

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

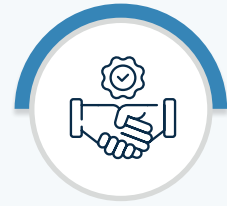
The concept of in-plan annuities isn't new — but the environment has shifted in their favor. A combination of factors is driving renewed momentum:



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



Heightened consumer demand for retirement income certainty



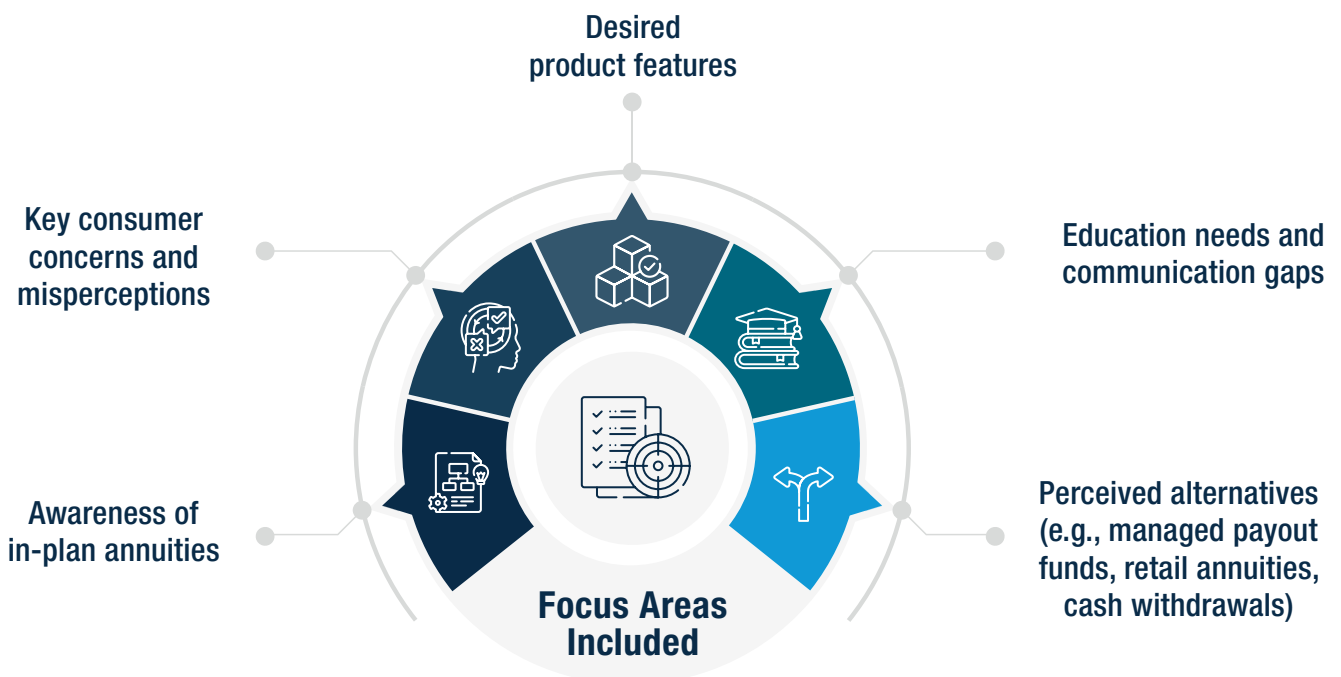
Plan sponsors' and insurers' interest in growing assets under management

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

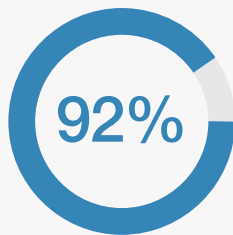
With employees changing jobs an average of 13+ times in their careers and a median job tenure of just 4.1 years (Bureau of Labor Statistics)¹, portability is a major concern.

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.

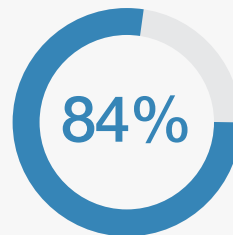


Adoption

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 Plan Sponsors: Maximizing In-Plan Annuity Success

The growing emphasis on in-plan annuities within defined contribution plans presents both opportunities and challenges for plan sponsors. While much of the industry discussion has centered on the three C's—Cost, Complexity, and Choice—plan sponsors must navigate these considerations strategically to drive successful adoption among their participants.

