



## Locating the thin edge of the wedge in annuity distribution:

### 2014's retail annuity market's best production opportunities in key state markets

This state-level analysis integrates measures of the current retail annuity market and DTCC-reported annuity production. Year-end 2013 data from IAP's [Annuity Market Assessment](#) was used to prepare this report.

#### Summary:

- Current retail annuity market size: 2.6 MM households representing 4-5 million individuals
- The annuity market has significant geographic concentration: 7,000 ZIP codes = 70% of the market. This analysis focuses only on 2013's production in these highest potential micro markets.
- Each state has a unique set of concentration dynamics that present the annuity marketer with "a thin edge of the wedge" to identify the best markets and relationships to cultivate to increase production.

#### CA, NJ & FL

- Below US benchmark for market concentration; 2013 production lagged potential in best markets
- Less concentrated markets: Growth opportunity distributed more broadly over markets within states

#### IL, VA & NY

- Comparatively less opportunity for growth due to greater 2013 penetration of best markets in these states

#### OH, PA, GA, TX, MI & NC

- Industry trended above US benchmark in capturing current market potential

#### Key takeaway:

Annuity industry was more efficient at capturing market potential in geographically concentrated markets in 2013; Inefficiencies in CA, FL and NJ produce market opportunities in 2014, likely requiring new distribution strategies and relationships to win production

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### About Information Asset Partners

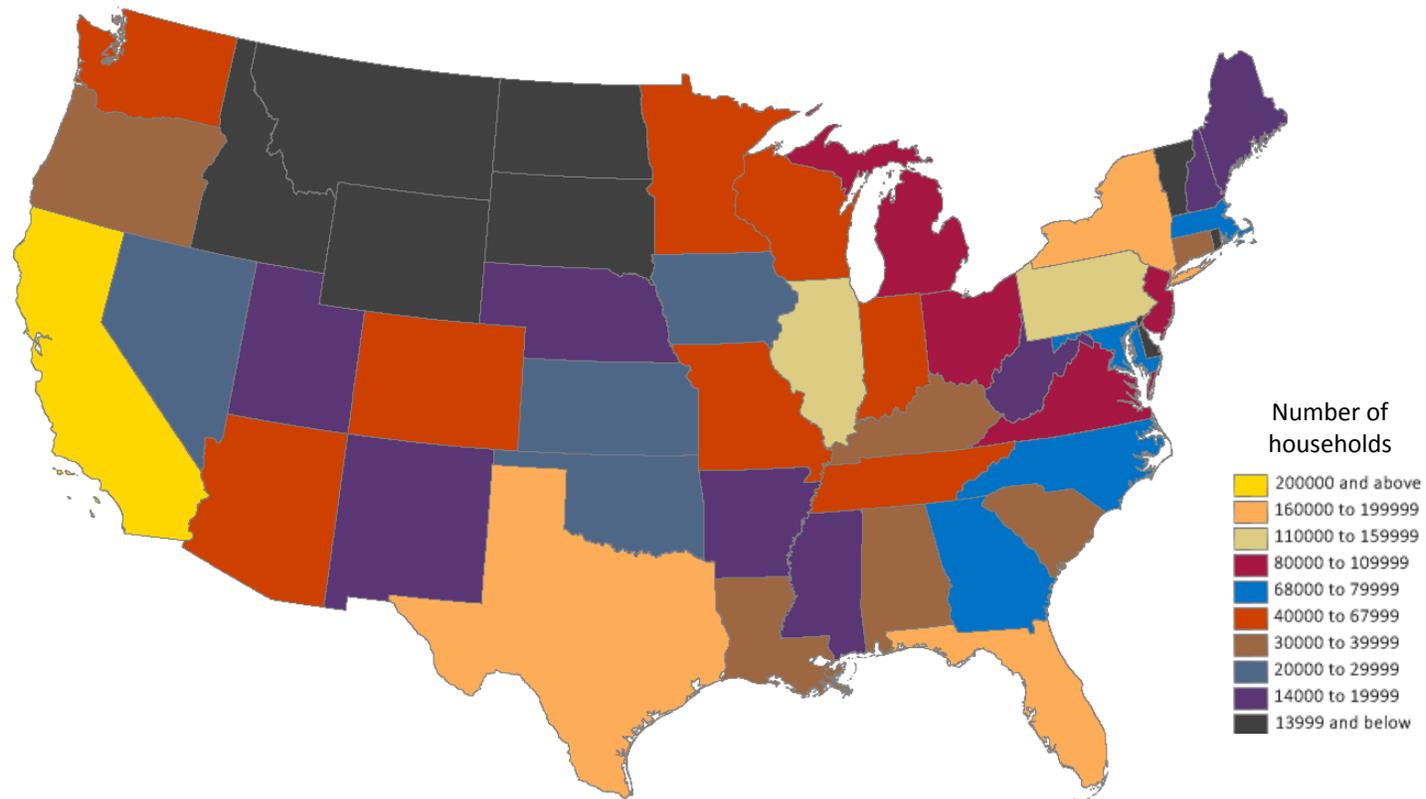
Information Asset Partners develops marketing analytics for the insurance and wealth management industries. Please visit our site for further information about our company and the Annuity Market Assessment solution used to produce this report:

