have historically deterred sales, particularly on digital platforms. Historically, annuities have been sold almost exclusively through agents or financial advisors, with carriers providing limited tools and calculators on their websites for early-stage research.

However, there is an opportunity to overcome this barrier through the focused development of AI sales tools — especially those that clearly explain the benefits of annuity products. The potential impact is significant: a recent survey shows that the Net Promoter Scores (NPS) for annuity customers who fully understand their annuities is 55. Partial understanding plummets the NPS score to 18, and those annuity owners who do not understand their annuity have an NPS score of -19.[8] These scores strongly correlate with surrender rates. For carriers and distributors that are concerned with customer and annuity retention, developing tools that contribute to policy education both before and after the sale of an annuity should be a priority.

As interest rates decrease, we expect the sale of indexed-link annuities (e.g., RILA or VA) to increase. While initial use cases could be focused on simpler annuity products, the opportunity to sell increasingly complex annuity products will eventually require more sophisticated sales tools.

Growth Through Distribution

Historically, carriers have evaluated distribution partners on their ability to push a particular product type or to go after a specific demographic. While this is foundational, we believe that carriers should assess their distribution partnerships across three distinct criteria:

1 Sustainable Profitability and Performance

The desire to chase growth at all costs must be balanced with the sustainability of that new business. There are several ways to evaluate the sustainability of acquiring new business, but carriers must be disciplined in the metrics used to identify distribution performance. This begins with an assessment of cost reduction opportunities (with particular focus on commissions) but should also incorporate other performance measures. These KPIs will vary by carrier, and understanding these specific targets will be critical to the selection process.

2 Distribution Operating Model Integration

Carriers could transition away from isolated channels run as independent fiefdoms to a centralized distribution strategy that is enabled in part by specific partnerships. This goes beyond initial questions of selling direct to consumer or through the IMO channel. Instead, it is about understanding how to cast a

8 "Understanding Annuities And The Impact To NPS," JD Power

distribution net that is wide enough to capture as many target customers as possible while understanding which partners are the right ones to work with. Carriers must meet customers where they are, whether that is up or down market.

3 Understanding Carrier Value

Clearly articulating their value proposition and aligning with the right distribution partners will be critical for carriers in the selection process. For example, a broker-dealer partner may require a minimum credit rating or be accustomed to tiered service support. This highlights the importance of selecting distribution partners that are clearly aligned to both the carrier's strategic goals and that are a fit for the carrier's value proposition.

Carriers pursuing these efforts will be rewarded, but it will require a clear vision and execution to achieve these goals.

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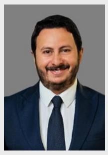

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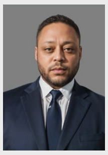

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