State of the Insured Retirement Industry

2018 Review and 2019 Outlook

Executive Summary

The seventh annual *State of the Insured Retirement Industry* report reviews and analyzes market dynamics and product development trends, annuity sales and distribution, and legal and regulatory developments that affected the retirement income industry in 2018 and takes a prospective look at the conditions and developments that may have a meaningful impact, positively or negatively, in 2019.

Key Focus Areas

- Wealth and retirement saving are rising
- Demographic trends continue to favor growth of lifetime income solutions
- 2018 saw continued shifts in the leading annuity product types across distribution channels, a trend that will continue in 2019
- An improving interest rate environment will improve capacity and potentially have a positive impact on lifetime income benefit design
- Rising market volatility will create both challenges (sales disruption) and opportunities (highlighting the value of protecting financial assets and income)
- The vacatur of the DOL fiduciary rule created a regulatory vacuum that both the SEC and the states seek to fill
- Tax reform, retirement proposals, senior protection, and cyber security were active legislative areas in 2018 and bear watching in 2019
- IRI is confident the SEC will issue a VA summary prospectus rule in 2019

Demographic Trends

- Americans' wealth continues to grow. Fidelity Investments reported the average 401(k) balance reached an all-time high of $106,500 in the third quarter of 2018, up 7 percent over the third quarter of 2017. The average contribution rate also ticked up, to 8.7 percent from 8.5 percent a year ago.
- Americans are also growing more dependent on their assets to generate sufficient retirement income. IRI research on Americans retired for between five and 15 years finds that 79 percent of retirees with at least $100,000 in retirement savings receive pension payments, with 64 percent citing a pension as providing at least 25 percent of their income from a pension. Meanwhile, only 28 percent of Baby Boomers receive or expect a pension.
- Demographic shifts are under way that have far reaching implications for the marketing of retirement income solutions. The populations of older and younger Americans, and especially older, are expected to increase in the next 10 years, while the segment of the

population

generally perceived to be in peak earning years, and historically the bulk of the target market for annuities, is projected to shrink.

- The wealth of younger Americans is growing; UBS reported in 2017 that Millennials wealth could reach $24 trillion by the year 2020, fueled by inheritance, entrepreneurial activity, and income gains.
- In the 2nd quarter of 2018, U.S. household financial assets were $87.8 trillion, with estimates of the amount of that wealth controlled by Baby Boomers ranging as high as 80 percent.
- Consumers embrace guaranteed retirement income solutions as a concept, and annuity owners are satisfied with the products.
    - Depending on age, 88 percent to 95 percent of consumers are very or somewhat interested in guaranteed lifetime income as a feature of annuities.
    - Three in four consumers ages 35 – 44 say they would be very interested in a financial product providing a greater amount of guaranteed lifetime income than a non-guaranteed alternative, even if they were unable to access the principal investment.
    - Eight in 10 retirees receiving income from an annuity are very or somewhat satisfied with their annuity investment.

Product, Sales and Environment Trends

- New highs in fixed indexed sales, with a record year expected
- Steadily rising long-term interest rates, exceeding 3% as of this writing
- Downward trend in, and leveling of, product compensation in the wake of the DOL fiduciary rule fueling both a modest rise in fee-based annuity sales and the acceleration of efforts to improve transaction efficiency.
- Variable product innovation, most notably fee-based VA product and market development, innovative income options such as CPI-U adjusted annuity payments, and fixed indexed VA products (i.e. filed as VA but with index-based crediting and 100% principal protection).
- Consumer education efforts through the Alliance for Lifetime Income
- Transfer of employer pension obligations to insurance companies via annuities; several high-profile transfers and closing of pensions to new employees served to increase the pool of pre-retirees who will have to rely solely on Social Security and retirement savings for income.

Distribution Channel Analysis

- The table below shows distribution channel trends over the past five years, focusing on the top 10 products sold in each channel
- Bank channel: five years ago variable annuities dominated annuity sales, in 2018 the top 6 products are traditional, non-MVA fixed annuities.
- Regional broker-dealers show a similar shift, now primarily favoring fixed products over VA, which led the pack in 2013.
- Independent channel strongly led by fixed indexed annuities today, versus almost 80 percent of top 10 products being VA in 2013.
- Wirehouse and captive channels, by comparison, are channels where VA continues to show a strong presence among top 10 products, with market share losses mostly (or in the case of the wirehouses almost entirely) going to fixed indexed.

