



# The Value of Guarantees

Why Lifetime Income Matters



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# Introduction

## *Background*

In America, retirement has become more and more challenging. Saving and planning for retirement in an environment of growing market volatility, disappearing pensions, evolving employer-employee relationships, and confusing and contradictory messages about financial products lead many people to make sub-optimal decisions. Likewise, for the financial services industry, helping Americans achieve a secure retirement grows more difficult in the face of rapid technological, regulatory, and societal change.

Given these difficult conditions, improving the retirement security of millions of Americans must be addressed through a combination of public and private sector solutions. Such improvements may include adjustments to Social Security, Medicare, and other forms of social insurance, along with innovations in both retail and institutional retirement products and services. Central to this effort is the role of income that is guaranteed to last throughout retirement. It represents the cornerstone of retirement security — having lifetime-guaranteed income is a necessary element of any secure retirement strategy. Sources of income that are not guaranteed, such as withdrawals from savings or job earnings, will be insufficient on their own.

While the importance of guaranteed lifetime income (GLI) is essentially uncontested, the main financial product capable of generating guaranteed income — the annuity — remains both underutilized and, to a large degree, underappreciated by those middle- and mass-affluent consumers who would benefit the most from it. Despite their ability to fulfill a growing need for a rapidly expanding population of retirees, annuities have not grown in popularity as pensions have shrunk.

Key elements of the current state of GLI (for a more in-depth examination of these issues, see Appendix A) include:

- Many of today's retirees have a large proportion of their income in the form of GLI, mainly Social Security but also defined benefit (DB) pensions.
- Future retirees stand to have lower proportions of GLI due to the decline in pensions and lower replacement rates for Social Security.
- A minority of retirees receive income from annuities, either in the form of systematic withdrawals (including activation of GLWBs) or annuitization.
- Deferred annuity and income annuity sales have declined in recent years.
- Access to GLI from workplace defined contribution (DC) plans and IRAs is limited.



## About This Report

People near retirement express concern about running out of money, but do not seem to make the connection between their concern and a clear solution. Moreover, there is an unsolved puzzle regarding the use of annuities — retirees tend to reject them, but those who are presented with the concept of GLI often favor it. And negative feelings toward annuities directly correlate to a lack of knowledge about them.

How can the industry reverse this situation? Is there a way to break through the noise and misunderstanding that swirl around GLI products?

This report identifies possible answers to these questions. While in-depth analyses have repeatedly demonstrated the value of GLI in quantitative terms, we believe the key to success involves a clear understanding of the mindset regarding GLI in general and annuity products in particular.

Manufacturers and distributors must promote the subjective, emotional value of GLI to a much greater degree than ever before.

We review LIMRA Secure Retirement Institute (LIMRA SRI) research that investigates people's goals and concerns, including ideas about retirement goals and concerns, GLI, and annuities. We then present a series of research-based recommendations for the industry that will help the industry connect with more Americans and overcome barriers to accepting GLI solutions. Because our audience is for-profit, private-sector corporations, we will mainly focus on individuals with sufficient retirement savings to deploy on GLI, i.e., those with at least \$100,000 or more in household financial assets. In addition, we will also concentrate on individuals aged 50 to 79, who are the most likely to need and purchase annuity products.<sup>1</sup>



<sup>1</sup> These households control 73% of all U.S. financial assets. Source: LIMRA Secure Retirement Institute analysis of 2016 Survey of Consumer Finances, Federal Reserve Board, 2017. Individuals aged 51 to 80 represented 88 percent of all new deferred and income annuity sales in 2016. Source: Annuity Buyer Metrics, LIMRA Secure Retirement Institute, 2017.

# Key Findings and Themes

## Retirement Concerns and Goals

- **Having enough money to last a lifetime is the top retirement goal for most pre-retiree and retiree investors.** A significant proportion of pre-retiree investors express major concern about depleting assets in retirement.
- **Investors' sense of retirement security links strongly to their receipt of GLI sources,** such as Social Security and traditional pension benefits.

## Accessing Savings During Retirement

- **About 3 in 10 retirees take no withdrawals at all from their savings and investments,** leading many to possess more in savings and investments today than they did immediately before retirement. Not deploying assets, possibly in the form of GLI, may prevent them from achieving their ideal living standard. Moreover, many future retirees will not enjoy the same ability to leave their wealth untapped; they will instead need to use it to meet their goals and maintain their living standards.
- **People find it easier to spend income received regularly than to pull money out of their nest eggs to spend.** Retired investors appear to adjust spending levels to match their regular sources of income such as Social Security and pensions. Higher spending levels and a more comfortable lifestyle should follow from boosting sources of income that are automatic and ongoing.

## Attitudes and Preferences Regarding GLI

- **Nearly half (47 percent) of all Americans would be willing to convert a portion of their assets into a GLI stream, but pre-retiree and retiree investors are somewhat less likely to express interest (30 percent).** Younger investors, women, and those with formal written retirement plans are most likely to be willing.

- **Grouping pre-retiree and retiree investors based on income feature preferences reveals a segment, "Guarantee Seekers," who would prefer to trade off most other income features in favor of GLIs.** This group represents more than 4 in 10 pre-retiree and retiree investors.
- **The preference for guaranteed income has its limits; to some degree, the desire to maintain control of assets offsets the preference for guarantees.** More than one third of pre-retiree and retiree investors plan to use GLI to cover only their basic living expenses while using non-guaranteed sources to cover the rest of their expenses. Other strategies involve systematic withdrawals or "bucket" strategies that allow individuals to maintain full control of their investments.
- **Context and framing are critically important in assessing how much value people place on GLI.** Presented with a hypothetical choice at retirement between GLI and a lump sum — as opposed to asking them to part with their own assets to generate income — a majority (52 percent) of pre-retiree and retirees investors select GLI.
- **The value provided by GLI cannot be adequately expressed in terms of monetary cost.** In a hypothetical choice exercise, those who favor GLI payments over a lump sum are generally not willing to change their preference when the lump sum value is increased; nearly half (46 percent) said that they would *never* choose the lump sum.
- **An expectation of living long in retirement and a desire for peace of mind in retirement drive the preference for hypothetical GLI versus a lump sum.**
- **In contrast, the desire to maintain control of their money motivates pre-retiree and retiree investors to elect a lump sum versus GLI.**

- **The core emotional value of GLI is “peace of mind.”** Other potential forms of value derived from GLI include protection during cognitive decline, the ability to take more risks with the remaining portfolio for more potential gains, and improved retirement lifestyles.

### ***Annuities — Knowledge, Attitudes, and Ownership***

- **Most pre-retiree and retiree investors understand the basic definition of “annuity.”** Eighty percent recognize that “Annuities are financial products that can provide a series of payments to a person that will last as long as he or she lives.”
- **Many pre-retiree and retiree investors claim familiarity with annuity products, but their knowledge is limited.** This is true even among those with high levels of self-reported investment and financial product knowledge. Since individuals who are more knowledgeable about annuities are more likely to have positive perceptions of their overall value, and more likely to own annuities, the importance of education cannot be overstated.

- **Owners of annuities derive substantial emotional value from them.** Annuity owners are more likely than non-owners to express confidence in their ability to live their desired retirement lifestyles. They are more likely than non-owners to perceive how an annuity fits into their financial situation and to recommend them to family and friends. Retirees who receive GLI from an annuity place significant value on their products, and rarely express regret in their decision to purchase. They can be strong advocates for the value of GLI from annuities.
- **Financial professionals agree with consumers on the subjective value of GLI products.** Nine in 10 financial professionals (e.g., financial advisors, investment brokers) acknowledge that GLI products can provide “peace of mind” in retirement. Three in 4 agree that their clients place value on the concept of GLI and that the products provide benefits beyond what they can accomplish with non-GLI products.





# Recommendations — Ways to Connect With More Consumers

*The following are recommendations to providers of GLI, based on LIMRA Secure Retirement Institute research described in this report.*

## **Focus on the Right Market Segments**

- The need to have security in retirement — not running out of money — is universal, but acceptance of GLI as a potential solution is not. “Income seekers” are those who prioritize lifetime guarantees over other income features such as control, flexibility, and upside potential. Individuals within this segment — whom we identified through a trade-off exercise — will be amenable to income guarantees. The other segments will be much harder to reach, but may have more appreciation for detailed proofs establishing GLI value in their portfolios, and may be more willing to consider forms of GLI that involve some degree of control of assets, such as guaranteed lifetime withdrawal benefits (GLWBs) on deferred annuity products.
- Outreach to those seeking GLI should de-emphasize the investment aspects of the products. Individuals who prefer receiving GLI rather than investing and managing lump-sum amounts tend to have lower self-reported levels of financial sophistication. Based on their own explanations of the role of income guarantees, retirees generally purchase annuities simply to provide peace of mind, not as the outcome of a complicated financial analysis. Companies should limit the discussion of the “money’s worth” calculations to sophisticated investors for whom such facts may play a role in decisions.
- Advisors should focus on mass-affluent investors, younger investors, and women, and should develop formal written retirement plans for managing their clients’ income, expenses, and assets during retirement. These segments are the most likely to be willing to convert assets into GLI.

## **Emphasize “Peace of Mind”**

- The core value of GLI is that it provides peace of mind in retirement, and this should feature prominently in outreach efforts. For a significant proportion of the population, achieving peace of mind is a key goal for retirement, and takes priority over having total control over assets.
- The phrase can be used with both consumers and advisors; both groups agree that GLI offers peace of mind. Advisors should emphasize the emotional benefits of GLI to their clients who do not identify as strongly with the term “investor,” as well as those who do not want to be as involved in the management of their assets and prefer to grant their advisors that responsibility.
- Protection during cognitive decline, the ability to take more risks with the remaining portfolio for more potential gains, and improved retirement lifestyles are benefits that may resonate with groups who value more tangible evidence for their decision-making. Nonetheless, even these proof points are manifestations of the “peace of mind” theme.

## **Use Annuity Owner Testimonials**

- Annuity owners are far more likely to agree that annuities are a good fit for their financial needs and that they would recommend annuities to friends and family members. Sentiment toward annuities is significantly better among annuity owners than among non-owners.
- Retirees who select GLI express very little regret. For example, among 21 retirees who currently receive some type of income from one or more annuities, only two expressed regret for their decisions, one of whom wished he could have put more money into the contract.

- Owners may be strong advocates for the value of annuity income and can rebut common arguments against annuities.
- Retirees who have had the misfortune of depleting their assets and are relying solely on Social Security income can warn younger generations to protect themselves by converting assets into GLI.

