FINANCIAL SERVICES
INDUSTRY GROUP

In-Plan Annuities:

Meeting the Demand for Guaranteed Retirement Income

Americans are deeply concerned about their financial futures—and our recent research highlights the urgency of addressing retirement income security.

In a recent survey of retirement plan participants aged 40–60, a top concern emerged: the fear of outliving retirement savings. This anxiety received an average rating of 4.29 out of 5, with many respondents asking the troubling question:

"What happens if I run out of money in retirement?"

There is also a strong demand for guaranteed income:

70%
of respondents ranked guaranteed lifetime income as "Most Important"

92%
rated it at least "Very Important"

Despite this overwhelming interest, only 3% of participants had heard of in-plan annuities — a product specifically designed to meet this need.

This gap between consumer desire and product awareness signals a significant market opportunity.

What Are In-Plan Annuities?

In-plan annuities are annuity products offered within employer-sponsored retirement plans such as 401(k) or 403(b) plans. They allow participants to allocate a portion of their retirement savings to purchase an annuity directly within the plan. The result? A guaranteed stream of income during retirement, which can help protect against longevity risk.

In-plan annuities function similarly to their retail counterparts: they may be immediate or deferred, fixed or variable. Increasingly, they are also integrated into target date funds (TDFs)—with a portion of the participant's contributions automatically allocated to fund the annuity component over time.

Why Now? A Tipping Point for Growth

The concept of in-plan annuities isn't new — but the environment has shifted in their favor. A combination of factors is driving renewed momentum:

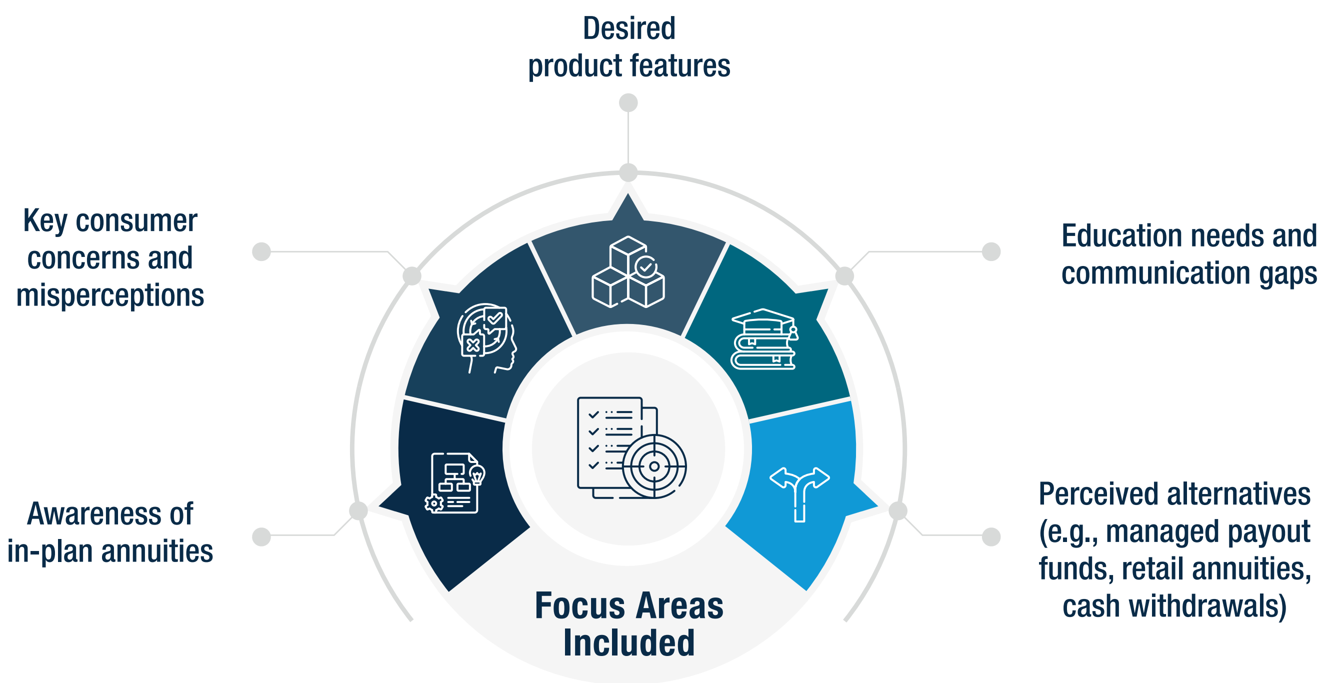
- Favorable regulatory developments (e.g., SECURE Act provisions)
- Heightened consumer demand for retirement income certainty
- Plan sponsors' and insurers' interest in growing assets under management

These conditions position in-plan annuities as a key growth area for insurance carriers and retirement plan providers alike.

