



CUSTOM KEY FINDINGS

U.S. Annuity Markets 2021: Acclimating to Industry Trends and Changing Demand



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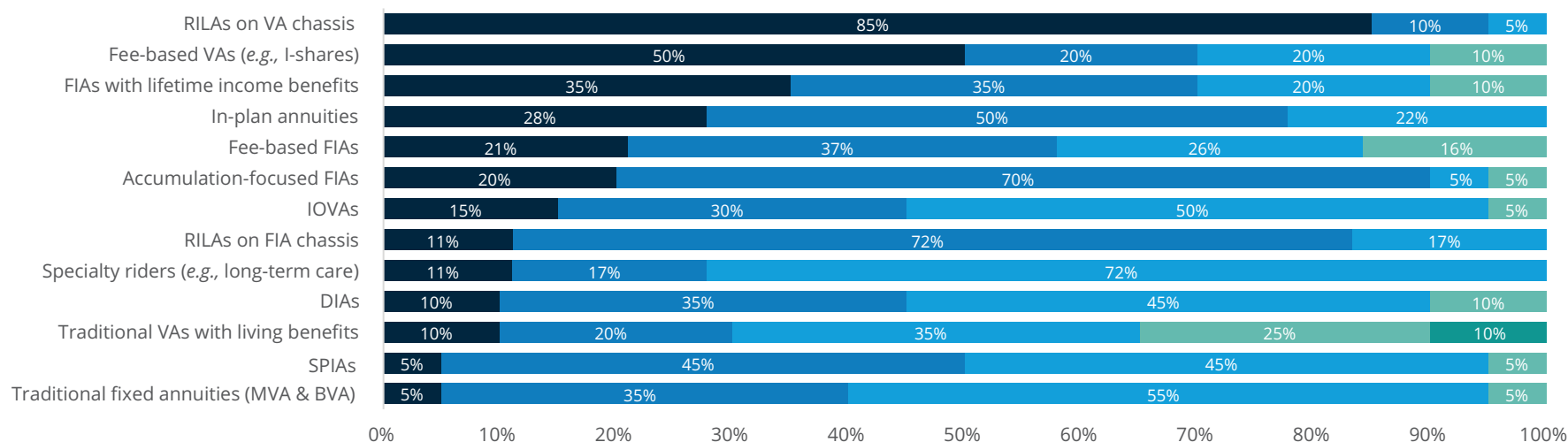
Sales Growth

EXHIBIT 1

Expectations for Sales Growth Over the Next Three Years by Product Types, 2021

Sources: Cerulli Associates, in partnership with IRI | Analyst Note: Insurers were asked, “For each of the following product types, please indicate your firm’s expectation with regard to sales growth over the next three years.” While “decrease of 10% or more was an option, it was only selected for “traditional VAs with living benefits” (10%).

■ Increase 10% or more ■ Increase less than 10% ■ Stay the same ■ Decrease less than 10% ■ Decrease 10% or more



Takeaways

- The product types insurers expect to have the most sales growth over the next three years are registered indexed linked annuities (RILAs), fee-based annuities, and indexed annuities with living benefits.
- Insurers are less optimistic about in-plan annuities built in response to the SECURE Act, but Cerulli anticipates moderate growth over time.
- According to insurers, products with the least potential for increased sales include traditional fixed annuities, variable annuities (VAs), and immediate annuities.

Key Implication

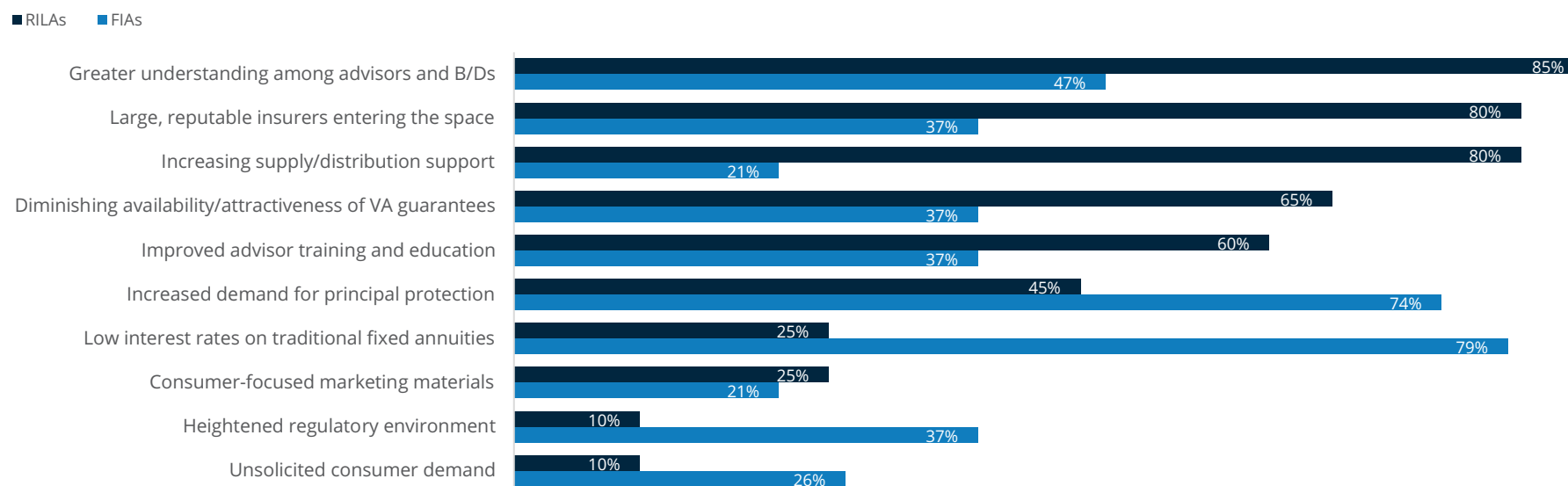
Insurers polled agree that RILAs and indexed annuities have the best prospects for growth. They are especially upbeat, specifically, about FIAAs that offer guaranteed living benefits. Another product type they expect to grow is the fee-based annuity, and Cerulli believes that is because any new Department of Labor fiduciary rule or similar ruling by individual states might once again dampen sales of commissioned annuities. Moreover, advisors, across the industry, continue to increase their fee-based and fee-only revenues. Insurers want to be optimistic about growth of in-plan annuities but believe it will take time for the concept to gain traction. Due to low interest rates and the growing attractiveness of new annuity types, traditional and income annuities have limited near-term potential.