### **Change Terminology and Framing**

- Avoid making analogies with investment products or discussion of rates of return. A comparison of insurance-based products with investments, in terms of return on investment, often falls apart; this may be especially true in the case of GLI, because people do not easily grasp the value of an income stream and tend to under-value it relative to a lump-sum amount. The value of GLI does not primarily lie in its ability to provide superior returns over non-guaranteed investments. Instead, make analogies to pensions, which have positive connotations. If possible, refer to GLI as a type of “personal pension.” This terminology may be especially important in the context of generating income from assets within retirement savings plans.
- “Protected income” avoids some negative connotations associated with “guarantees.” As research indicates, some people are skeptical that companies will always honor “guarantees.”<sup>2</sup>
- Stress the “insurance” aspect of GLI — like any other insurance policy, people are protecting themselves from financial harm if a certain event takes place — in this case, the “event” is living longer than planned. At the same time, choosing GLI is not “placing a bet with an insurance company.” It should not feel like insurance was a waste of money if a retiree does not live long in retirement, any more than homeowner’s insurance was a waste of money if a house does not burn down. If this concern is a serious barrier, then options such as periods certain or cash refunds are available.

- Companies and financial professionals should illustrate lifespan variability and frame GLI as one component of a comprehensive financial plan that accounts for multiple post-retirement risks. While it is clear that a financially successful retirement means one where you do not go broke, what is less clear is whether consumers are concerned about financial ruin due to longer-than-anticipated lifespans or for other reasons. For example, people may be concerned about financial “shocks” that can occur early in retirement, including significant healthcare events leading to major out-of-pocket expenses. In fact, this worry may lead people to refrain from deploying their assets to purchase GLI, because they want to keep assets in reserve as a hedge against these early-retirement risks. At the same time, people may not recognize the large variability in life spans and instead focus on average life expectancies.

### **Link Guaranteed Income to Retirement Lifestyle**

- People find it much easier to spend income received regularly than pulling money out of their nest eggs to spend; as a result, many of today’s retirees are not spending down their assets. Retired investors appear to adjust spending levels to match their regular sources of income such as Social Security and pensions, almost irrespective of wealth levels. It follows that boosting income sources that are regular and automatic — for example, by converting a portion of assets into GLI — would lead to an enhanced retirement lifestyle enabled by more spending.
- Focusing on retirement lifestyle may be especially important for people early in their retirement years, when their lifestyle includes travel and other activities that tend to decline at older ages. Also, recent retirees and pre-retirees will be less likely than older retirees to have significant sources of GLI from traditional pensions.

<sup>2</sup> For example, the Alliance for Lifetime Income, formed in 2018 by a coalition of insurers, refers to “protected retirement income” rather than “guaranteed retirement income” (<https://www.allianceforlifetimeincome.org/>).

## Provide Basic Annuity Education — and Start Early

- Increasing awareness and appreciation for annuity products could lead to higher rates of ownership. Although a large proportion of pre-retiree and retiree investors claim to be familiar with annuity products, actual knowledge is limited, even among those with high levels of self-reported investment and financial product knowledge.
- Educational outreach designed to teach the basics might improve consumers' understanding. Annuity companies can explain the value of annuities to investors and advisors with marketing materials, sales strategies, and so on. But people also learn about financial products from a variety of sources, including family members, friends, websites, magazines, TV, and social media. The industry needs to do more to promote its messages, directly or indirectly, through these sources and using a variety of themes.
- Even though they are not necessarily candidates for sales, younger and middle-aged workers participating in 401(k), 403(b), or other workplace savings plans should also learn about annuities. Plan providers can explain annuities in the context of their plan balances by illustrating how much guaranteed income their balances may provide at retirement.

## Address Healthcare Concerns in Context

- While critically important, addressing healthcare costs should be one component of a comprehensive plan. Most retirement spending is non-discretionary, ongoing, and routine. However, retirees often express concern about catastrophic healthcare costs derailing their financial security.<sup>3</sup> In some cases, the fear of these healthcare costs (which may never occur) leads them to keep large reserves and refrain from making withdrawals, which in turn implies lower spending on discretionary items and a lower living standard in retirement.
- Retirees should deploy more of their savings as GLI, allowing them to enjoy their retirements and have peace of mind that their income will never run out. The idea that all people need significant “reserves” throughout retirement to protect against healthcare shocks is unfounded. While healthcare spending does increase during retirement, in the aggregate, healthcare costs are a small percentage (13 percent) of total spending for households aged 65 and older. Instead, expenses are dominated by housing (35 percent), transportation (15 percent), and food costs (13 percent).<sup>4</sup> When major healthcare expenses do occur, they tend to do so toward the end of retirement.



<sup>3</sup> For example, see *Retirement Spending: Experience versus Expectations*, LIMRA Secure Retirement Institute, 2017.

<sup>4</sup> LIMRA Secure Retirement Institute analysis of *2016 Consumer Expenditure Survey*, U.S. Bureau of Labor Statistics, August 2017.

# Retirement Concerns and Goals

## Summary

- Retirement is the “grand finale” of life, a time of fulfillment and satisfaction. However, retirement also represents a period of increased risk exposure.
- The risk of depleting assets is a major source of concern among 3 in 10 pre-retiree investors.
- Having enough money to last a lifetime is the top retirement goal for two thirds of pre-retiree and retiree investors.
- Investors’ sense of retirement security strongly links to their receipt of GLI sources, such as Social Security and traditional pension benefits. In contrast, over 4 in 10 cite not receiving sufficient (or any) pension income as a reason for their lack of confidence.

Retirement can be the most enjoyable phase of a person’s lifespan. Freed from the constraints of a full-time job, people pursue new hobbies, travel, and spend more time with family and friends. But retirement also represents a period of exposure to financial risks that need to be assessed and

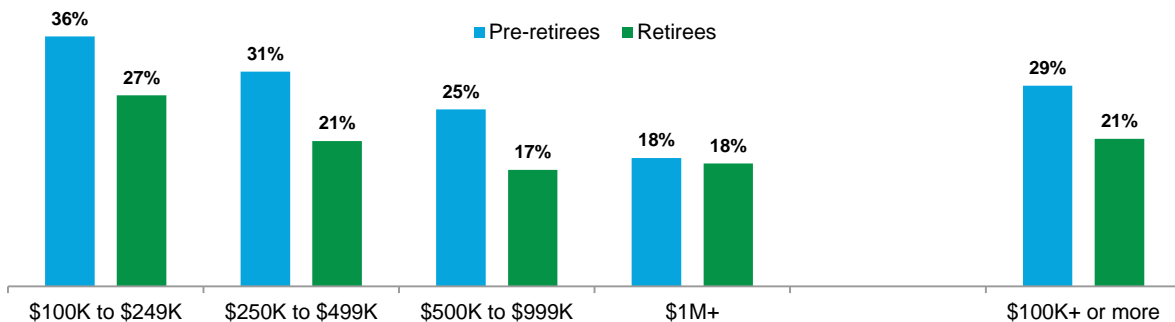
managed. While a comprehensive assessment of post-retirement risks is beyond the scope of this report,<sup>5</sup> in this section, we examine people’s ideas about a key risk — longevity, or outliving one’s assets. We also investigate how these ideas factor in to attitudes toward GLI and annuities.

## Concerns

The biggest financial concern people have about retirement is the frightening possibility of running out of money. Research by LIMRA SRI clearly shows that the risk of depleting assets worries many American investors approaching retirement, with nearly 3 in 10 expressing high levels of concern (Figure 1). People who have already entered retirement are less likely to express this concern, in part because some retirees wait to retire until they are financially ready to do so and because they have shorter (but still uncertain) investment horizons over which to manage their assets. Also, as expected, wealthier individuals tend to be less concerned about running out of funds — although even 1 in 5 of those with over \$1 million in financial assets are very concerned<sup>6</sup>

**Figure 1 — Concern About Running Out of Money During Retirement**

*By Asset Segment*



Source: 2017 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 576 retirees and 614 workers, aged 50 to 79, with \$100,000 or more in household financial assets. Values represent the percentage of respondents who answered 8, 9, or 10 on an 11-point scale, with 10 = “Significant concern” and 0 = “No concern.”

<sup>5</sup> For example, see *2017 Risks and Process of Retirement Survey*, Society of Actuaries, 2018. <https://www.soa.org/research-reports/2018/retirement-risk-survey/> [Accessed October 1, 2018]

<sup>6</sup> A similar pattern emerges among retirees who were asked how confident they were that their savings and investments would not run out of them if they lived to age 90. Among 614 retirees aged 50 to 79, with \$100,000 or more in

household financial assets, 62 percent agreed that their assets would last until age 90; among those with \$1 million or more, 79 percent agreed. But nearly 3 in 10 (28 percent) retirees with assets between \$100,000 and \$249,999 disagreed and considered themselves at risk of running out of money if they lived into their 90s. Source: 2017 Consumer Survey, LIMRA Secure Retirement Institute.



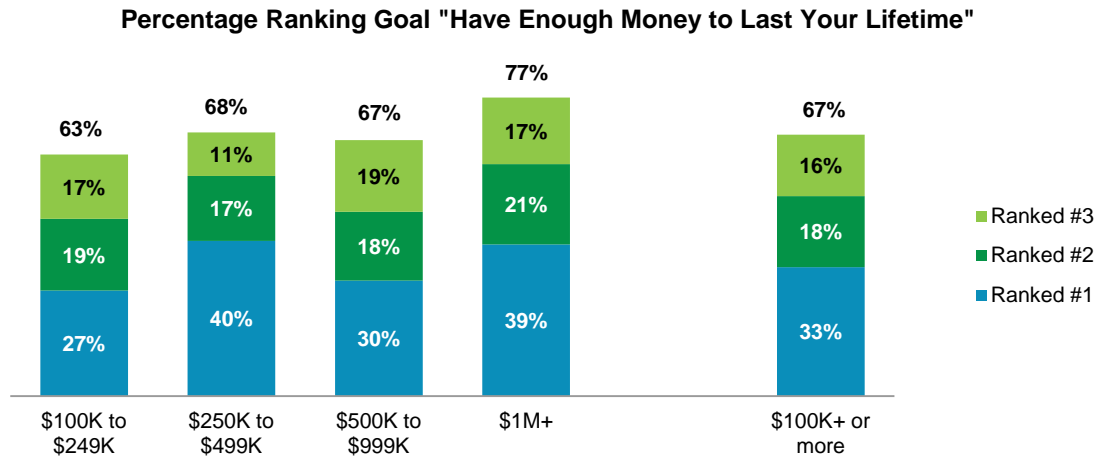
## Goals

Examining pre-retiree *goals* also supports the idea that running out of money is a source of worry for many Americans. When we asked them to rank-order a list of possible retirement goals, including maintaining control of assets, remaining financially independent, and leaving money to charities and heirs, the goal they ranked most often in their top 3

was “having enough money to last a lifetime” (Figure 2). One third of pre-retirees consider this their number one goal. Interestingly, although they tend to be less concerned about running out of money, the wealthiest pre-retirees are the most inclined to prioritize having enough money to last their lifetimes. That may indicate that they both understand the centrality of this objective and have taken steps to achieve it.

