November 25, 2025

Market Segment Outlook: US Life/Annuity Insurance

The outlook for the US life/annuity segment remains at Stable, reflecting a continuation of top-line growth, healthy capital and risk-adjusted capital

AM Best is maintaining its Stable outlook for the US life/annuity segment, supported by the following key factors:

- Capital and risk-adjusted capital remain healthy.
- Continued strong top-line growth.
- The industry remains consistently profitable.
- Quality of capital has deteriorated through significant use of reinsurance by removing conservancy in reserves as the industry moves to a more economic standard.
- Quality of assets remains a concern with increased allocation to private credit and growth in affiliated assets.
- Macroeconomic factors could potentially impact future interest rates and future growth.

The US life/annuity outlook remains Stable, continued in large part due to healthy overall capital and risk-adjusted capital levels. Despite very strong growth in recent years, the industry has been able to grow surplus and maintain strong overall balance sheet metrics, which is the key for the industry. While surrender activity has also picked up with changes in interest rates and sales, the industry's commitment to strong asset/liability matching, along with liquidity stress testing, has proven capable in dealing with these challenges.

Offsetting the robust capital levels has been a deterioration of the quality of the capital and assets. Total use of reinsurance and specifically offshore reinsurance has increased in its usage. It is AM Best's opinion that this increased use of reinsurance and offshore reinsurance is to carry reserves on a more economic basis as opposed to a more conservative statutory basis on the liability side and to move the asset side of the balance sheet seeking the lowest risk-adjusted capital charges for its investments. The combination of these leads to an overall lower quality of the balance sheet.

Operating performance remains strong for the industry. While life sales have slowed in growth from the post-COVID bump, annuity sales have surged, posting record results for the last few years. Annuity growth was due to a broad-based range of product offerings, from strong sales in multi-year-guarantee annuities (MYGA) and fixed index annuities (FIA) to newer products like the registered-index-linked annuities (RILA), which grew rapidly, albeit from a low base. Even traditional variable annuity products have seen a rebound in growth following several years of declines, and institutional products like pension risk transfers and funding agreement programs are also strong. While many new entrants have come into the market over the last few years, the strong top-line growth has led to rational competition among market participants and spreads, and profitability has remained healthy. However, a concern going forward is growth may not be maintained at this record pace, and continued entrants into the market can potentially lead to much stronger competition, which could lead to increased risk-taking on both the product side in terms of guarantees and crediting rates and on the asset side in terms of seeking higher yield.

Analytical Contact:
Erik Miller, Oldwick
+1 (908) 882-2120
Erik.Miller@ambest.com

2025-165

From the business profile perspective, the industry has been aided by many of these new entrants and new capital coming into the industry as legacy blocks of business have been repriced and sold, leading to a de-risking of the product profile. The industry is still dealing with many legacy systems but has moved to a more digital approach to distribution and client interactions, which should increase efficiency and reduce errors and enable better fraud detection. The industry has moved to a more automated underwriting approach for many low face amount policies, but usage for artificial intelligence is still in its infancy, and material impacts from this new technology are only beginning to be felt.

AM Best has seen a renewed focus on enterprise risk management (ERM). Industry participants are clearly taking asset/liability management and stress testing seriously and using it to guide decision-making. AM Best has also noted a change from individual entity-level capital management to a more holistic view of capital management. Many of the stress testing and scenario analyses are more commonly performed on a consolidated aggregated basis. AM Best believes this is being driven by the need for a more holistic approach to encompass risks like reputation, cyber security, and vendor management into their ERM programs but also by more companies operating from a more diverse set of organizations, both on and offshore, in different regulatory regimes, making it more necessary to move to a more enterprising view of risk management.

GUIDE TO BEST'S MARKET SEGMENT OUTLOOKS

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies.

A Best's Market Segment Outlook can be Positive, Negative, or Stable.

Best's Market Segment Outlook	
Positive	A Positive market segment outlook indicates that AM Best expects market trends to have a positive influence on companies operating in the market over the next 12 months. However, a Positive outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Positive.
Negative	A Negative market segment outlook indicates that AM Best expects market trends to have a negative influence on companies operating in the market over the next 12 months. However, a Negative outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Negative.
Stable	A Stable market segment outlook indicates that AM Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

We update our market segment outlooks annually but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

Best's Financial Strength Rating (FSR): an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts.

Best's Issuer Credit Rating (ICR): an independent opinion of an entity's ability to meet its ongoing financial obligations and can be issued on either a long- or short-term basis.

Best's Issue Credit Rating (IR): an independent opinion of credit quality assigned to issues that gauges the ability to meet the terms of the obligation and can be issued on a long- or short-term basis (obligations with original maturities generally less than one year).

Best's National Scale Rating (NSR): a relative measure of creditworthiness in a specific local jurisdiction that is issued on a long-term basis and derived exclusively by mapping the NSR from a corresponding global ICR using a transition chart.

Rating Disclosure: Use and Limitations

A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness. The opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance, business profile, and enterprise risk management or, where appropriate, the specific nature and details of a security. Because a BCR is a forward-looking opinion as of the date it is released, it cannot be considered as a fact or guarantee of future credit quality and therefore cannot be described as accurate or inaccurate. A BCR is a relative measure of risk that implies credit quality and is assigned using a scale with a defined population of categories and notches. Entities or obligations assigned the same BCR symbol developed using the same scale, should not be viewed as completely identical in terms of credit quality. Alternatively, they are alike in category (or notches within a category), but given there is a prescribed progression of categories (and notches) used in assigning the ratings of a much larger population of entities or obligations, the categories (notches) cannot mirror the precise subtleties of risk that are inherent within similarly rated entities or obligations. While a BCR reflects the opinion of A.M. Best Rating Services, Inc. (AM Best) of relative creditworthiness, it is not an indicator or predictor of defined impairment or default probability with respect to any specific insurer, issuer or financial obligation. A BCR is not investment advice, nor should it be construed as a consulting or advisory service, as such; it is not intended to be utilized as a recommendation to purchase, hold or terminate any insurance policy, contract, security or any other financial obligation, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. Users of a BCR should not rely on it in making any investment decision; however, if used, the BCR must be considered as only one factor. Users must make their own evaluation of each investment decision. A BCR opinion is provided on an "as is" basis without any expressed or implied warranty. In addition, a BCR may be changed, suspended or withdrawn at any time for any reason at the sole discretion of AM Best.

Version 011624