Sales Growth

EXHIBIT 2

Insurers: Factors Driving Growth of RILA vs. FIA Sales, 2021

Sources: Cerulli Associates, in partnership with IRI



Takeaways

- Surveyed insurers attribute the growth in RILA sales to a greater understanding of the product, greater supply now that large players offer them, and VA product derisking.
- Low interest rates greatly dampened the appeal of fixed annuities.

Key Implication

The RILA growth phenomenon has been the result of acceptance of the product—some of that thanks to insurers educating advisors on the product—along with greater supply of RILAs across the industry. More supply is on the way as 15 new RILAs have been registered with the SEC in 2021, compared to five the previous year. The RILA market has benefited at a time when traditional VA contracts began to lose their luster due to benefit derisking, and low interest rates generally slowed the success of many fixed and indexed annuities.

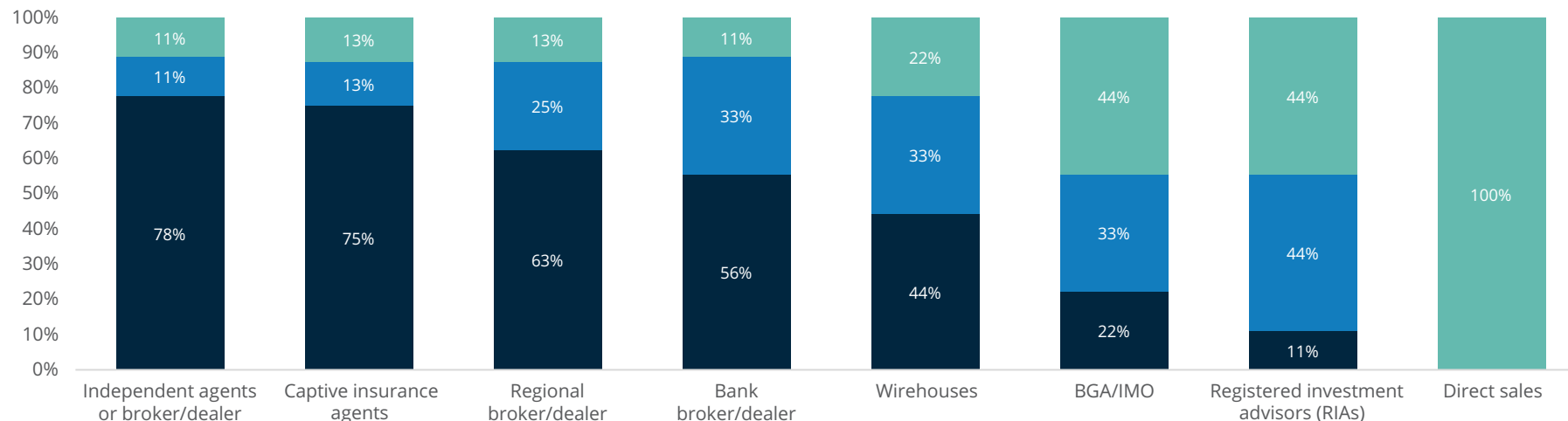
Sales Growth

EXHIBIT 3

Insurers' Expectations for RILA Sales Over the Next Three Years by Channel, 2021

Sources: Cerulli Associates, in partnership with IRI | Analyst Note: Insurers were asked, "How do you expect your firm's annual sales of RILAs in the following channels to change during the next three years?" No respondents anticipate sales decreasing within any of the listed channels. Data only includes insurers that offer a RILA(s).

■ Increase 10% or more ■ Increase less than 10% ■ Stay the same



Takeaways

- Surveyed insurers expect that five major VA channels will likely grow their RILA sales meaningfully over the next three years.
- Independent broker/dealers (IBDs), captive agents, and regional B/Ds are most likely to grow sales of the product by 10% or more.