**Figure 2 — Most Important Goal in Retirement**

*By Asset Segment*



Source: 2017 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 369 workers, aged 50 to 79, with \$100,000 or more in household financial assets, and within 10 years of retirement.

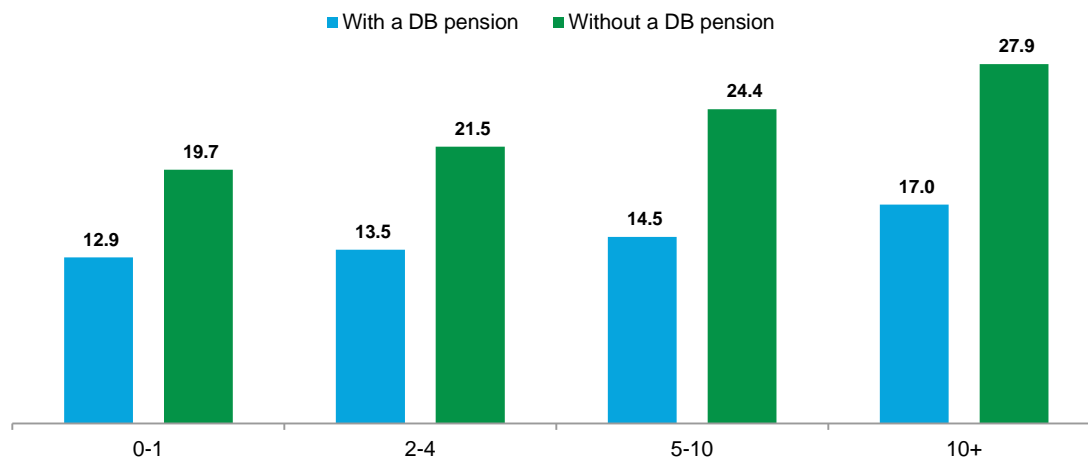
Given how important it is for people to know that they will not run out of money in retirement, it follows that they should be especially interested in ways to reduce their chances of financial ruin. In other words, people approaching retirement, or who have recently retired, should place significant value on government programs and private-sector solutions that provide guaranteed income.

**Value of Social Security.** As noted earlier, Social Security provides a substantial proportion of most retirees' incomes, entirely in the form of GLI. Pre-retiree and retiree investors recognize its critical role and 4 in 10 express concern about the possibility of future Social Security benefit reductions. Even among households with \$1 million or more in financial assets, about one third of pre-retirees and one quarter of retirees are very concerned about the federal government reducing benefits.<sup>7</sup> Similarly, about half of Americans who are confident in their ability to live their desired retirement lifestyle cite receiving sufficient Social Security income as a reason for their confidence.<sup>8</sup>

**Value of Pensions.** Pensions also represent a major source of GLI, and consumer attitudes toward pensions resemble their attitudes toward Social Security. Among those pre-retiree and retiree investors who are confident in their ability to live their desired retirement lifestyle, 41 percent reference sufficient pension income as a reason for their sentiment. In contrast, 43 percent cite *not* receiving sufficient (or any) pension income as a reason for their *lack* of confidence.<sup>9</sup>

More evidence demonstrating the critical value provided by pensions can be found in an analysis of the Health and Retirement Study (HRS).<sup>10</sup> The proportion of retirees who are "not at all satisfied" with retirement is over twice as high among those without pension income than among those with pensions. Perhaps more alarming, the number of symptoms associated with depression are higher among those without pensions, even controlling for years in retirement (Figure 3).

**Figure 3 — Number of Depression Symptoms**  
By Years in Retirement



Source: Panis, Constantijn A., "Annuities and Retirement Well-Being," *Pension Design and Structure: New Lessons from Behavioral Finance*, Michell, Olivia S. & Utkus, Stephen P. (eds.), New York, Oxford University Press, 2004, pp. 259-286.

<sup>7</sup> Based on 1,190 retirees and workers, aged 50 to 79, with \$100,000 or more in household financial assets. Source: 2017 Consumer Survey, LIMRA Secure Retirement Institute.

<sup>8</sup> Based on 1,647 consumers aged 50 to 75 with \$100,000 or more in household financial assets. Source: Retirement Income Attitudes and Preferences Study, LIMRA Secure Retirement Institute, 2013.

<sup>9</sup> Ibid.

<sup>10</sup> The University of Michigan Health and Retirement Study (HRS) is a longitudinal panel study that surveys a representative sample of approximately 20,000 people in America, supported by the National Institute on Aging and the Social Security Administration.

# Accessing Savings During Retirement

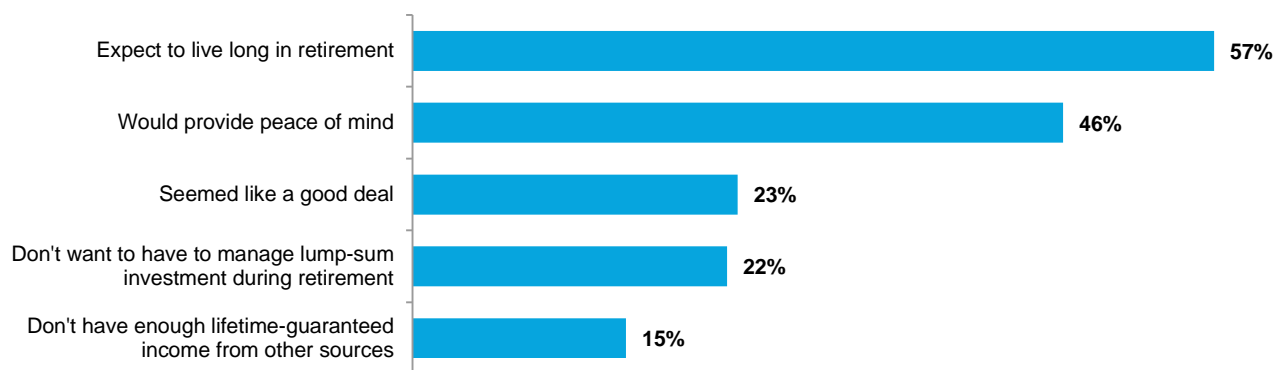
## Summary

- Retirees approach the challenge of converting wealth into income with caution; about 3 in 10 retirees take no withdrawals at all from their savings and investments.
- The most common reason cited for refraining from making withdrawals is not needing the money and waiting to make withdrawals later in retirement. Others want to reserve the money for emergency spending. Regardless of their reasons, the majority of retiree investors have more in savings and investments today than they did immediately before retirement. Conversion of some of these assets into GLI at an earlier stage of retirement could have enabled a higher living standard.
- Retired investors appear to adjust spending levels to match their regular sources of income such as Social Security and pensions. Higher spending levels and a more comfortable lifestyle should follow from boosting sources of income that are automatic and ongoing.

Given their goals and concerns, retirees are bound to approach the challenge of converting wealth into income with caution. Indeed, about 3 in 10 retirees take no withdrawals at all from their savings and investments. The most common reason cited for refraining from making withdrawals is not needing the money (63 percent), followed by delaying withdrawals until later in retirement (42 percent) (Figure 4). It may be the case for many current retirees that Social Security, pensions, and other income sources are sufficient to support their lifestyles in retirement at present. But it may also be a “tail wagging the dog” scenario, where they are simply adjusting discretionary spending — and even non-discretionary spending — to match whatever existing sources of income they receive.

Recent research points out that people’s spending levels are determined mostly by the income they receive from regular sources like Social Security and pensions, not by their overall wealth.<sup>11</sup> In brief, people “make do” with their monthly retirement “paychecks” from these sources. If true, then it would follow that more income would lead to higher spending and a more comfortable lifestyle; deploying more of their assets into GLI is one way to accomplish this outcome.

Figure 4 — Why Not Making Withdrawals From Savings and Investments?



Source: 2018 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 743 retirees aged 50 to 79, with \$100,000 or more in household financial assets, who are not currently making withdrawals from their savings and investments. Multiple responses allowed. Not shown: 6 percent selected “None of the above,” 4 percent selected “Other” reasons.

<sup>11</sup> Banerjee, Sudipto, “Asset Decumulation or Asset Preservation? What Guides Retirement Spending?” *EBRI Issue Brief*, No. 447 (Employee

Benefit Research Institute, April 2018). [https://www.ebri.org/pdf/briefspdf/EBRI\\_IB\\_447\\_AssetPreservation.3Apr18.pdf](https://www.ebri.org/pdf/briefspdf/EBRI_IB_447_AssetPreservation.3Apr18.pdf) [Accessed October 1, 2018]

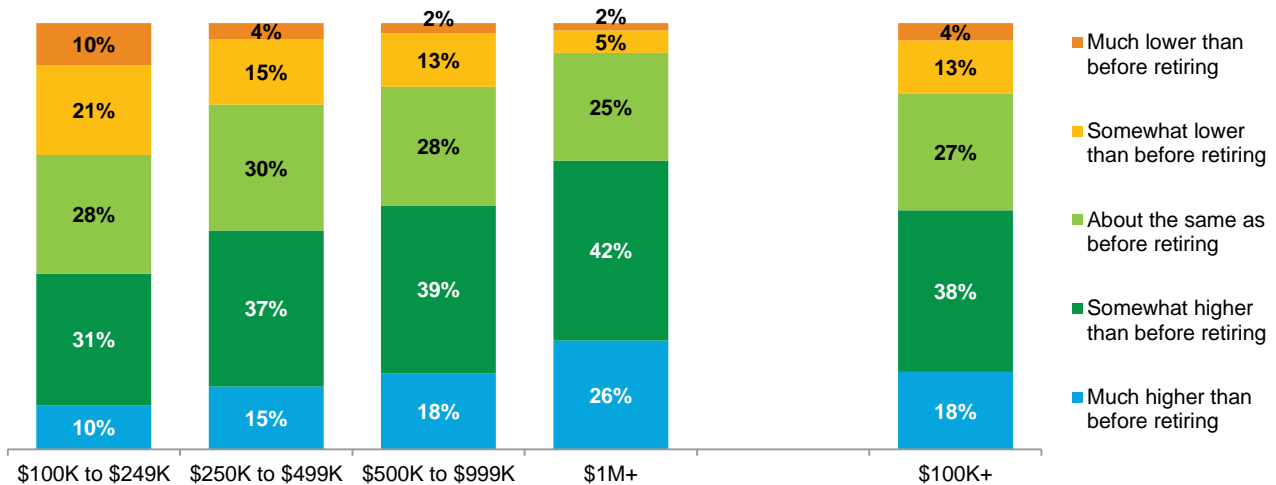
About one third of retirees in the middle and mass-affluent markets (\$100,000 to \$499,999 in household investable assets) want to reserve the money for emergency spending. It is highly probable that the “emergency spending” they have in mind involves major health or long-term care costs. This asset segment is also significantly more likely than wealthier retirees to be concerned about running out of money.<sup>12</sup> In contrast, few retirees who are not taking withdrawals mention the psychological impact of seeing their assets decline (11 percent), wanting

to keep assets in reserve for heirs and charities (10 percent), or concern about market timing (7 percent).