	Bank		Captive		Independent		Regional		Wirehouse	
	Q218 YTD	Q213 YTD	Q218 YTD	Q213 YTD	Q218 YTD	Q213 YTD	Q218 YTD	Q213 YTD	Q218 YTD	Q213 YTD
VA Sales as a percentage of Top 10	7.0%	85.9%	61.7%	94.4%	33.8%	78.5%	8.8%	76.8%	72.3%	100.0%
Fixed Sales as a percentage of Top 10	85.4%	6.8%	12.9%	5.6%	0.0%	13.1%	78.7%	23.2%	0.0%	0.0%
Fixed Indexed Sales as a percentage of Top 10	7.6%	7.2%	17.1%	0.0%	66.2%	0.0%	2.2%	0.0%	27.7%	0.0%
SPIA Sales as a percentage of Top 10	0.0%	0.0%	8.3%	0.0%	0.0%	8.4%	10.3%	0.0%	0.0%	0.0%
First	Fixed (Non-MVA)	GLWB VA	GLWB VA	GLWB VA	Fixed Indexed	GLWB VA	Fixed (MVA)	GLWB VA	GLWB VA	GLWB VA
Second	Fixed (Non-MVA)	GLWB VA	Fixed (Non-MVA)	GLWB VA	GLWB VA	GLWB VA	Fixed (MVA)	GLWB VA	Fixed Indexed	GLWB VA
Third	Fixed (Non-MVA)	GLWB VA	GLWB VA	GLWB VA	Fixed Indexed	GLWB VA	Fixed (MVA)	Fixed (Non-MVA)	GLWB VA	GLWB VA
Fourth	Fixed (Non-MVA)	GLWB VA	Fixed Income (SPIA)	GLWB VA	Fixed Indexed	GLWB VA	Fixed (MVA)	Fixed (Non-MVA)	GLWB VA	GLWB VA
Fifth	Fixed (Non-MVA)	GLWB VA	GLWB VA	GLWB VA	Fixed Indexed	IOVA	Fixed Income (SPIA)	GLWB VA	GLWB VA	GLWB VA
Sixth	Fixed (Non-MVA)	IOVA	Fixed Indexed	GLWB VA	Fixed Indexed	Fixed Income (SPIA)	GLWB VA	GLWB VA	Fixed Indexed	GLWB VA
Seventh	Fixed Indexed	GLWB VA	Fixed Indexed	Fixed (Non-MVA)	GLWB VA	Fixed (MVA)	GLWB VA	GLWB VA	GLWB VA	GLWB VA
Eighth	GLWB VA	Fixed Indexed	Fixed Indexed	GLWB VA	GLWB VA	GLWB VA	Fixed Income (SPIA)	GLWB VA	Fixed Indexed	GLWB VA
Ninth	Fixed (Non-MVA)	GLWB VA	GLWB VA	GLWB VA	Fixed Indexed	Fixed (Non-MVA)	GLWB VA	GLWB VA	GLWB VA	GLWB VA
Tenth	Fixed (MVA)	Fixed (Non-MVA)	GLWB VA	GLWB VA	Fixed Indexed	GLWB VA	Fixed Indexed	GLWB VA	IOVA	GLWB VA
Top 10 as a Percent of Total Channel Sales	34%	37%	24%	49%	23%	33%	56%	53%	28%	50%

Legal and Regulatory Developments

- DOL fiduciary rule vacated by 5th Circuit Court of Appeals on March 15, 2018
- DOL issued a temporary enforcement policy; DOL will not pursue prohibited transactions claims against fiduciaries working in good faith to comply with impartial conduct standards
- SEC unveiled package of regulatory proposals on April 18, 2018, including Regulation Best Interest (Reg B), Client/Customer Relationship Summary (Form CRS), and Investment Advisor Interpretation
- NAIC Life Insurance and Annuities (A) Committee exposed working group's latest draft of the Suitability in Annuity Transactions Model Regulation for public comment until mid-February 2019
- New York, Nevada and New Jersey moved to create their own fiduciary standard regulations for financial advisers
- The Tax Cuts and Jobs Act (H.R. 1) passed Congress and the Senate with only Republican support
- Tax Reform 2.0 was introduced, including provisions to make individual and business tax cuts in H.R. 1 permanent, the Family Savings Act of 2018, and the American Innovation Act of 2018
- The Retirement Enhancement and Savings Act of 2018 (RESA), the Family Savings Act and the Retirement, Savings, and Other Tax Relief Act of 2018 (H.R. 88) were introduced as measures to promote retirement security and increase access to lifetime income solutions
- The SEC issued a Variable Annuity Summary Prospectus proposal
- The Senior$afe Act was enacted
- South Carolina adopted the NAIC's Insurance Data Security Model Law in May 2018, the first state to do so

Long Term Outlook for the Insured Retirement Industry

- Demographics: Pew Research Center estimates that 10,000 Baby Boomers will turn 65 every day for the next 13 years.
- Consumer needs: IRI research shows that "guaranteed income each month" and "will not lose principal" are two of the most important traits consumers say they want in a retirement product.
- Increased longevity: As people live longer, guaranteed lifetime income becomes a key component to managing longevity risk.
- Decline of traditional pension plans: In 1985, there were 114,000 private-sector defined benefit pension plans, but by 2013 there were only 23,769 of these plans remaining, according to the Pension Benefit Guaranty Corporation (PBGC). Only about 17 percent of private-sector workers have access to a traditional pension (down from 18 percent in 2017), with only 15 percent of workers participating.

- Industry Efforts to Educate and Raise Awareness: It will take time, but the Retire Your Risk campaign launched by the Alliance for Lifetime Income will serve to educate consumers and raise awareness of the importance of ensuring that one does not outlive one's retirement savings, destigmatizing annuities in the process.
- Large dollar amounts in qualified plans: The total assets in qualified retirement plans, as of the end of 2017, were $27.9 trillion, up 10.3 percent from the end of 2016.
- Concerns about Social Security and other governmental programs: The 2018 Social Security Trustees Report projects the combined Old Age and Survivors Insurance and Disability Insurance Trust Fund will be exhausted, and the 2018 Medicare Trustees Report projects that the Hospital Insurance Trust Fund (Part A) will be depleted in 2026.

Click here to access the full report.