Key Implication

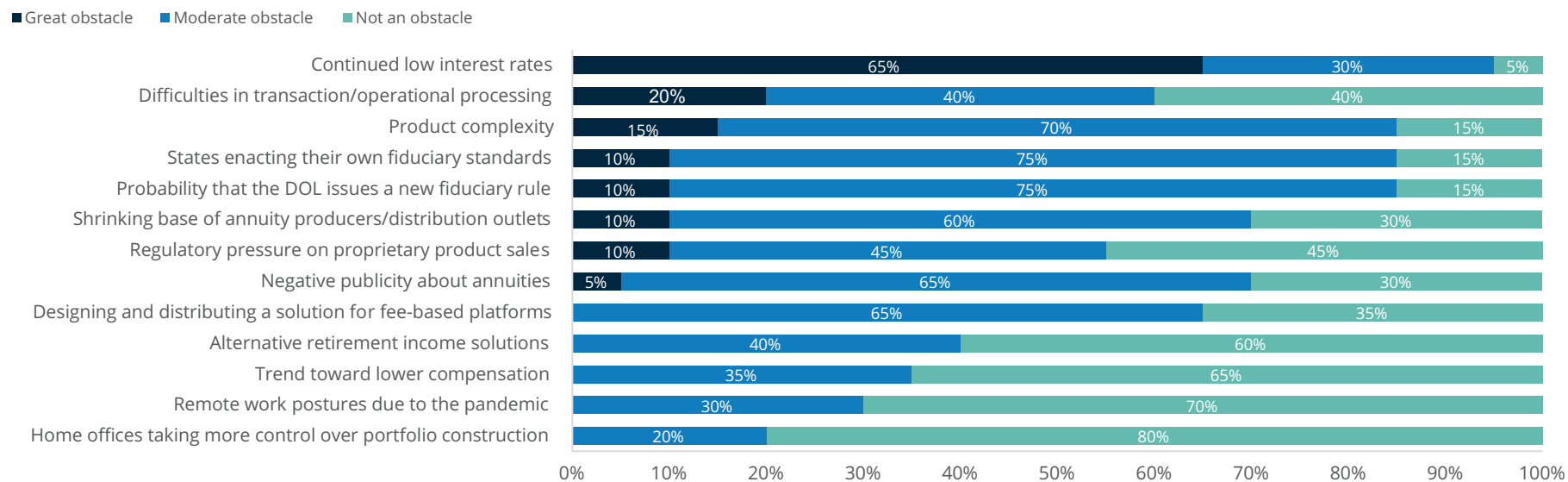
The industry-wide pivot away from traditional VAs to RILAs is continuing apace, and insurers believe that all major channels will participate in that trend over the next three years. Cerulli is not surprised that IBDs are seen as the most likely to lead the way, as they are the biggest producer of nonproprietary annuity sales and appear to be embracing the product enthusiastically. There is room for further growth in captives as some major insurers in that channel do not yet have a RILA of their own. The least likely sources of RILA growth, the registered investment advisor (RIA) and direct channels, tend to offer simple low-cost products, if they sell them at all. While opportunities will likely present themselves over time among a limited number of RIAs and direct providers, insurers will need to consider how to simplify RILAs that have a plethora of index and protection options that would prove overly complex in those channels.

Greatest Obstacles

EXHIBIT 4

Insurer Perspective: Greatest Obstacles in Variable Annuity Business, 2021

Sources: Cerulli Associates, in partnership with IRI



Takeaways

- Insurers believe the greatest obstacle for the annuity business today is the low interest rate environment.
- The second-ranked obstacle is problems with processing annuity transactions.
- The third is product complexity, which may be attributable in part to RILAs, whose multiplicity of protection and index options can be confusing.

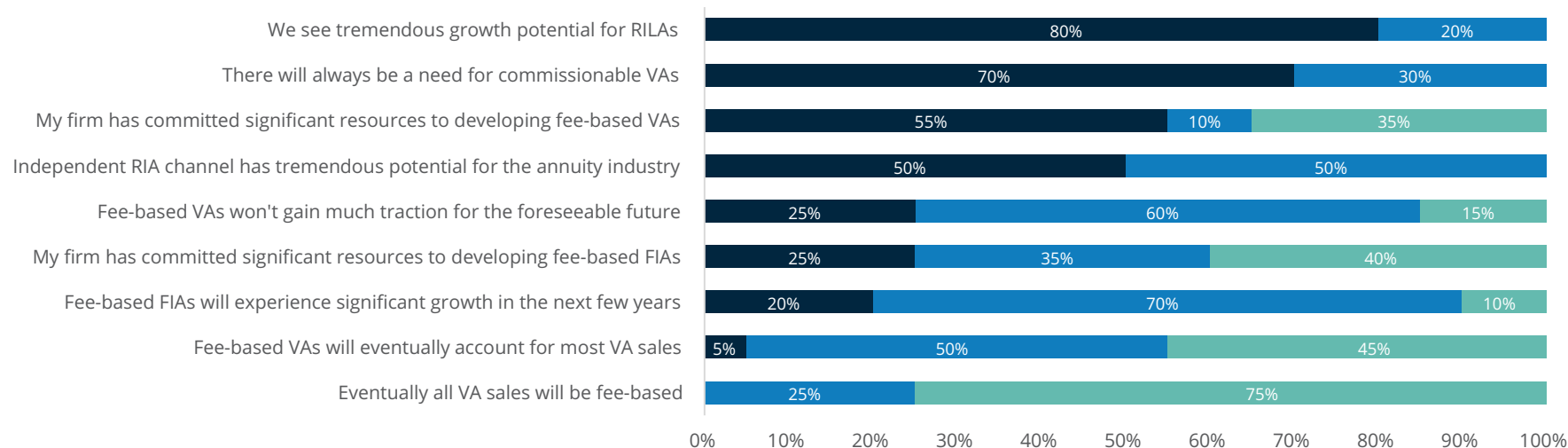
Obstacles & Opportunities

EXHIBIT 5

Insurers' Perspectives on Annuity Product Types & Compensation, 2021

Sources: Cerulli Associates, in partnership with IRI | Analyst Note: Insurers were asked, "Please indicate your level of agreement with each of the following statements about annuities and compensation structures." In 2020 and 2021, no surveyed participants agreed with "Eventually all VA sales will be fee-based" or disagreed with "There will always be a need for commissionable VAs."