Regardless of whether they make withdrawals, a majority of retirees (56 percent) report having more in savings and investments today than they did immediately before retirement (Figure 5). Even among those in the middle market, only one third report having less than they did before retiring.

***A majority of retirees (56 percent) report having more in savings and investments today than they did immediately before retirement.***

**Figure 5 — Amount of Savings and Investments Now, Compared to Immediately Before Retirement**



Source: 2018 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 1,020 retirees aged 50 to 79, with \$100,000 or more in household financial assets.

<sup>12</sup> Across all assets segments, those who are not taking withdrawals because they are concerned about running out of money are three times as

likely than others to have lower levels of savings and investments than they did before retiring, 30 percent versus 10 percent, respectively.

Not surprisingly, retirees who have been taking withdrawals — either systematically or on an occasional basis — are more likely than those taking no withdrawals to report having lower levels of savings and investments compared with before retirement, 21 percent versus 6 percent, respectively. What is perhaps more surprising is that individuals who have been retired for at least 20 years are the most likely to report having *significantly* higher levels of savings and investments than immediately before retiring (37 percent), followed by those who have been retired 10 to 19 years (28 percent) and those who have been retired between 5 and 9 years (17 percent).

Obviously, those who have been retired for only a few years have had less opportunity than those retired longer to have their assets levels grow dramatically. But, after two or more decades in retirement, to have much more money than before retirement seems like a major underutilization of available resources.<sup>13</sup> Conversion of some of these assets into GLI at an earlier stage of retirement could have enabled a higher living standard while not jeopardizing the ability to meet other needs such as late-life healthcare costs.



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<sup>13</sup> For a discussion of retirees' reluctance to spend money in retirement, see Statman, Meir, "Are Your Clients Not Spending Enough in Retirement?" *Journal of Financial Planning*, November 2017, pp. 34-37.

# Attitudes and Preferences Regarding GLI

## Summary

- Many Americans view GLI favorably. Nearly half (47 percent) of all Americans would be willing to convert a portion of their assets into a GLI stream. Among those who have \$100,000 or more in household financial assets and who are aged 50 to 79, about 3 in 10 are interested in this assets-to-income conversion.
- Grouping pre-retiree and retiree investors based on income feature preferences reveals a segment, “Guarantee Seekers,” who would prefer to trade off most other income features in favor of GLI. This group represents more than 4 in 10 pre-retiree and retiree investors.
- The preference for GLI has its limits; to some degree, the desire to maintain control of assets offsets the preference for guarantees. More than one third of pre-retiree and retiree investors plan to use GLI to cover their basic living expenses while using non-guaranteed sources to cover the rest of their expenses.
- In a hypothetical choice exercise, those who favor GLI payments over a lump sum are generally not willing to change their preference when the lump-sum value is increased; nearly half (46 percent) say that they would never choose the lump sum. For these pre-retirees and retirees, the value provided by the guarantee cannot be expressed fully in terms of monetary cost.
- While hypothetical GLI choosers and lump-sum choosers are very similar, the GLI choosers tend to have less wealth and financial sophistication compared with lump-sum choosers.
- An expectation of living long in retirement and a desire for peace of mind in retirement drive the preference for hypothetical GLI versus a lump sum. In contrast, the desire to maintain control of their money motivates pre-retiree and retiree investors to elect a lump sum versus GLI.
- More than 4 in 10 (42 percent) pre-retiree and retiree investors who are confident in their ability to live their desired retirement lifestyles credit their ownership of products or investments that will generate guaranteed income. Only 13 percent feel Social Security alone provides sufficient GLI in retirement — implying that other sources must be leveraged for this purpose.
- Multiple research studies indicate that the phrase that appears to capture the core value of lifetime-guaranteed income is “peace of mind.”
- Other potential forms of value derived from GLI include protection during cognitive decline, the ability to take more risks with the remaining portfolio for more potential gains, and improved retirement lifestyles.

## Overall Interest in GLI Concept

**There is clear evidence that many Americans view the *concept* of GLI favorably.** Nearly half (47 percent) of all Americans would be willing to convert a portion of their assets into a GLI stream. Interest is especially strong among Gen Xers or Millennials, those with formal written retirement plans, those who work with financial professionals, or who contribute to a DC plan.<sup>14</sup> While preferences could evolve over time, especially for those who are decades away from retirement, the results suggest a generational shift in attitudes toward GLI and expanding market potential for GLI products.

<sup>14</sup> Source: 2017 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 5,001 Americans aged 20 to 79. These results are similar to those obtained in *The Language of Retirement 2017: Advisor and Consumer Attitudes Toward Securing Income in Retirement*, Insured

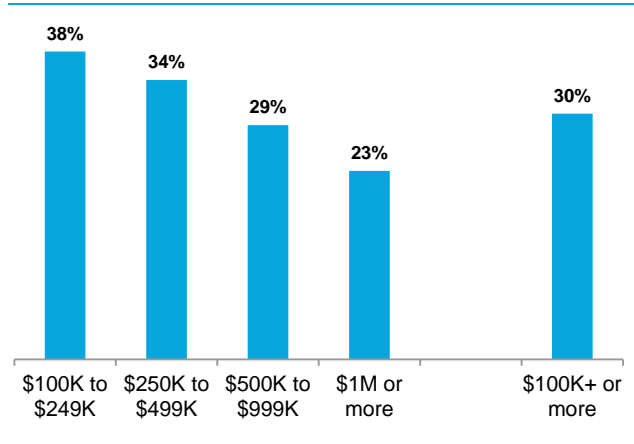
Retirement Institute and Jackson, 2017. In that study, younger investors were more inclined than older investors to express interest in guaranteed income/no liquidity products. <https://www.jackson.com/content/dam/cfk/documents/cmc19005/CMC19005.pdf> [Accessed October 1, 2018].



Attitudes toward conversion of assets into income are most relevant for those with assets to convert and those who are close to or in retirement. About 3 in 10 — of those who have \$100,000 or more in household financial assets and who are aged 50 to 79 — are interested in assets-to-income conversion, with interest lower among those with higher asset levels (Figure 6).

**Figure 6 — Interest in Converting Portion of Assets Into GLI in Retirement**

*By Asset Segment*



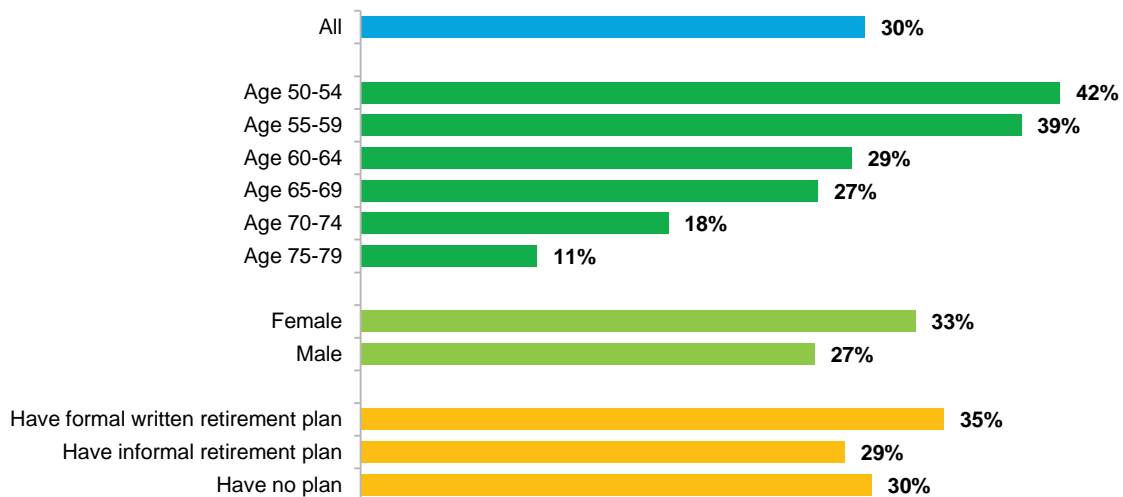
Source: 2018 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 896 Americans aged 50 to 79 with \$100,000 or more in household financial assets.

Wealthier pre-retiree and retiree investors may be less interested in GLI for a variety of reasons, including: a) greater access to financial advisors who shun annuity products; b) less concern about running out of money during retirement; c) high existing levels of GLI from pensions; d) greater financial sophistication, coinciding with the belief that they can manage the money on their own; and e) a strong desire to maintain direct control of their financial assets.

Interest in annuitization is strongest among younger pre-retirees and retirees, women, and those with formal written plans for managing their income, expenses, and assets in retirement (Figure 7). Younger investors and women tend to be less wealthy than older investors and men, thereby explaining some of these differences. But compared with men, women — particularly single women — tend to express greater concern about longevity risk than men, and are more likely to own income annuities, suggesting that their interest in the annuitization concept is not merely a function of wealth.<sup>15</sup> Furthermore, the annuitization concept may make more sense for individuals who have done comprehensive planning resulting in a formal written retirement plan, because they can see the role GLI plays in their long-term financial security.

**Figure 7 — Interest in Converting Portion of Assets Into GLI in Retirement**

*By Consumer Characteristics*



Source: 2018 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 896 Americans aged 50 to 79 with \$100,000 or more in household financial assets.