Digging Deeper: A&M's Research Approach

To better understand the landscape, A&M conducted a mixed-methods study, including:

- A quantitative survey of participants aged 40–60 with varying income levels, marital statuses, and 401(k) balances.
- Structured interviews to explore motivations, concerns, and expectations around retirement income.



Reframing the Conversation: From the Three C's to SPACE

In conversations with industry stakeholders, a consistent theme emerges: the "Three C's" – Cost, Complexity, and Choice. These concerns are particularly relevant for plan sponsors evaluating in-plan annuities.

However, our research with plan participants revealed a different set of priorities—what we call the "SPACE" framework:

S — Simplicity

Plan participants overwhelmingly value simplicity. They want a clear, intuitive understanding of what their contributions will translate into at retirement—specifically:

"If I contribute X dollars, what monthly income will I receive at age Y?"

This level of transparency is critical to building confidence and trust.

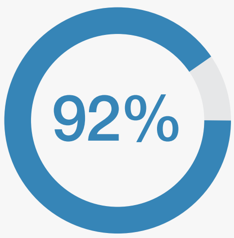
P — Portability

With employees changing jobs an average of 13+ times in their careers and a median job tenure of just 4.1 years (Bureau of Labor Statistics) , portability is a major concern.

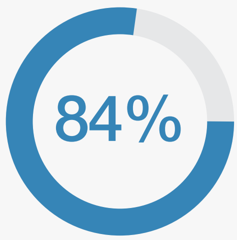
Participants want the flexibility to roll over or liquidate annuity products easily. In fact, portability ranked as the second most important concern when evaluating in-plan annuities.

A — Adoption

There is a strong desire for employer-sponsored in-plan annuities:



of survey respondents said they want their employer to offer one.



said they would be more likely to purchase an in-plan annuity if it were automatically included as an option within their defined contribution (DC) plan. Making the annuity available through existing benefit infrastructure creates a low-friction path to adoption.

C — Comparison

Participants want help understanding how in-plan annuities stack up—not just against other annuity products, but also against alternative financial tools, such as indexed universal life (IUL) insurance or real estate.

Credible, easy-to-understand comparison illustrations will be essential in enabling informed decision-making and demonstrating the relative value of in-plan annuities.

E — Education

Education emerged as a **critical barrier**. While participants express confidence in their ability to research financial products—scoring themselves **4.33 out of 5**—their confidence in independently purchasing an in-plan annuity was much lower, at **3.42 out of 5**.

Participants want guidance from trusted sources, with **financial advisors** topping the list and **chatbots/AI ranking** lowest in perceived trustworthiness.

[1] BLS Report, 2023

The Disconnect: Strong Demand, Slow Adoption

As these insights show, there is a clear and growing demand among employees for guaranteed lifetime income through in-plan annuities. Yet, despite this interest, market adoption remains sluggish. Why are new entrants struggling to gain traction?

The answer lies in a series of persistent and interconnected market challenges:

1. Plan Sponsor Adoption

Plan sponsors remain hesitant to implement in-plan annuities due to perceived cost, complexity, and fiduciary risk.

Even with the SECURE Act offering safe harbor provisions, concerns about potential Employee Retirement Income Security Act (ERISA)-related litigation—including lawsuits targeting board members—continue to pose barriers. Many sponsors are risk-averse, and the lack of precedent in this space amplifies that caution.

2. Participant Education and Benefit Communication

Most employees have limited awareness of in-plan annuities and struggle to understand their benefits, especially the value of guaranteed lifetime income.

Compounding this is the fact that many plan sponsors themselves lack expertise in annuity products and are not equipped to educate participants effectively. This lack of understanding on both sides leads to low enrollment and weak product penetration—critical metrics for success.

3. Product Complexity

Annuities are inherently complex products, and in-plan annuities add another layer of difficulty due to administrative and recordkeeping requirements.

Carriers and asset managers are tasked with designing solutions that are flexible enough to meet participant needs, yet simple enough to be understood and implemented without friction. Striking this balance remains a major challenge.

4. Capital Intensity

Offering in-plan annuities requires significant capital reserves to meet regulatory requirements and ensure long-term financial strength.

This creates a high barrier to entry, favoring:

- Mutual insurers
- Private equity-backed carriers
- Large asset management firms with substantial Assets Under Management (AUM)

To succeed in this space, carriers must maintain:

- Strong financial ratings (e.g., AM Best)
- Healthy Risk-Based Capital (RBC) ratios
- Sufficient surplus reserves—both immediately and over the long term

5. Distribution and Sales Challenges

Traditional annuities are often sold through financial advisors, and even self-directed consumers frequently consult a planner before purchasing.

In the case of in-plan annuities, distribution becomes even more complex:

At the employee level, education and trust must be built from scratch.

At the plan sponsor level, carriers and asset managers must engage the right broker networks—those capable of selling to employers, not just individuals.

The absence of a clear, proven distribution pathway continues to hinder growth.

The Simple Way Forward for Carriers

In-depth interviews with plan participants delivered a clear message to annuity providers: develop a simple, transparent, guaranteed income product—and consumers will buy it.