■ Agree ■ Neutral ■ Disagree



Takeaways

- RILAs are the product most insurers feel have “tremendous” growth potential over the near term.
- Most insurers believe there will always be sales of annuities via traditional commissions, but more than half of insurers are focused on offering fee-based VAs.

Key Implication

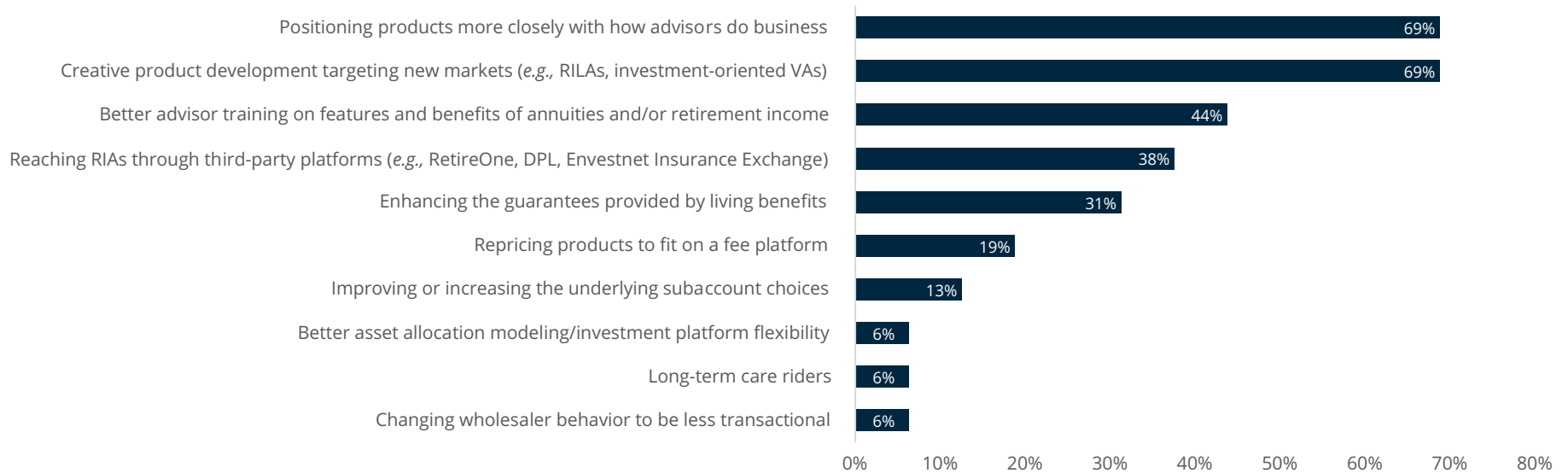
Most insurers seem to think RILAs will stay on their record-setting pace over the near term, and Cerulli generally agrees. Reasons for this include: few carriers offer RILAs so there is room for more entrants; B-shares predominate, thus more share classes could arise; few RILAs have living benefits, so more will be introduced; some channels are just getting familiar with the product, and some don't sell them at all. Insurers do trust that upfront commissions will always be a part of the annuity marketplace; however, insurers have to be ready to offer fee-based solutions. Like to Cerulli, insurers have mixed emotions on whether the independent RIA channel will ever represent a meaningful opportunity for annuity sales.

Advisor Perspectives

EXHIBIT 6

Methods for Increasing the Number of Advisors Who Sell VAs, 2021

Sources: Cerulli Associates, in partnership with IRI | Analyst Note: Insurers were asked “What strategies are most promising for broadening the number of advisors who sell variable annuities?”



Takeaways

- A majority of insurers cite two ways to increase the number of advisors who sell variable annuities, including positioning products better with how advisors do business and building creative products for new markets.

Key Implication

Most insurers are in agreement that the VA business can do better in moving past the product-centric approach of years past, which emphasized guaranteed benefits and their “bells and whistles.” Just 31% of insurers think that enhancing benefits would generate new sales. Cerulli believes that insurers are making the transition to a solutions-oriented model and its manifestations could include work on the following: innovative advisor compensation schemes; improved technology to manage subaccounts; tools to maximize income payments in a tax-efficient manner; and estate and advanced planning assistance. The development of creative products and improved advisor training will go hand-in-hand with these efforts.

Distribution Strategies

EXHIBIT 7

Insurers' Distribution Strategies in the Next Three Years, 2021

Sources: Cerulli Associates, in partnership with IRI | Analyst Note: Data may not sum to 100% due to some firms having already implemented the strategies.

Distribution Strategy	Major Priority	Moderate Priority	Not a Priority
Enhance predictive analytics to identify distribution opportunities	43%	29%	14%
Increase technical skills of existing wholesalers to address more sophisticated advisor teams	29%	57%	7%
Segment advisors by product decision-making process	27%	33%	33%
Engage with third-party platforms to reach fee-based practices (e.g., RetireOne, DPL, Investnet Insurance Exchange)	27%	20%	40%
Improve use of wealth managers' data packages	15%	38%	46%
Emphasize consultative sales approach	13%	40%	13%
Introduce or expand practice management programs	8%	38%	38%
Shift more resources to internal salesforce	7%	33%	53%
Hire additional and/or shift resources to hybrid wholesalers	7%	33%	53%
Introduce or expand portfolio consulting programs	0%	43%	50%

Takeaways

- Nearly all (86%) of surveyed insurers believe that increasing the technical skills of their wholesalers is at least a moderate priority for them over the next three years.
- Another goal for many insurers is to improve predictive analytics in generating distribution opportunities and 43% of companies listed it as a major priority.