<sup>15</sup> For example, see *Singlehood in Retirement: A Study of Retirees*, LIMRA Secure Retirement Institute, 2018.



## Income Preference Segmentation

Asking consumers to prioritize other income features, such as control, potential for growth, and inflation protection, along with lifetime guarantees provides another means for assessing the appetite for GLI. A segmentation analysis conducted by LIMRA SRI revealed the existence of three groups: Guarantee Seekers, Estate Builders, and Asset Protectors.<sup>16</sup> Guarantee

Seekers, representing more than 4 in 10 pre-retiree and retiree investors, would prefer to trade off most other income features in favor of GLI (Figure 8). When asked why they placed such importance on GLI, 36 percent mention “peace of mind,” 28 percent cite that fact that GLI “will produce stable and predictable monthly income,” and 15 percent express concern about running out of money in retirement.

Figure 8 — Income Feature Preference Segments

Segment	Guarantee Seekers	Estate Builders	Asset Protectors
Percentage	43%	34%	23%
Attitudinal Priorities	<ol style="list-style-type: none"> <li>1. Overwhelming preference for GLI</li> <li>2. Large minority also prefer inflation-adjusted payouts</li> </ol>	<ol style="list-style-type: none"> <li>1. Upside potential in the form of investment growth</li> <li>2. Control over how investments are managed and allocated</li> <li>3. Flexibility in determining income amounts over time</li> </ol>	<ol style="list-style-type: none"> <li>1. Preservation of the principal a primary goal</li> <li>2. Income generated limited to interest and dividends</li> </ol>

Note: Adapted from *A New Perspective on Retirement Planning — Affluent Investors Market Segmentation*, LIMRA Secure Retirement Institute, 2015. Segmentation based on 2,000 Americans aged 50 to 75 with \$100,000 or more in household financial assets.

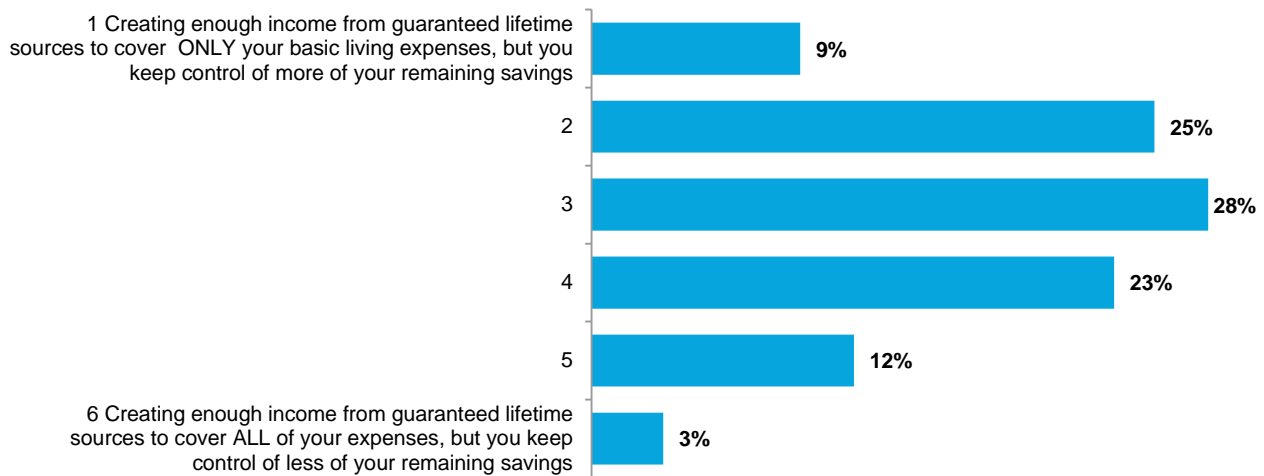
<sup>16</sup> See *A New Perspective on Retirement Planning — Affluent Investors Market Segmentation*, LIMRA Secure Retirement Institute, 2015, for more information about the study methodology and segmentation technique.

Subsequent research, using the same cluster analysis and similar question wording and response choices, has consistently revealed the existence of the Guarantee Seeker segment and, to a lesser extent, the Estate Builders and Asset Protectors.

Converting more assets into GLI means that a higher percentage of one’s income will be guaranteed, but fewer liquid assets will be available for other needs. How would most people prefer to strike the right balance? Research indicates that over 60 percent of those in their 50s, 60s, or 70s would prefer to create enough income from GLI sources to cover only their basic living expenses while keeping control of more of their remaining savings, as opposed to covering all expenses with GLI (Figure 9). Thus, the preference for GLI has its limits; to some degree, the desire to *maintain control* of assets offsets the preference for guarantees.

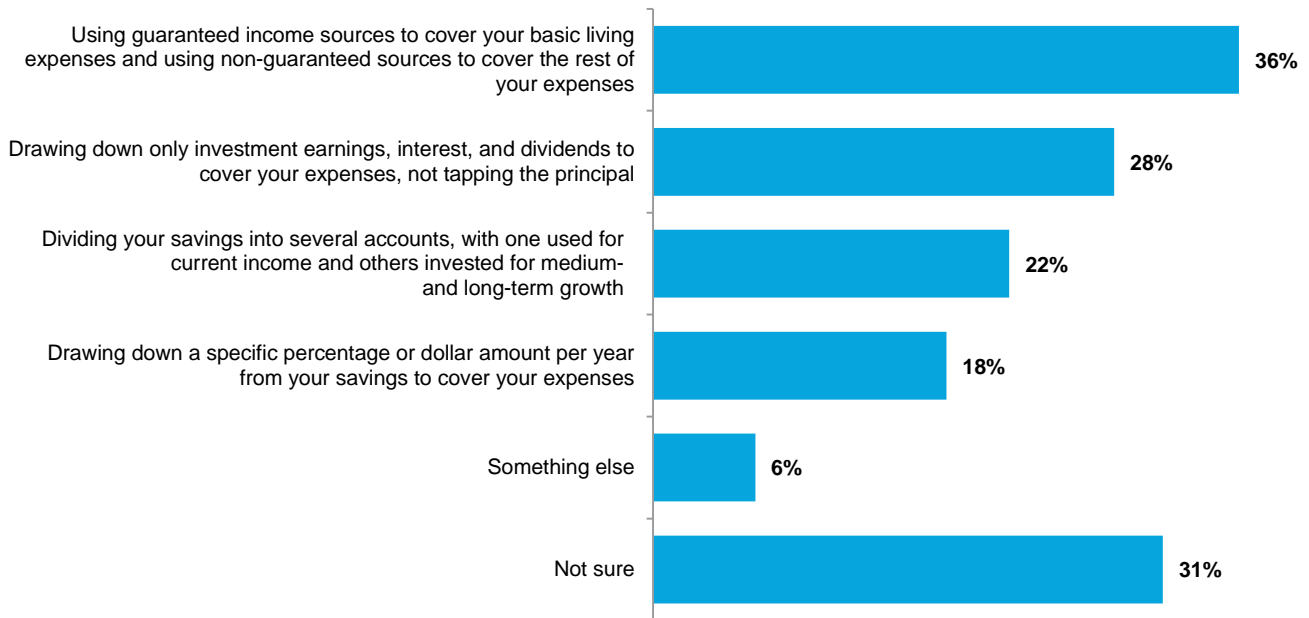
Other LIMRA SRI research indicates that more than one third of pre-retiree and retiree investors plan to use GLI to cover their basic living expenses while using non-guaranteed sources to cover the rest of their expenses (Figure 10). This strategy is twice as common as systematic withdrawals, and more likely than the “bucket” strategy. However, nearly one third are “not sure” what their strategy will be, suggesting that there may be latent demand for GLI-based approaches.

**Figure 9 — Preference for the Amount of Assets to Convert Into GLI**



Based on 2,000 consumers aged 50 to 75 with \$100,000 or more in household financial assets. Survey respondents were asked to indicate their preference on a 6-point scale with the endpoints labeled as displayed in Figure 9; the other points in the scale were not labeled. Source: Retirement Income Attitudes and Preferences Study, LIMRA Secure Retirement Institute, 2013.

**Figure 10 — Planned Strategies for Managing Income and Investments in Retirement**



Note: Multiple responses allowed. Source: 2015 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 1,370 Americans aged 50 to 79 with \$100,000 or more in household financial assets.

A recent Gallup survey also offers perspective on willingness to trade-off assets for guaranteed income. While 4 in 5 Americans feel strongly that having a guaranteed income stream in addition to Social Security is important, only 1 in 4 strongly agree that they would be willing to give up access to some of their money in order to create guaranteed income.<sup>17</sup> This contradiction in sentiment underscores the challenge in leveraging the value of guarantees with the desire to control assets indefinitely.

### *Selecting a Lump Sum versus GLI*

Despite evidence that people would rather maintain flexibility and control of their assets than create guaranteed income, new LIMRA SRI research supports the idea that a significant proportion of pre-retiree and retiree investors would prefer GLI. The preference for GLI is revealed when presented in terms of a hypothetical choice, made in the context of retiring, using current market-value amounts.<sup>18</sup>

<sup>17</sup> Saad, Lydia, "Investors Want Freedom with Retirement Savings," Gallup, January 5, 2018 <http://news.gallup.com/poll/225023/investors-no-strings-attached-retirement-income-stream.aspx> [Accessed October 1, 2018].

<sup>18</sup> A 65-year-old man, paying a \$120,000 premium for a single life payout annuity, would receive approximately \$660 per month. Source: Immediateannuities.com, accessed May 2018.