<http://www.iapartners.com/empirics-annuity-market-assessment.html>.

Annuity Market Assessment provides quarterly-updated, ZIP code-level market intelligence that helps distribution market and sell annuities. The solution is provided via annual license or deliverables per client requirements.

In mid-2014, a quarterly state-level report that tracks annuity production trends will be launched.

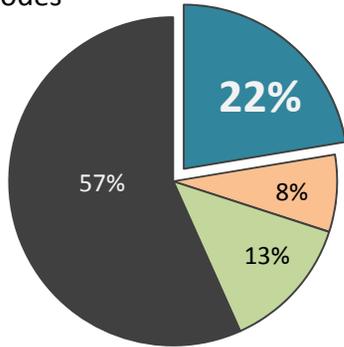
### Current retail annuity market by state: Source of inflows



Today, over **2.6 million** households have characteristics similar to households that recently bought annuities. They represent the current annuity market. Within these households, there are 4-5 million individuals that the annuity industry has as its audience and prospective clients.

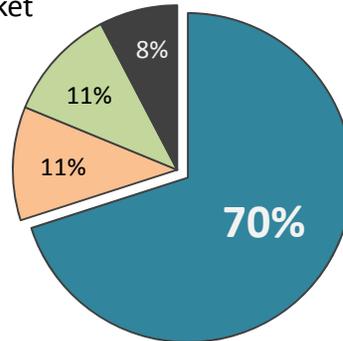
## And the best places to sell retail annuities today are . . .

The 22% of US ZIP codes



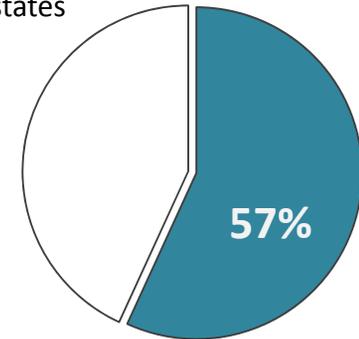
7000 ZIP US codes

That represent 70% of the households in today's annuity market



1.8 million US households

Particularly the 57% of these households in twelve large states



956,000 households in CA, FL, GA, IL, MI, NC, NJ, NY, OH, PA, TX, & VA

ZIP Code Tiers	
1	> 3X State Benchmark
2	> 2X State Benchmark
3	> State Benchmark
4	Below State Benchmark



### WHY?

These are today's most geographically concentrated, highest potential annuity markets within each state

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Highly concentrated annuity potential tends to represent a large share of a state's total potential

&

Annuity marketing is most efficient when its retail markets are geographically concentrated

&

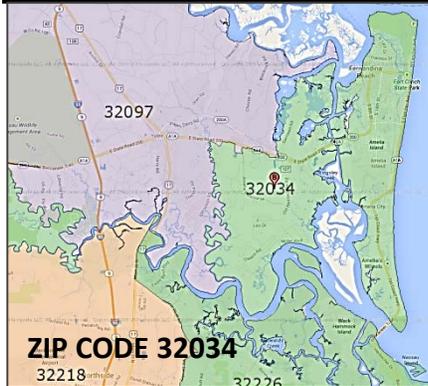
These 12 states produced > 60% of 2013's DTCC-reported inflows