Key Implication

Truth be told, the insurance business is slower than other industries in adopting new technology, and in all likelihood, insurers see a need to tap into data (i.e., data packages and from app usage) on investor behavior and preferences to find would-be annuity buyers. Wholesalers don't have to be involved in the data collection, but they would certainly benefit from the findings and will need training in using that information.

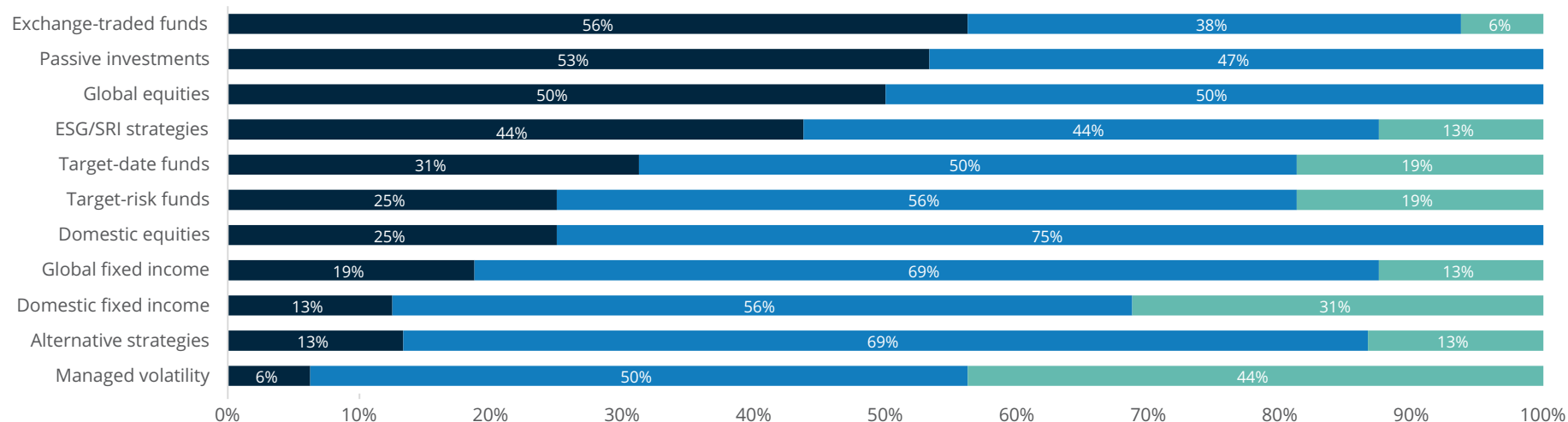
Sales Growth

EXHIBIT 8

Most Attractive VA Subaccount Options for Future Sales Potential, 2021

Sources: Cerulli Associates, in partnership with IRI | Analyst Note: Insurers were asked to rate the sales potential of the following investment styles within their VA subaccount platforms over the next three years. Two “other” responses noted Defined Outcome ETFs has representing high potential.

■ High potential ■ Some potential ■ No potential



Takeaways

- Insurers believe funds that have the most potential for growth in the VA space are those that invest in ETFs, engage in passive investing, invest globally, and use ESG strategies.
- Of the broad asset classes, domestic equity is seen as one with some potential.

Key Implication

It makes sense that insurers predict ETFs and passively managed funds have great potential in the VA business because they are enjoying immense popularity on the retail side. They also are seen as less risky than most traditional and actively managed portfolios. Funds that engage in ESG investing will most certainly be offered in VA products with greater frequency, especially in products for employer-sponsored plans. Cerulli trusts that VA managed-volatility portfolios have reached critical mass and thus insurers don't expect much future growth from them.

Household Perspectives

EXHIBIT 9

Investors' Opinion of Annuities by Investable Assets and Age Range, 2020

Sources: Phoenix Marketing International, Cerulli Associates | Analyst Note: Respondents were permitted to select more than one response.

Opinion	Head of Household Age						All Respondents
	<30	30-39	40-49	50-59	60-69	≥70	
I am not familiar with annuities	29%	36%	25%	22%	22%	12%	23%
Annuities are a good way to generate income	28%	20%	24%	26%	18%	18%	21%
Based on my financial situation, I do not think I need an annuity	26%	13%	17%	16%	26%	29%	21%
Annuities are a good way to protect my assets	21%	22%	25%	17%	19%	21%	21%
Annuities are a good way to diversify my assets	12%	21%	23%	21%	12%	17%	18%
I have seen much negative information about annuities	13%	8%	18%	16%	19%	25%	18%
Annuities are too expensive	13%	14%	13%	18%	12%	16%	14%
Annuities are too confusing/complex	19%	14%	11%	12%	8%	5%	10%
I plan to purchase an annuity in the next year	10%	13%	24%	11%	0%	1%	9%
None of the above	6%	5%	5%	8%	14%	12%	9%