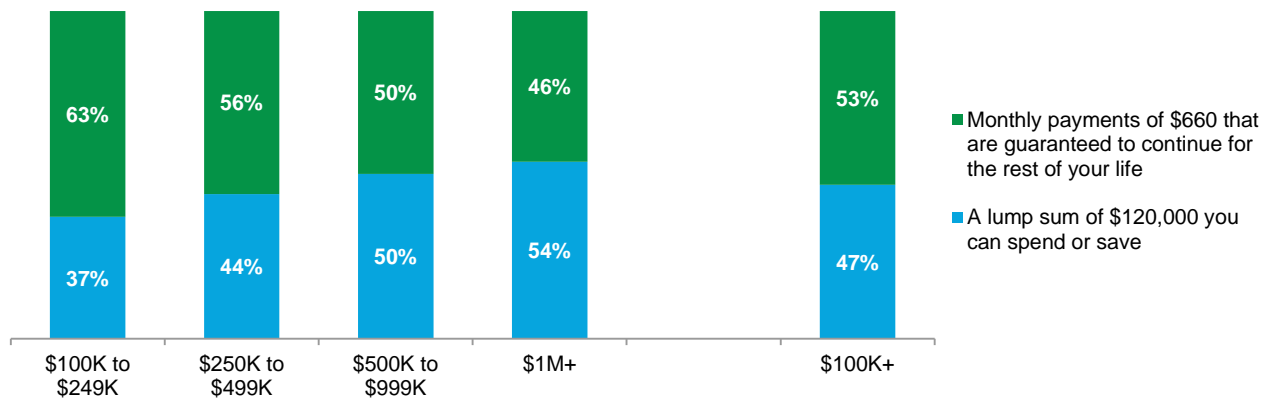
In a recent study, we presented pre-retiree and retiree investors with the following choice:

**Imagine that you are about to retire, at age 65, and are deciding between two types of retirement benefits. Which of the following would you prefer?**

- A lump sum of \$120,000 you can spend or save
- Monthly payments of \$660 that are guaranteed to continue for the rest of your life

When presented in this fashion, guaranteed monthly payments are slightly favored over lump sums. The preference is more common among those in the middle- and mass-affluent-market segments (Figure 11). Wealthier market segments may already have or anticipate having robust sources of guaranteed income from pensions, making additional income less critical for retirement security.<sup>19</sup>

**Figure 11 — Preference for Hypothetical Lump Sum versus GLI**



Source: 2018 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 896 Americans aged 50 to 79 with \$100,000 or more in household financial assets.

### Context and Framing of the GLI Decision.

Our research demonstrates that a higher proportion of pre-retiree and retiree investors select the hypothetical offer of GLI (53 percent) than express interest in converting a portion of their own assets into GLI (30 percent). Why the difference? One interpretation of this discrepancy is that people are more reluctant to transfer today an unspecified proportion of what they have accumulated into GLI than they are to select GLI when presented as a two-alternative choice of “retirement benefits” made when they “are about to retire.” To some extent, the

first choice reflects the extent to which people feel that they are sufficiently annuitized already; moreover, since there are no dollar amounts provided, more people may be hesitant to express interest without seeing how much GLI can be produced. The second choice directly tests how people evaluate income streams versus lump sums in the context of an offer that does not involve surrendering any money they had before the offer was made. The differences in context may also explain why the annuitization option is more popular among younger pre-retirees and retirees than their older counterparts:

<sup>19</sup> Pre-retirees (aged 50 to 79 and not yet retired) with household investable assets of \$1 million or more are significantly more likely than those with investable assets of \$100,000 to \$249,999 to anticipate receiving DB pension income (48 percent versus 36 percent, respectively) and annuity income (27 percent versus 16 percent). Source: 2017 Consumer Survey, LIMRA Secure Retirement Institute.

- The first decision involves converting an unspecified portion of their assets into GLI at an unspecified time in retirement. Younger investors have not yet reached retirement and have spent less time accumulating assets or considering exactly how their assets should be converted into income. For many of them, at least in the abstract, the annuitization decision seems attractive. In contrast, older, retired investors may have already made the same kind of decision regarding their own money, have developed income plans, and feel less need to convert more of their wealth into GLI.
- The GLI versus lump sum decision asks everyone to imagine themselves at the same age (65 years old) in the same situation (about to retire). This decision is even more hypothetical, and it thus may be a “pure” way of assessing the value of GLI, in that individual differences in circumstances are not as germane to the decision. As we will discuss in the next section, individual differences in preferences do not vary as strongly, or at all, with age and other demographic factors.

Such findings underscore the importance of context and framing in GLI decision-making. Other research indicates that when the GLI vs. lump sum choice presented is not all-or-none, or presented in terms of a “consumption frame” rather than an “investment frame,” the proportion of people opting for annuitization increases.<sup>20</sup> Interest in GLI depends on how the offer is made.

While the results previously discussed involved hypothetical decisions, actual behavior is consistent with this research. For example, among traditional and cash-balance pension plan participants aged 65 to 69 who had a choice between either taking their benefits as a lifetime annuity or a single lump-sum distribution, between 35 percent and 80 percent annuitized, depending on the degree of restriction on taking the lump-sum option.<sup>21</sup> The subjective value of guaranteed income clearly depends on how these guarantees are presented.

## Profiles of GLI Choosers versus Lump-Sum Choosers

A comparison of those who would prefer GLI with those who would prefer a lump sum reveals few obvious differences in terms of most demographic characteristics. The two groups do not significantly differ by age, gender, retirement status, marital status, having a financial professional, having a formal written retirement plan, or receipt (or anticipated receipt, among pre-retirees) of pension or annuity income (see Table B1 in Appendix B).

Nonetheless, there are differences between these groups in terms of wealth, investment knowledge, and education level (Table 1). Compared with those who chose lump sums, pre-retiree and retiree investors who chose GLI tend to have slightly lower levels of household investable assets, educational attainment, and (self-reported) investment and financial product knowledge. In addition, GLI choosers are less inclined than lump-sum choosers to agree with the statement, “I would describe myself as an investor” and more inclined to agree with the statement, “Having lifetime-guaranteed income gives people peace of mind in retirement.” These results support the idea that individuals with less wealth and financial sophistication are more interested in GLI.

<sup>20</sup> For example, see Beshears, John, Choi, James J., Laibson, David, and Madrian, Brigitte C., and Zeldes, Stephen P., “What Makes Annuitization More Appealing?,” *Journal of Public Economics* 116 (August), pp. 2–16. <https://www.sciencedirect.com/science/article/abs/pii/S004727271300114X> [Accessed October 1, 2018]; Brown, Jeffrey R., Kling, Jeffrey R., Mullainathan, Sendhil, and Wrobel, Marian V., “Why Don’t the People Insure Late Life Consumption? A Framing Explanation of the Under-

Annuitization Puzzle,” *American Economic Review*, 98 (2): 304-09. <https://www.aeaweb.org/articles?id=10.1257/aer.98.2.304> [Accessed October 1, 2018].

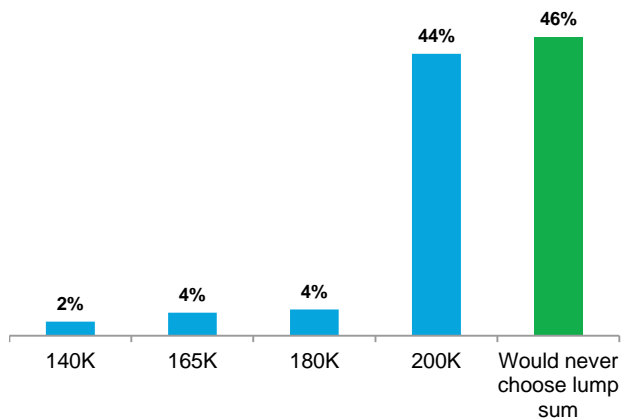
<sup>21</sup> Banerjee, Sudipto, “Annuity and Lump-Sum Decisions in Defined Benefit Plans: The Role of Plan Rules,” *EBRI Issue Brief No. 381*, January 2013. [https://www.ebri.org/pdf/briefspdf/EBRI\\_IB\\_01-13.No381.LSDs2.pdf](https://www.ebri.org/pdf/briefspdf/EBRI_IB_01-13.No381.LSDs2.pdf) [Accessed October 1, 2018].

**Table 1 — Characteristics of GLI Choosers and Lump-Sum Choosers**

	Chose GLI	Chose lump sum
<b>Household investable assets</b>		
\$100K to 299K	27%	18%
\$250K to \$499K	25%	22%
\$500K to \$999K	22%	25%
\$1M or more	27%	35%
<b>Investment and financial product knowledge</b>		
Very knowledgeable	10%	25%
Somewhat knowledgeable	66%	61%
Not very/not at all knowledgeable	24%	14%
<b>Education level</b>		
High school graduate or less	9%	5%
Some college or technical school	23%	18%
College graduate	36%	43%
Graduate school	32%	34%

Source: 2018 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 896 Americans aged 50 to 79, with \$100,000 or more in household financial assets.

**Figure 12 — Minimum Lump Sum Amount Would Accept Instead of GLI**



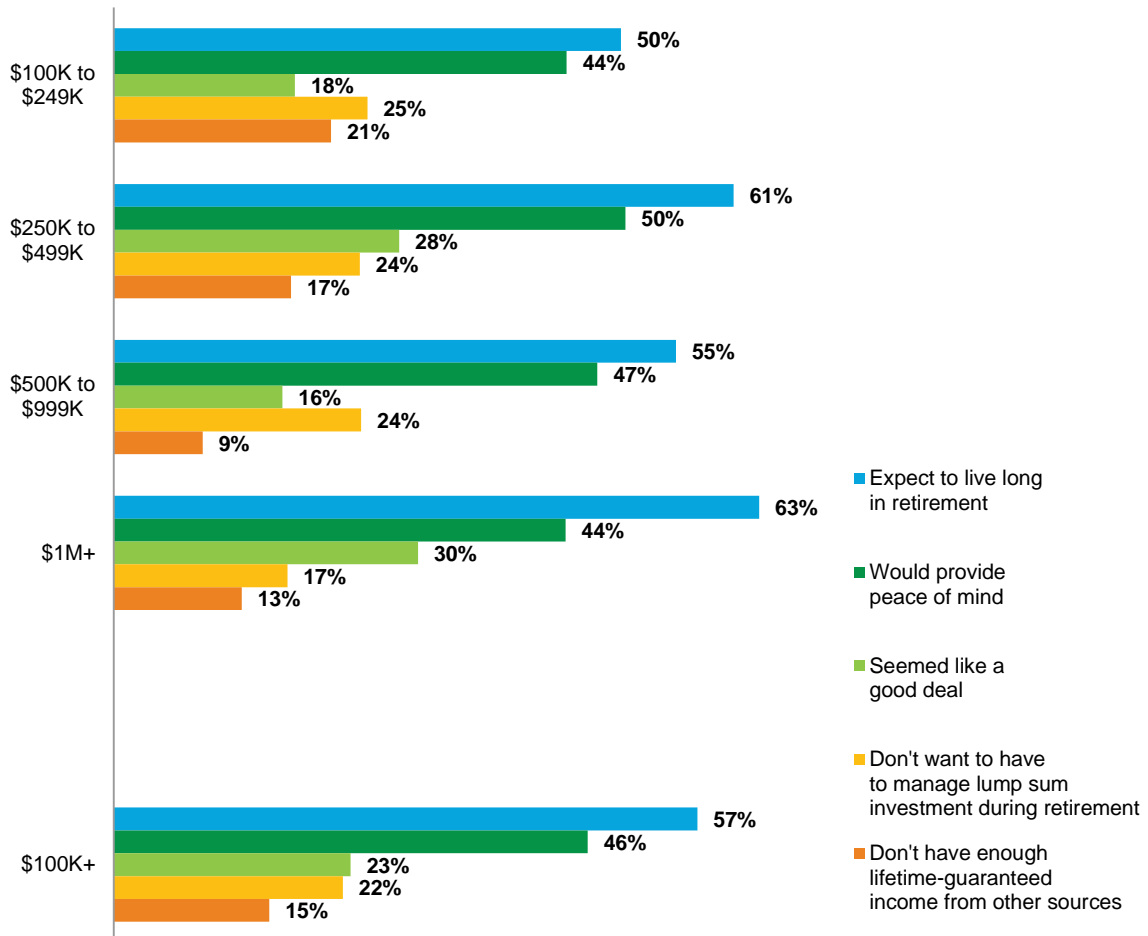
Source: 2018 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 484 Americans aged 50 to 79, with \$100,000 or more in household financial assets, and who preferred GLI over a lump sum.

