

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

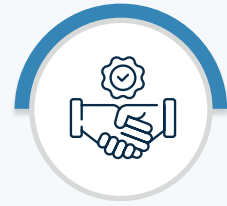
The concept of in-plan annuities isn't new — but the environment has shifted in their favor. A combination of factors is driving renewed momentum:



Favorable regulatory developments (e.g., SECURE Act provisions)



Heightened consumer demand for retirement income certainty



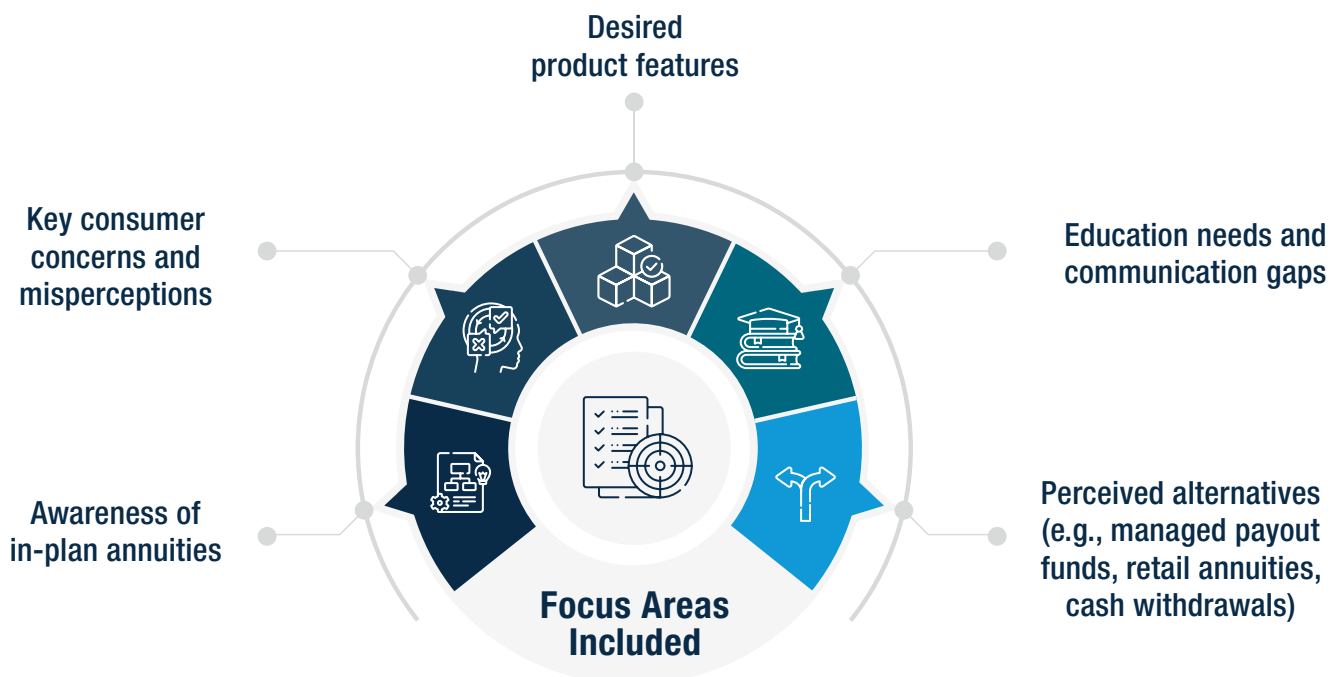
Plan sponsors' and insurers' interest in growing assets under management

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:



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.



Portability

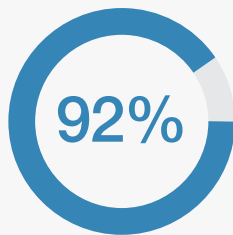
With employees changing jobs an average of 13+ times in their careers and a median job tenure of just 4.1 years (Bureau of Labor Statistics)¹, portability is a major concern.

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.

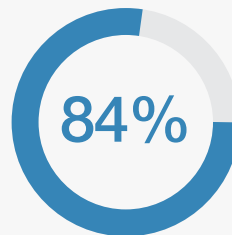


Adoption

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.



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.