Opinion	Household Investable Assets						All Respondents
	\$100K-\$250K	\$250K-\$500K	\$500K-\$1m	\$1m-\$2m	\$2m-\$5m	>\$5m	
I am not familiar with annuities	36%	30%	19%	14%	10%	1%	23%
Annuities are a good way to generate income	24%	17%	21%	22%	28%	31%	21%
Based on my financial situation, I do not think I need an annuity	13%	18%	20%	28%	25%	50%	21%
Annuities are a good way to protect my assets	24%	20%	23%	20%	18%	14%	21%
Annuities are a good way to diversify my assets	20%	10%	19%	23%	30%	29%	18%
I have seen much negative information about annuities	9%	15%	19%	23%	22%	38%	18%
Annuities are too expensive	13%	10%	14%	22%	15%	24%	14%
Annuities are too confusing/complex	13%	11%	8%	6%	12%	1%	10%
I plan to purchase an annuity in the next year	17%	6%	11%	10%	8%	2%	9%
None of the above	5%	11%	10%	8%	11%	3%	9%

Takeaways

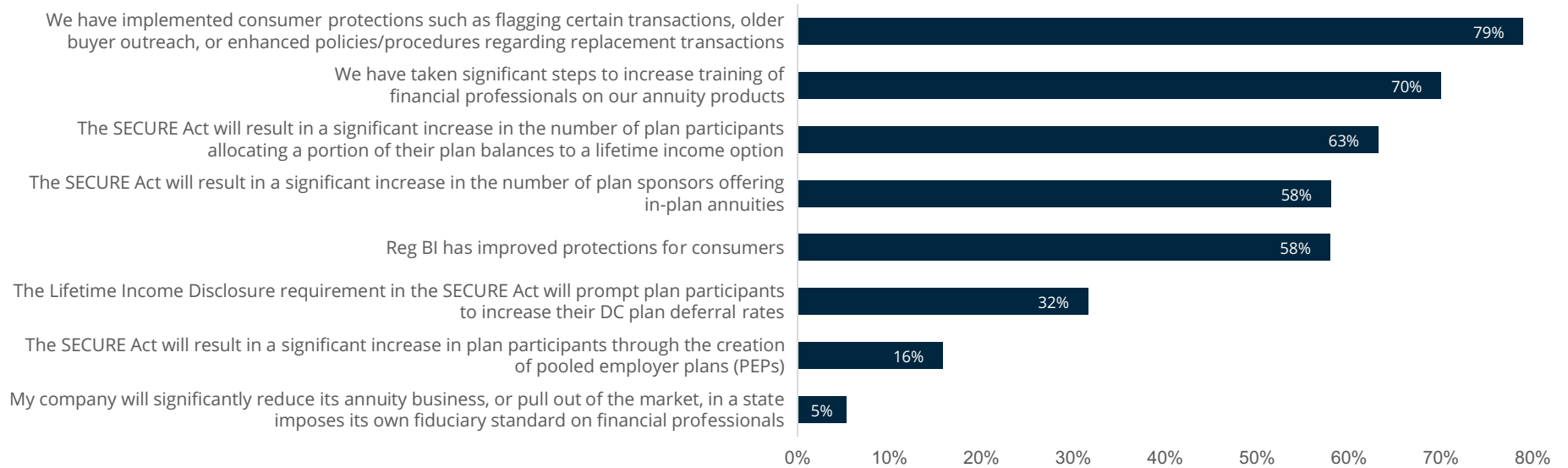
- Households are most likely to say that they are unfamiliar with annuities.
- Those least familiar with annuities are younger households (those under 40) and/or those with modest investment assets, while older and high-net-worth households are most likely to say they do not need an annuity.

Regulation

EXHIBIT 10

Potential Regulatory Impacts, 2021

Sources: Cerulli Associates, in partnership with IRI | Analyst Note: Insurers were asked "Which of the following statements do you believe?"



Takeaways

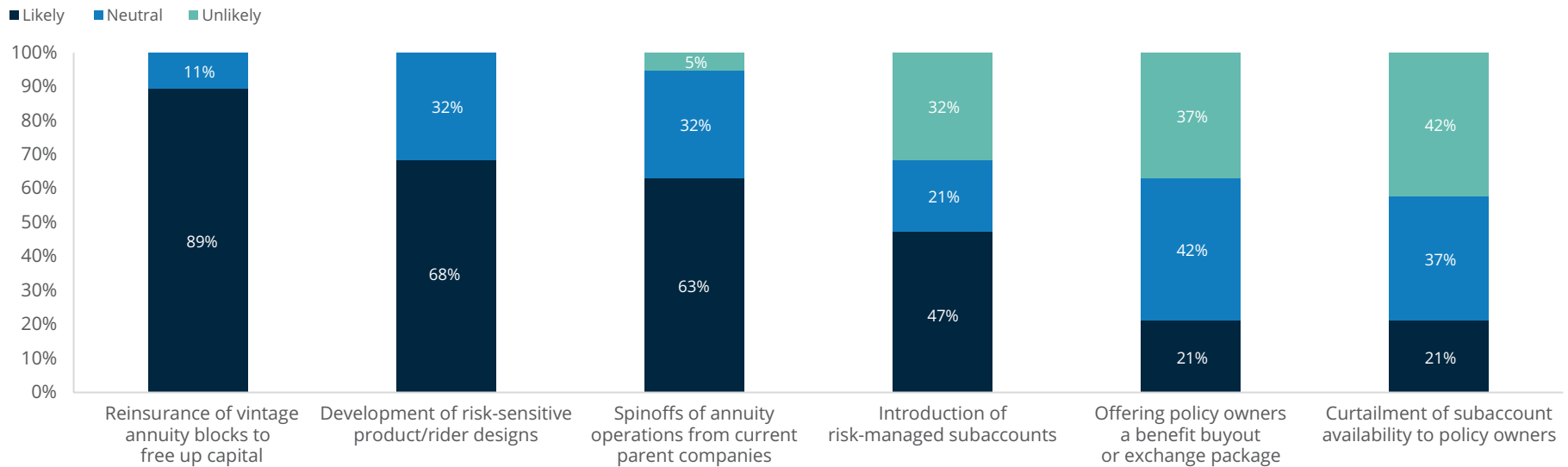
- More than three-quarters (79%) of surveyed insurers plan to be proactive on the regulatory front by flagging questionable transactions and doing a better job of training advisors on product intricacies.
- Insurers expect the SECURE Act to encourage more plan participants to select an annuity for a lifetime income stream.
- A majority of insurers believe the SEC's Regulation Best Interest (Reg BI) has improved client protection.