## Example: Contrasting two high potential ZIP code-level markets:

Given two of the best ZIP codes to sell annuities in Florida TODAY

Potential and production are in sync in one; Lagging significantly in another

### High Market Potential: **Currently, highly competitive; Grow by taking market share**



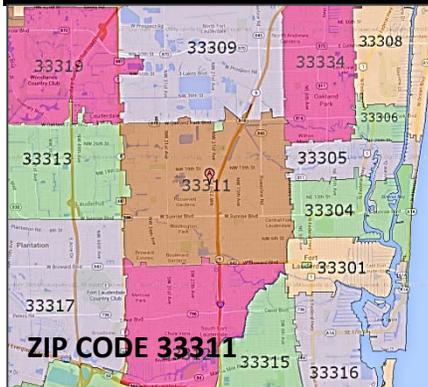
Fernandina Beach 2013 production was among the highest in the state

2013 inflow: \$17.3 million

Market Potential: Tier 1: 3X State Benchmark

2013 Inflow: Tier 1: 3X State Benchmark

### High Market Potential: **Currently, less competitive; Grow market share by capturing more of market**



Fort Lauderdale 2013 inflow was far below current market potential

2013 inflow: \$3.6 million

Market Potential: Tier 1: 3X State Benchmark

2013 Inflow: Tier 4: Below State Benchmark

# 2013 results vs. potential within the key states' Tier 1 markets

Annuity market potential sizes the current opportunity. Objectively comparing industry production to its opportunity provides the marketer with the means to assess their position and identify their best opportunities to grow their business.

The 12 states are ranked according to the percentage of current annuity market potential represented by households in Tier 1 ZIP codes. Nationally, these 7,000 Tier 1 ZIP codes represent 70% of the current annuity market. The blue segment of each bar shows Tier 1's percentage that each state's market.

IL, VA, and NY have the most geographically concentrated annuity potential. CA, NJ, and FL have the lowest percentages of their markets represented by Tier 1 ZIP codes: More of their market potential can be expected to be realized from ZIP codes that have lower potential, Tiers 2 through 4.

The US benchmark is shown and differentiates the states into above and below national benchmark groups of states.

The column of percentages to the left of the chart displays the percentage of the Tier 1 market that had Tier 1, 3X state benchmark inflow: High 2013 inflows aligned with high annuity market potential.

**Growth trends more constrained in high Tier 1 concentration states / CA, FL, and NJ represent 20% of US market and greater growth opportunity**

	Percent of market with Tier 1 potential	Percent of Tier 1 potential captured at Tier 1 2013 inflow rate
IL	86%	96%
US	64%	83%
FL	26%	42%

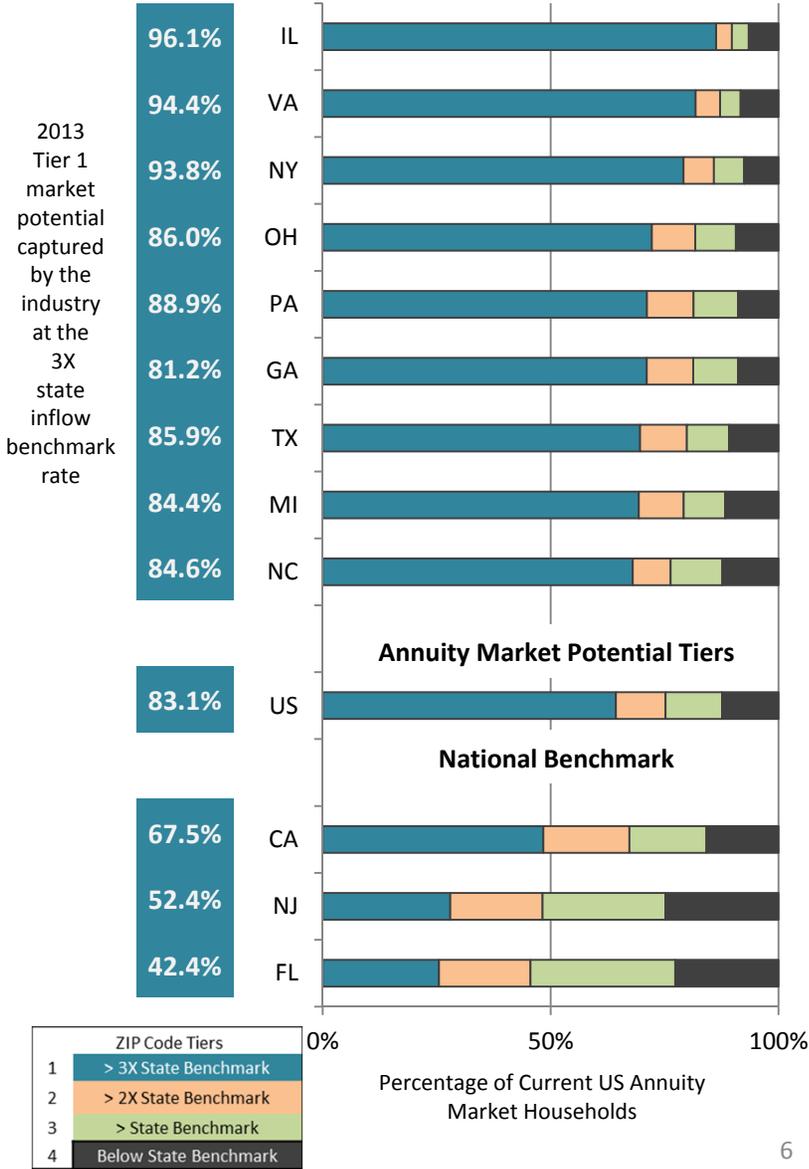
Virtually all of IL's best market was efficiently captured by marketers. Marketers in FL produced Tier 1 inflows in 42% of their best market.