**Chose GLI.** Those who favor lifetime-guaranteed payments over a lump sum are generally not willing to change their preference when the lump-sum value is increased. When asked to select the *minimum* value the lump sum would need to be in order for them to choose it over the GLI, nearly half (46 percent) say that they would *never* choose the lump sum (Figure 12). Forty-four percent selected the largest choice provided: \$200,000, a value 67 percent higher than the actual market value. This finding suggests that for these pre-retirees and retirees, the value provided by the guarantee is “priceless” and cannot be adequately expressed in terms of monetary cost.

When asked why they favor GLI payments over a lump sum, the most commonly cited reasons are an expectation of living long in retirement and a desire for peace of mind in retirement. This finding is consistent across all assets segments (Figure 13).

**Figure 13 — Reasons for Preferring GLI**

*By Asset Segment*



Source: 2018 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 484 Americans aged 50 to 79, with \$100,000 or more in household financial assets, and who preferred GLI over a lump sum.



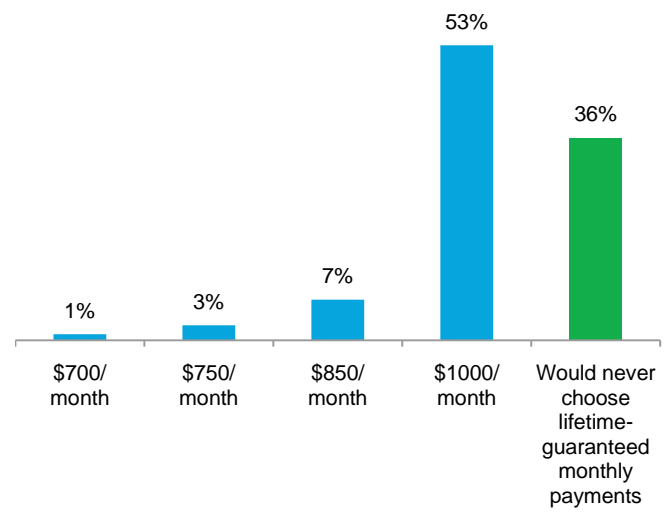
High-net-worth pre-retirees and retirees (with \$1 million or more in household financial assets) were the most likely to focus on whether the proffered income stream was “a good deal,” suggesting that wealthier individuals are more inclined — and perhaps more able — than less wealthy individuals to assess the “money’s worth” of the offer.

Relatively few pre-retiree and retiree investors prefer the GLI rather than the lump sum because of concerns about managing the money during retirement, or because they do not have enough GLI from other sources (22 percent and 15 percent, respectively). Middle- and mass-affluent-market segments are the most inclined to mention these reasons.

**Chose Lump Sum.** Just over one third (36 percent) of pre-retiree and retiree investors who preferred the hypothetical lump sum over GLI said that they would never choose lifetime-guaranteed monthly payments (Figure 14). This is a smaller proportion than the corresponding share who would never choose a lump sum, possibly indicating that higher payouts may be enough to tip the scales toward a preference for GLI. Still, the fact that 53 percent would only trade off the lump sum for an income stream of \$1,000 per month — about 67 percent higher than the market rate — suggests that those payouts will need to rise considerably before their preferences shift.

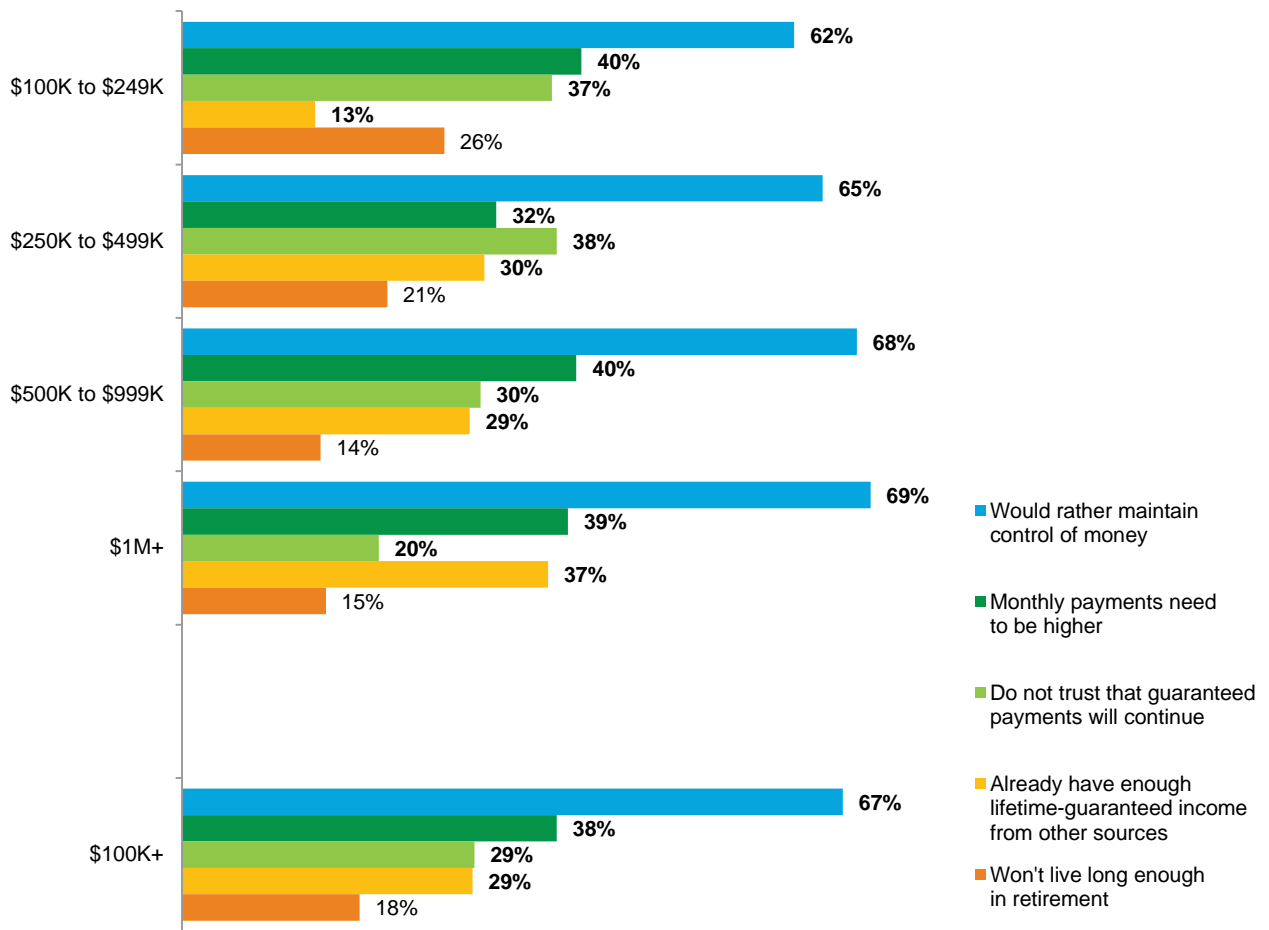
By far, the most common reason pre-retiree and retiree investors would rather have a lump sum than a guaranteed income stream is the desire to maintain control of their money (Figure 15). This group apparently feels that their needs would be better met by managing the money themselves and having the freedom to draw down income at whatever rate they want. Products that combine asset control with GLI payouts, such as deferred annuities with GLWBs, would seem to be a good compromise for this segment

**Figure 14 — Minimum GLI Amount Would Accept Instead of Lump Sum**



Source: 2018 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 412 Americans aged 50 to 79, with \$100,000 or more in household financial assets, and who preferred a lump sum to GLI.

**Figure 15 — Reasons for Preferring Lump Sum**



Source: 2018 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 412 Americans aged 50 to 79, with \$100,000 or more in household financial assets, and who preferred a lump sum to GLI. Multiple responses allowed; 6 percent selected "None of the above."

More than one third felt that the monthly payments would need to be higher in order for them to switch their preference. As noted earlier, the step-up would have to be quite high, so this group could be better off waiting until a later age to lock in a larger payout. The alternative would be to wait until payouts are more generous following increased interest rates, but it remains to be seen how quickly that component of annuity payout pricing will rise; conceivably, another major economic downturn could lead to *reduced* interest rates.

About 3 in 10 did not want the guaranteed income stream because they already had sufficient GLI. Those in the middle market were the least likely to cite this reason. As a whole, this market segment may view an extra \$660 per month as an important resource for paying the bills that they could not cover with Social Security or pensions. In contrast, higher asset segments tend to have higher retirement incomes due to pensions and other sources; they already have enough to meet their basic living expenses.

Middle-market pre-retirees and retirees are the most likely segment to prefer a lump sum rather than GLI because they doubt that the guaranteed payments will continue and because they do not think they will live long in retirement. Some individuals who are less familiar with the various safeguards in place may be skeptical that the entity providing the GLI will be able to pay; more sophisticated investors are likely to understand that insurers are legally required to have adequate reserves in place to cover their obligations. But people may also express doubt about the payments continuing because they expect to live a short life in retirement, which in turn implies a short period in which guaranteed payments will be received. Moreover, it is well established that income levels correlate with longevity – wealthier individuals tend to be healthier and live longer than less wealthy people.<sup>22</sup> While this may be true in the aggregate, any individual could live for a long time or short time in retirement. The fact that there is a distribution of lifespans has to be explained and reinforced on a continual basis.