Risk Reduction Strategies

EXHIBIT 11

Insurers' Potential Risk Reduction Measures Over the Next Three Years, 2021

Sources: Cerulli Associates, in partnership with IRI



Takeaways

- Insurers believe the most likely risk management techniques used over the next three years will be reinsurance, risk-sensitive product design, and spinoffs of annuity blocks.
- The use of risk-managed funds, once a big phenomenon in the business, is waning in importance, even less important are rider buyouts and restrictions on subaccounts.

Key Implication

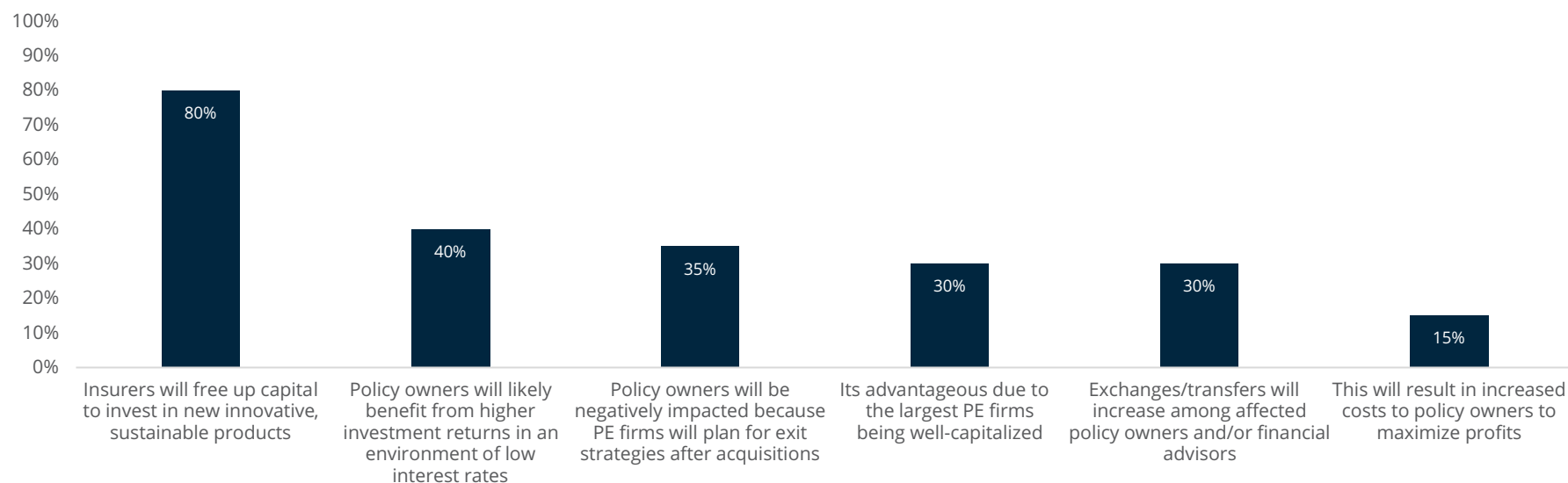
In recent years, annuity reinsurance treaties have evolved into what's called "flow reinsurance," in which the reinsurer manages a quota share of future premiums. This allows the primary carrier to free up capital it would otherwise have to hold against its annuity obligations. Risk-sensitive VA benefits are now commonplace around the industry and more such designs should arise. Cerulli suspects that the bigger annuity spinoffs have already occurred; however, smaller deals are also possible.

Risk Reduction Strategies

EXHIBIT 12

Insurers' Perspective on Private Equity Firms' Interest in Purchasing Annuity Carriers/Blocks, 2021

Sources: Cerulli Associates, in partnership with IRI | Analyst Note: Insurers were asked, "Regarding private equity firms' interest in purchasing annuity carriers/blocks, which statements do you most agree with?" Participants answered from an industry-wide perspective, not firm-specific.