The relationship between 2013 inflows and the geographic distribution of the retail annuity market indicates that there are targetable high potential opportunities for production growth within current distribution relationships. Evaluating and developing new relationships in markets with unmet potential can also be a path to increase production.

This state level intelligence quantifies the similarities, differences, and current status of market, enabling marketers and firm leadership to evaluate territories, gauge performance, and allocate resources.

**Industry annuity production was most efficient**

**in states with where the Tier 1 ZIP code households represent the greatest share of the current retail annuity market**



# Annuity Market Assessment: Advisor practice-level visualization

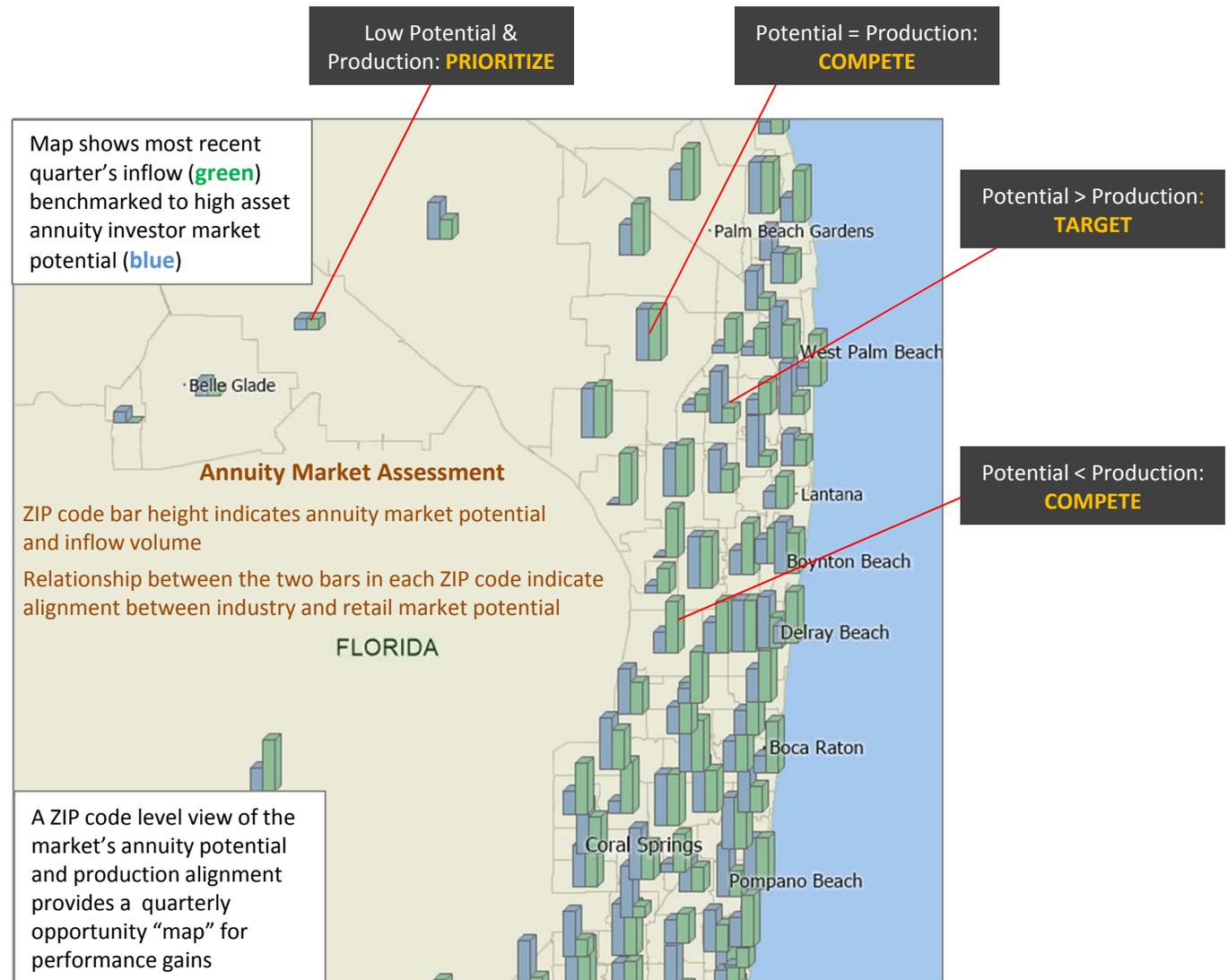
Each local market represents a “portfolio” of current market opportunities and challenges, changing quarterly