Understanding Cost Concerns and Fee Structure

Plan participants express moderate concern about in-plan annuity costs, rating this factor 3.63 out of 5 in importance. However, structured interviews reveal a more nuanced perspective: participants view costs as an investment and want to understand the expected return. This insight suggests that successful in-plan annuity programs will require competitive fee structures to drive adoption at both the participant and sponsor levels.

The investment mindset among participants creates an opportunity for plan sponsors to frame in-plan annuities as long-term value propositions rather than simply additional costs. Clear communication about the relationship between fees and guaranteed income benefits will be essential for participant acceptance.

Bridging the Education Gap

Plan sponsors hold a critical position in addressing educational challenges surrounding in-plan annuities. Survey results indicate that 92% of participants believe plan sponsors should provide educational training and assessment tools to help determine whether in-plan annuities are appropriate for their individual situations.

However, current educational resources fall short of participant expectations. Only 44% of respondents would consult employer resources—whether benefits specialists or HR—when making financial decisions. When relying on employer education as a single information source, participants rated it 3.58 out of 5, indicating significant room for improvement.

Strategies for Enhanced Education

In-depth participant conversations revealed several promising approaches for improving educational effectiveness:

- **Consistent Financial Advisor Engagement**
Regular sessions with qualified financial advisors can help participants understand in-plan annuities' purpose and their role in creating retirement income strategies.
- **Interactive Planning Tools**
Enhanced calculators and modeling tools allow participants to explore different scenarios and visualize how in-plan annuities might fit into their retirement plans.
- **Practical Demonstrations**
Using employer matching contributions to fund in-plan annuities can serve dual purposes—creating a “pension-like” benefit while allowing participants to experience how these products actually work.

Plan sponsors should leverage their relationships with benefits providers to demand more sophisticated educational tools and ensure they're maximizing their unique access to plan participants.

Navigating Product Choice and Customization

Plan sponsors face a strategic decision when evaluating in-plan annuity options for their participants. Research suggests two viable approaches, each with distinct advantages:

Option 1: Simplified Products

The first approach focuses on extremely simple in-plan annuities that minimize educational complexity and eliminate the risk of participant confusion. Survey results support this strategy, showing strong preference for products offering:



This option has the highest probability of broad acceptance due to its straightforward nature.

Option 2: Customizable Solutions

The alternative approach offers flexible annuity products that can be tailored to meet diverse employee needs. While more complex, initial feedback suggests this customization approach is more likely to drive long-term asset accumulation and sustained participation.

Demographic Considerations and Targeted Solutions

Plan sponsor research reveals significant variations in preferences based on participant demographics:

Younger Employees prioritize stability and higher monthly income potential, viewing in-plan annuities as long-term accumulation vehicles.

Older Employees nearing retirement emphasize payment flexibility and protection against longevity risk, seeking assurance they won't outlive their benefits.

This demographic diversity creates both opportunities and challenges. Plan sponsors can leverage in-plan annuities as competitive advantages for talent recruitment and retention by offering products aligned with their target workforce demographics. However, most organizations have heterogeneous employee populations, requiring solutions that appeal across multiple demographic segments to maximize program effectiveness.

- 1 Reframe the Value Proposition**
Position in-plan annuities as material benefit advantages rather than additional complexity.
- 2 Invest in Education**
Develop comprehensive, multi-channel educational programs that go beyond basic product information.
- 3 Consider Demographics**
Evaluate employee population characteristics when selecting product features and communication strategies.
- 4 Leverage Provider Relationships**
Use purchasing power to demand better educational tools and support resources.
- 5 Measure and Iterate**
Implement feedback mechanisms to continuously improve program effectiveness.

Conclusion

In-plan annuities represent a significant opportunity for plan sponsors to enhance their benefits programs and support participant retirement security. Success requires thoughtful attention to cost structure, robust educational support, and careful consideration of product choice relative to employee demographics. Plan sponsors who approach these challenges strategically position themselves to create meaningful competitive advantages while genuinely improving participant retirement outcomes.

The key lies in recognizing that in-plan annuities are not simply another product offering, but rather a fundamental shift toward guaranteed retirement income that requires corresponding changes in education, communication, and ongoing support strategies.

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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