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:

Key Challenges in the Market



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 Way Forward for Asset Managers

The in-plan annuities market represents one of the most significant untapped opportunities in retirement planning, with 92% of participants wanting employer offerings despite only 3% current market awareness. For asset management firms, success requires navigating three critical challenges: product development, distribution strategy, and asset management integration.

The Build vs. Partner Decision

Asset managers face a fundamental strategic choice that will determine their competitive positioning and time to market. While developing proprietary in-plan products offer greater control, it requires building entirely new organizational capabilities—particularly in group benefits and annuity product expertise that fall outside traditional asset management core competencies.

The Partnership Path Offers Compelling Advantages:



This strategic decision fundamentally shapes capital allocation, competitive positioning, and success metrics in what remains a largely greenfield market.

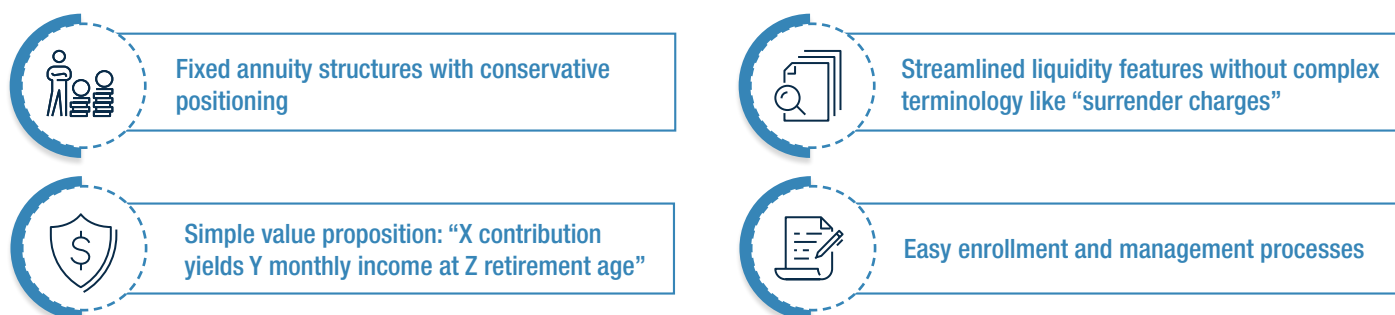
Distribution Strategy: The Critical Fork in the Road

The choice between mass market defined contribution (DC) penetration and advisor-led high-value sales creates entirely different product architectures and success frameworks. Survey insights reveal that product design must be distribution-channel specific to maximize effectiveness.

Mass Market DC Approach: Simplicity Drives Adoption

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Product Characteristics for DC Success:



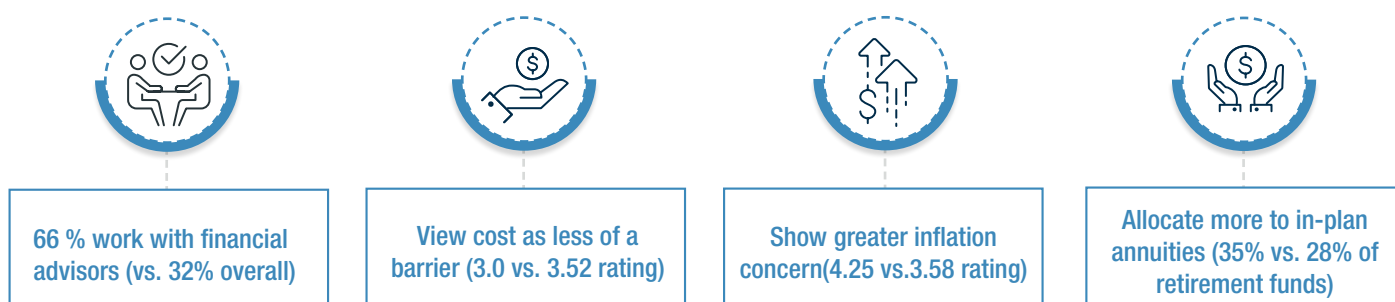
Success metrics shift dramatically in this approach. Traditional AUM-focused KPIs become secondary to participant enrollment velocity. Asset managers should target their first 500,000 plan participant enrollments before optimizing for individual asset growth—a fundamental departure from conventional asset management metrics.