As noted earlier, only 3% of surveyed individuals have heard of an in-plan annuity, revealing a significant marketing challenge. However, awareness is just one part of the equation. Among those who have heard the term, only 10% could accurately define it. In contrast, when asked about guaranteed lifetime income products, participants demonstrated higher familiarity and, more importantly, a better understanding of the concept.

This indicates a major opportunity for carriers to reshape product messaging using clear, consumer-friendly language, untethered from the complexity of traditional annuity jargon. A key industry challenge will be creating and aligning a common, accessible lexicon to communicate effectively with plan participants.

What Participants Value Most

The guaranteed nature of the product was of overwhelming importance:

92%

92% of participants rated **guaranteed income** as a key solution to address their perceived retirement income gap.

When asked about the likelihood of purchasing an in-plan annuity that helps prevent outliving their savings, participants rated it **4.29 out of 5.**

The highest interest came from **older participants with lower saved balances**, reflecting a heightened need for income security.

Product Features That Drive Adoption

While true lifetime guaranteed income remains the most valued feature (scoring 4.54 out of 5), participants also prioritized:

Inflation Protection

4.33 out of **5**

Payout Flexibility

4.33 out of **5**

While views on payout flexibility varied, most participants desired some control over when and how they receive payments. In contrast, views on inflation protection were more consistent: participants emphasized the importance of preserving purchasing power, particularly given rising inflation and longer lifespans. As one concern highlighted: no one wants to see today's $3,000 income shrink to $800 in real terms 10–15 years from now.

What Participants Expect from Carriers

The findings outline several strategic imperatives for carriers:

1. Financial Strength

Participants want the reassurance that their provider will be around for the long haul. As one noted: ***"If I need income in 20 years, I need to make sure the carrier providing it will still be there."***

2. Product Portability

The second-most cited concern was the ability to roll over an in-plan annuity when changing jobs. Any product lacking portability is unlikely to gain widespread traction.

3. Tailored, Flexible Products

A one-size-fits-all model won't work. Participant needs vary by age, income, and accumulated savings.

Younger , high-income individuals may prefer accumulation-focused products with incentives for consistent contributions.

Older participants may prioritize death benefits for beneficiaries or income immediacy.

Products must be adaptable—not just by plan sponsor size, but by the demographics of the workforce. This is especially relevant as carriers increasingly align with target date fund (TDF) strategies.

Three Critical Hurdles for Carriers to Address

Product Development

Successful carriers will design flexible yet simple products that are easy for both employers and employees to understand. Simplification also helps manage internal costs.

Evolving Distribution

There is no universal model for distribution. Leading carriers are building:

- Relationships with brokers at the plan sponsor level
- Advisory support at the employee level
- Omnichannel capabilities, including digital tools with optional advisor access

Collaboration across providers and platforms will be critical for long-term success.

Operational and Technology Innovation

Ease of doing business will be a key market differentiator. Carriers must:

- Develop robust **API integrations** for seamless employer-carrier data flow
- Offer **voluntary benefit-style service models**, combined with deep retirement expertise

The Road Ahead

Carriers that can offer **simple, flexible,** and **portable** in-plan annuities—and effectively communicate their value—are best positioned for adoption among both plan sponsors and participants. But while the goal is simplicity, the path requires significant innovation in product design, distribution, and operations.

The opportunity is real. Now it's a matter of execution.

About A&M

Alvarez and Marsal's Financial Service Industry Group brings operating and management expertise combined with top-tier consulting and specialized industry experience to meet evolving market dynamics. We provide transaction and performance improvement advisory services for insurance companies and private equity firms investing in the industry. Core services in the insurance industry include:

Integrated diligence

A&M conducts holistic business assessments across financial, operational, technology, human capital, tax, and commercial dimensions. Our buy side diligence seeks to verify target value and promote investor confidence on the sell-side.

Integrations

A&M designs effective integration plans for programmatic acquirers to enhance operational performance and integration velocity. We create Day-1 and 100-Day plans for value capture, define transition services, and provide execution support to manage transitions.

Value creation

A&M empowers clients to maximize post-deal performance through go-to-market motions and operational improvements to capture synergies. We target initiatives that position clients to achieve a stronger market presence and sustain financial health.

Portfolio optimization

A&M assesses client's product and service mix to identify high-growth, high-margin opportunities, focusing investments on areas that yield the highest impact. We advise on divesting or restructuring non-core assets to sharpen focus on areas with the highest value potential.

Cost rationalization

A&M develops a fact base of expenses and capital costs. We prioritize opportunities considering impact, complexity, and interdependencies and develop an implementation roadmap with actions and milestones.

Separations and IPOs

A&M designs operating frameworks, conducts expense analyses, and implements tools to organize the transition of the separated entity. We guide companies through IPOs to ensure business readiness and regulatory compliance, allowing clients to focus on maximizing shareholder value.

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ABOUT ALVAREZ & MARSAL

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