A Sneak Peek at the Future of Individual Annuities

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Over the past 5 years, significant change has reshaped the individual annuity market landscape. As we dust off the crystal ball here at LIMRA and take a sneak peek at the future of individual annuities, key themes become clear:

- Fixed annuity sales will take the spotlight over the next 5 years
- FIA sales may overtake VA sales
- Guaranteed income sales will grow, but not as fast as accumulation-focused products
- Technology advancements will have the greatest impact on individual annuity sales

This article discusses these key themes in terms of how they can help the industry strategically prepare and plan for the future.

Spotlight on Fixed Annuities
The value proposition of fixed annuities is broad, helping Americans prepare and plan for retirement. Fixed annuity products appeal to Americans looking to protect and grow their savings, as well as provide guaranteed lifetime income solutions.

Prior to 2015, fixed annuity sales have only exceeded $100 billion three times annually, all correlated to significant equity market downturns as investors fled to safety. Since 2015, fixed annuity sales have exceeded $100 billion despite the lack of a significant equity market downturn.
It may come as no surprise, then, that we expect fixed annuity sales to continue to exceed $100 billion annually over the next 5 years. More surprising is the significance of the growth in fixed annuity sales, driven by our expectations of rising interest rates fueling the growth of all fixed annuity product types. By 2023 fixed annuity sales have the potential to near $170 billion dollars. To put this into context, this effectively doubles fixed annuity sales from a decade ago. As companies look toward the future, there is no doubt that the fixed annuity market will remain competitive. More companies will pivot their focus and resources to fixed annuity products, and it will be even more important for companies to differentiate their value proposition in a crowded market. One key factor to consider is the balance between value and complexity of product design.

Distributors and manufacturers also need to look closely at their current fixed annuity business, as over the next 5 years a significant amount of money is expected to be in motion, again due to increased interest rates. Companies that can retain current clients while also attracting new clients have the potential for significant benefit in the market.

Indexed Versus Variable Annuities
In the world of individual annuity sales, variable annuities have been at the top of the mountain, controlling the majority of sales in the overall market. Over the past 5 years this mountain has begun to erode, particularly as indexed annuity sales have exploded. In 2018, overall indexed annuities sales were closer to variable annuities sales than ever before. So when will indexed annuity sales surpass variable annuity sales? This all depends your viewpoint. From a retail perspective, if we exclude individual annuities sold in employer plans, we project sales of variable annuity products to be around $14 billion higher than indexed annuities in 2018, and this will erode down to only a $2 billion difference in 2019.

Why the shift? Over the past decade the indexed annuity market has found tailwinds with more efficient product designs, a dual value proposition of protected growth and guaranteed lifetime income, wrapped in a cost-effective solution that makes it easier for insurers to manage tail risk.

We expect more companies to focus on the indexed annuity market going forward, and that indexed annuities will continue to increase their shelf space at distributors. Accumulation benefits will drive the majority of indexed annuity business, and as interest rates rise so will the attractiveness of the protected growth features within indexed annuities. By as soon as 2020, accumulation-focused indexed annuity sales could near $50 billion, making up around 60 percent of all retail indexed annuity sales.

Growth in Guaranteed Income and Accumulation-Focused Products
Annuities offer the unique value proposition of providing retirees with guaranteed lifetime income. As more individuals enter retirement without the safety net of a pension, all signs indicate there should be an increase in sales of products with these features. Yet, since 2011, sales of products with guaranteed lifetime income have dropped by over $50 billion.

Industry efforts around awareness of protected income and favorable expected economic conditions will assist in filling the opportunity gap, and sales of individual annuities with income-now or income-later features are expected to reverse their recent declining pattern and rise by 15 percent in the next 5 years.
This is positive news as more retirees will have options in their retirement portfolio for a stream of guaranteed lifetime income. Yet this will not be the fastest growing segment of the annuity market. Accumulation-focused products — particularly those with principal protection features — will grow at more than double the rate of guaranteed income solutions. These product sales will benefit from rising interest rates enhancing the value proposition of fixed annuities. This will skew the risk versus reward formula toward the reward side of the equation, to the point where sales of products with protected growth features could exceed $100 billion by 2021.

**Increased Impact of Technology**
Change in our industry is moving at a rapid pace, with no signs of slowing. The integration of technology, platforms, planning tools, and even artificial intelligence will have a significant impact on the insurance business over the next 5 years. InsurTech is a hot topic and companies are investing billions of dollars to find the next big advancement to move a traditionally conservative and slow industry to a more 21st-century pace.

So how can technology help drive annuity sales? One of the most impactful changes can come from looking at the supply chain and providing a solution to advisor experiences — seamlessly integrating annuities into a larger retirement portfolio. This is particularly true in the fee-based arena, as the number of registered investment advisors and dually registered advisors continues to climb.

Technology has the potential to impact the individual annuity market in many other ways. Companies need to adapt quickly, stay open to non-traditional thinking, and innovate to remain relevant in a rapidly changing world.

As we look into our crystal ball, there is no doubt we are entering exciting times in the next 5 years in the individual annuity market. Sales will continue to grow, even as hurdles such as political and regulatory uncertainty arise. These obstacles will not diminish the value that individual annuities provide to Americans in their retirement planning.

For a more detailed overview and insights into the annuity sales projections, please see the 2019–2023 Annuity Sales Forecast at limra.com.

Todd Giesing joined the LIMRA Secure Retirement Institute in 2013, and has an extensive background in individual annuity products. As Director of Annuity Research, Giesing is responsible for managing the individual annuity research program at LIMRA. He oversees the annuity benchmarking studies, and various annuity-related research projects. Prior to joining LIMRA’s Secure Retirement Institute, Giesing gained extensive knowledge in the annuity industry working as an annuity wholesaler at MetLife, and as a licensed personal banker at Wachovia Bank. He graduated from Eastern Connecticut State University with a bachelor’s degree in Accounting. He can be reached at tgiesing@limra.com.