This mass market strategy creates sustainable competitive advantages through plan-level relationships and first-mover positioning while market awareness remains nascent.

Advisor-Led Distribution: Customization for Higher Value

For asset managers prioritizing AUM growth over participant volume, the advisor channel offers access to higher-value clients despite greater complexity. Survey data shows financial advisors rank as the most trusted education source (4.35 out of 5) for in-plan annuity adoption.

High-net-worth segment characteristics reveal the opportunity:

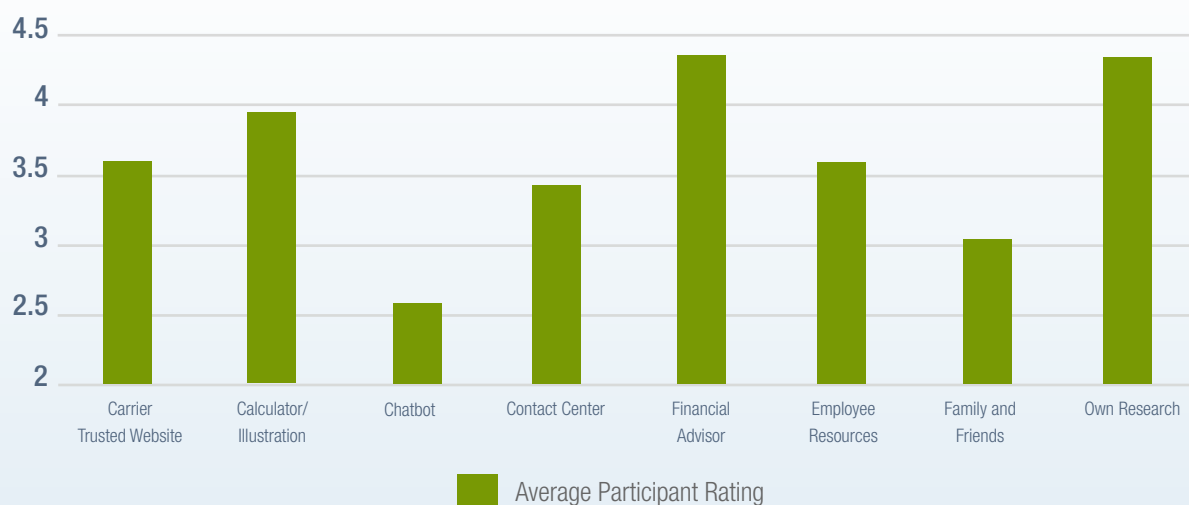


These clients seek product flexibility and customization that advisor relationships can deliver, justifying more complex product architectures.

Bridging the Education Gap Through Technology

Asset managers can overcome their lack of direct customer relationships by leveraging technology to support both distribution channels:

How Comfortable Would You Be Purchasing an In-Plan Annuity Based on Insights from the following groups?



Digital Education Solutions:



Independent data service-powered websites comparing in-plan annuities to broader annuitization options and withdrawal strategies.



Sophisticated comparison tools highlighting product differences and retirement income scenarios.



Illustration-based sales tools providing trusted education outside of advisor relationships.

These technology solutions create scalable education platforms that support advisor distribution while building direct engagement capabilities.

Strategic Recommendations

For mass market success:

1

Partner with carriers offering simplified, fixed annuity products.

3

Develop streamlined participant education and enrollment technology.

2

Focus on plan sponsor relationships and enrollment velocity metrics.

4

Build organizational capabilities in group benefits and DC plan servicing.

For high-value advisor channel success:

1

Select carriers capable of flexible, customizable product design.

3

Target high-net-worth segments through advisor partnerships.

2

Invest in sophisticated advisor support tools and comparison platforms.

4

Maintain traditional AUM-focused success metrics.

Market Timing Advantage

The convergence of low current awareness (3%) with overwhelming latent demand (92%) creates a rare first-mover opportunity. Asset managers who establish clear strategic direction and market positioning now will benefit largely as the market scales to meet this demand.

Success in in-plan annuities requires early strategic clarity on target segments and distribution channels. The firms that move decisively while the market remains nascent will capture sustainable competitive advantages as participant awareness and adoption accelerate.

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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