Distribution evaluates the “portfolios” of current and prospective relationships to improve performance

This map illustrates a ZIP code-level comparison of one quarter’s production to annuity market potential

Developing a quarterly, detailed view of a wholesaler’s territory or a producer’s market supports ongoing targeting and assessment

Location data indicating current and potential distribution relationships can be integrated



Annuity Market Assessment data shown in mapping application

## About this report’s methodology: Measuring where retail meets institutional



Each state has a unique set of annuity products. Investors can buy multiple annuity products. Providing an assessment of how the industry is capturing annuity market potential requires that universal data be used in the analysis. Annuity Market Assessment’s design focuses on the essential dynamics of the industry:

1. **HOUSEHOLDS** likely to buy annuities represent the current **MARKET POTENTIAL**. Recent annuity buying behavior drives the algorithm for this measure.
2. **INFLOW** dollars represents industry production that drives other performance measures such as market share. DTCC inflow data\* is used to measure production across the industry.

ZIP codes are the geographic level of analysis, the smallest area where DTCC inflow data is available. The household annuity buying information is consolidated at this level for consistency.

Each state is analyzed individually. To consistently represent and compare **POTENTIAL** and **INFLOW**, the analytics determine each ZIP code’s relationship to two independent state benchmarks:

**MARKET POTENTIAL** ZIP code tiers indicate the scale of production opportunity (households) compared to the state benchmark

ZIP Code Tiers	
1	> 3X State Benchmark
2	> 2X State Benchmark
3	> State Benchmark
4	Below State Benchmark

**INFLOW** ZIP code tiers indicate the scale of 2013 annuity inflow dollars for the period compared to the state benchmark

Inflow analysis integrated information on 3,467 products that produced 2013 inflows of \$94 billion; 117 carriers and 138 distributors’ data are represented in the analytics

The relationship between **MARKET POTENTIAL** and **INFLOW** provides quarterly market intelligence that reveals where there annuity marketer can target and allocate resources to increase their production

The 2.6 million household-current market size was developed using IAP’s [Empirics annuity buying metric](#). The metric is based on one retail financial behavior – recent annuity buying – in nationally representative research. The metric’s algorithm is developed using hundreds of consumer demographic variables to determine the factors and weightings that are then used to evaluate today’s market for the target financial behavior – annuity buying. The market intelligence can then be used with the client’s own data, and vendor-provided data on advisors/producers and industry sales. It is also possible to refine an analysis by using other Empirics metrics such as investable assets or financial advisor use. Client production and other marketing data can also be integrated analytically.

The annuity metric is designed to provide financial product marketers with a universal, yet product-specific, means of assessing their markets and performance. As an objective measure of the source of retail annuity inflow – the annuity buying decision makers – it provides market intelligence that improves other measures of distribution performance, such as annuity production and market share.

\*Source: Analytic Reporting for Annuities from the Insurance & Retirement Services of National Securities Clearing Corporation, a DTCC Subsidiary. Visit [www.dtcc.com/analytics](http://www.dtcc.com/analytics) for more information or contact your I&RS Relationship Manager