Takeaways

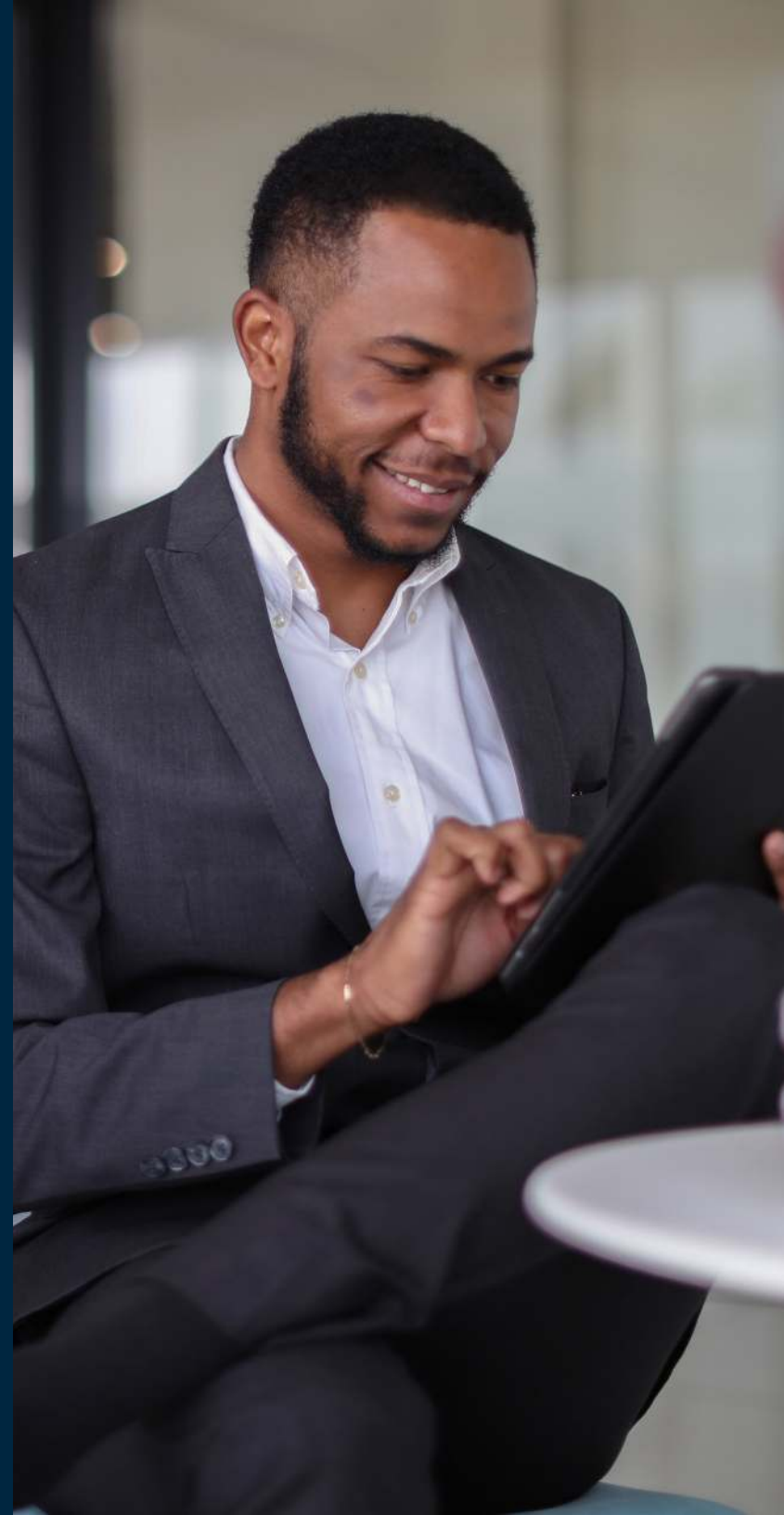
- The vast majority (80%) of surveyed insurers believe the purchase of annuity blocks by private equity firms will free up capital.
- Insurers think PE-owned firms may be well equipped to increase client returns in this low-rate environment.

Key Implication

As noted in the previous exhibit, insurers are selling off annuity business to free up capital. Insurers also think private equity firms, including those located in offshore locales like Bermuda, have the potential to offer annuity owners better returns. This is because such places have more liberal rules related to general account investing, allowing a PE-owned insurer to get greater yield from its fixed-income investments than a domestic insurer. In theory, those returns can get passed on to customers through higher fixed annuity crediting and better FIA caps and participation rates.

Methodology

The Cerulli Report—U.S. Annuity Markets 2021: Acclimating to Industry Trends and Changing Demand is the fifteenth iteration of an annual series. The study is an outcome of ongoing research and analysis of the retail annuity marketplaces by Cerulli. The report focuses on three key areas—distribution, product development, and asset management opportunities. This report leverages Cerulli's continuous analysis of variable and fixed annuities, including fixed-indexed, fee-based, and registered index-linked annuities, as well as the insurance subadvisory marketplace. Exhibits highlight key data and commentary, including the important tactical ramifications for insurers, asset managers, and wealth managers servicing the insurance market. The report is designed as a business planning tool, and additional support leveraging this data is available. Proprietary surveys of insurance company executives conducted in 3Q 2021 serve as the foundation of the report. Cerulli partners with the Insured Retirement Institute to distribute its annual surveys, effective with the 2010 edition. Also included are the results of Cerulli's ongoing surveys of financial advisors and U.S. households, as well as insurance companies' sales managers, heads of strategy, and product development as they pertain to annuities and retirement income, conducted throughout 2020. Financial advisor surveys were conducted in partnership with Investments & Wealth Institute and the Financial Planning Association® (FPA®). Data is also included from Cerulli's partnership with Phoenix Marketing International, whose PMI Global Wealth Monitor is the largest affluent study in the United States, with online surveys of nearly 10,000 households throughout the year. Phoenix also fields the Retirement Services Study, which addresses the target market of retirement providers. In addition to proprietary survey data and ongoing executive interviews, Cerulli compiled information available through third parties (including the Insured Retirement Institute, Morningstar, Beacon Research, LIMRA International, and government entities (such as the Federal Reserve), and financial publications (such as National Underwriter).



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