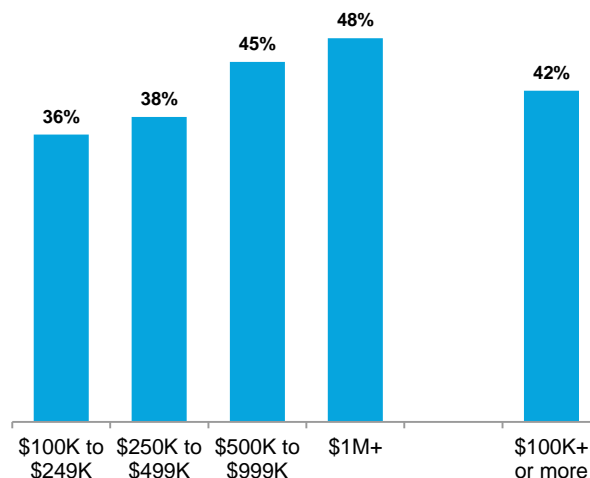
To summarize: A substantial proportion of Americans in or close to retirement view the concept of converting a portion of their assets into GLI favorably, and prioritize guarantees over other income features to provide peace of mind and stability. However, their preference is not absolute relative to other considerations like maintaining control of their assets.

## How GLI Is Valued

More than 4 in 10 (42 percent) who are confident in their ability to live their desired retirement lifestyles credit their ownership of products or investments that will generate guaranteed income. Because they are more likely to own such products, wealthier pre-retirees and retirees are more likely to cite these products and investments as reasons for their confidence (Figure 16).<sup>23</sup>

**Figure 16 — GLI Products and Investments Are Reason for Confidence in Living Desired Retirement Lifestyle**

By Asset Segment



Based on 1,647 consumers aged 50 to 75 with \$100,000 or more in household financial assets. Source: *Retirement Income Attitudes and Preferences Study*, LIMRA Secure Retirement Institute, 2013.

**Strikingly, only 13 percent feel Social Security alone provides sufficient GLI in retirement — implying that other sources must be leveraged for this purpose.**

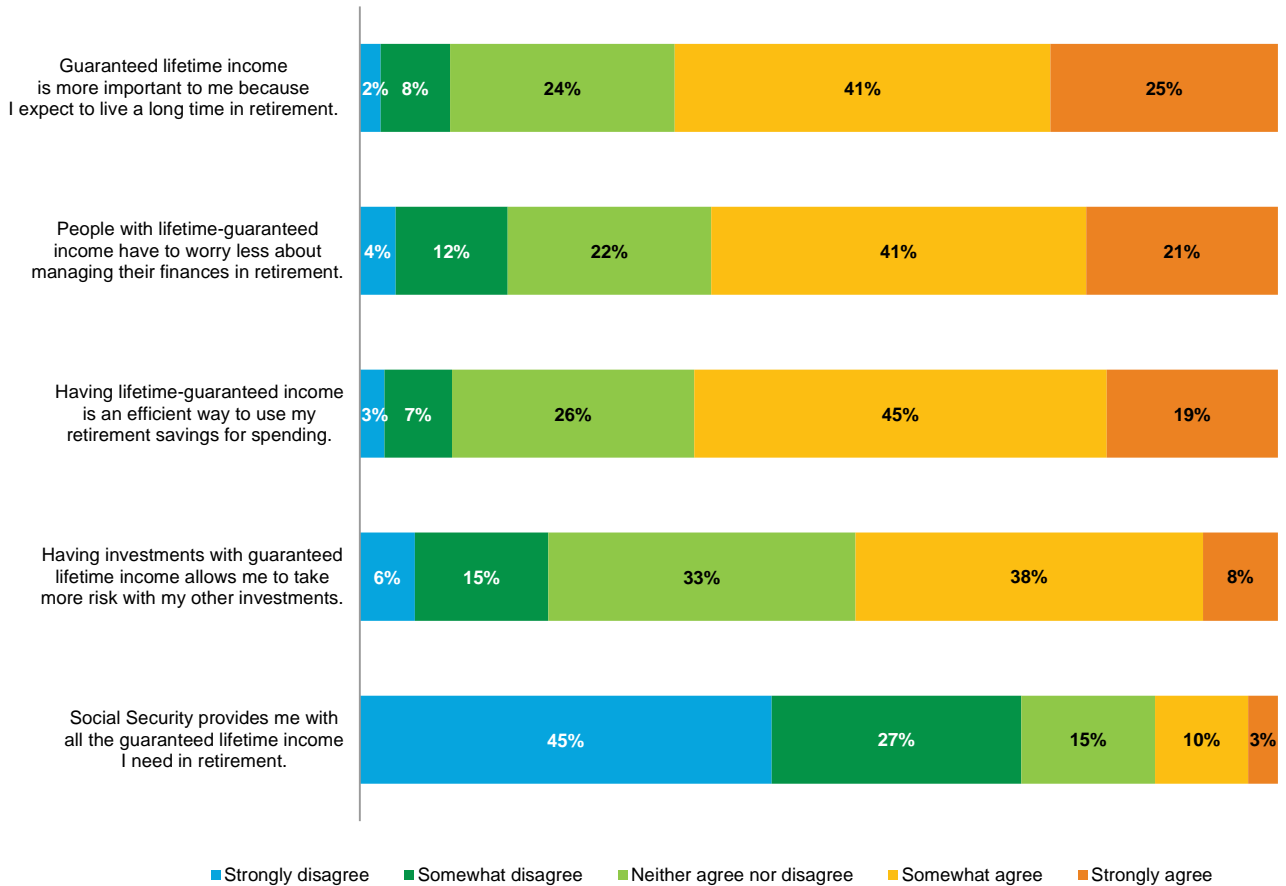
<sup>22</sup> For example, see *How Are Health and Wealth Linked to Health and Longevity*, Urban Institute, 2015. <https://www.urban.org/sites/default/files/publication/49116/2000178-How-are-Income-and-Wealth-Linked-to-Health-and-Longevity.pdf> [Accessed October 1, 2018].

<sup>23</sup> Individuals who are not confident in their retirement prospects are not very likely to cite a lack of GLI products as a reason for their sentiment. Only 19 percent of individuals aged 50 to 75 with \$100,000 or more in household financial assets cite not owning products or investments that will generate guaranteed income in retirement for their lack of confidence in their ability to live their desired lifestyle in retirement.

Pre-retiree and retiree investors clearly appreciate the benefits provided by GLI. For example, two thirds say that GLI is important to them because they expect to live a long time in retirement (Figure 17). Similar proportions agree that having GLI reduces worries about being able to manage finances in retirement and is an efficient way to use retirement savings for spending. From a total

portfolio management perspective, having GLI serves as a “fixed” component, allowing investors to take additional risks for the possibility of higher gains. And, strikingly, only 13 percent feel Social Security alone provides sufficient GLI in retirement — implying that other sources must be leveraged for this purpose.

**Figure 17 — Agreement With Statements About GLI**



Source: 2015 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 1,370 Americans aged 50 to 79 with \$100,000 or more in household financial assets.

**Peace of Mind.** As a series of research findings demonstrates, the phrase that appears to capture the core value of lifetime-guaranteed income is “peace of mind.”

- As noted earlier, among pre-retiree and retiree investors who prioritize lifetime guarantee features in retirement income over other features (the “Guarantee Seekers”), the top reason for doing so is to provide “peace of mind.”
- When asked which of 16 words or phrases they closely associate with the phrase “guaranteed lifetime income,” the top terms cited by pre-retiree and retiree investors are “peace of mind” and “security” (Figure 18). They also think of GLI as providing “comfort” and a “safety net.” One third feel that GLI is “essential.” In contrast, they mention negative terms like “expensive” and “unnecessary” much less often.

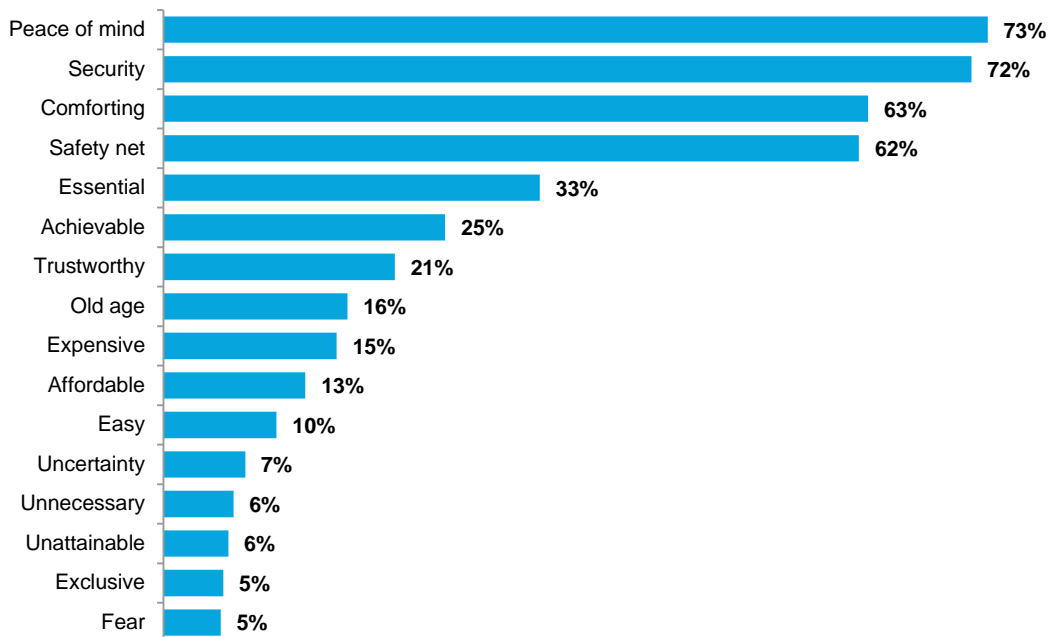
- When we asked which of four GLI product descriptions was most appealing, they selected the description that mentioned gaining “peace of mind” most often (Table 2).

**Table 2 — Most Appealing Description of GLI Product**

<b>Gain peace of mind</b> in your retirement by ensuring you will never outlive your income.	<b>36%</b>
<b>Feel protected</b> in retirement knowing that your living expenses will always be covered by guaranteed income.	<b>29%</b>
<b>Live worry-free</b> in retirement by protecting your income from market downturns and other risks.	<b>21%</b>
<b>Take control</b> of your retirement by ensuring you will never outlive your income.	<b>15%</b>

Source: 2015 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 1,370 Americans aged 50 to 79 with \$100,000 or more in household financial assets.

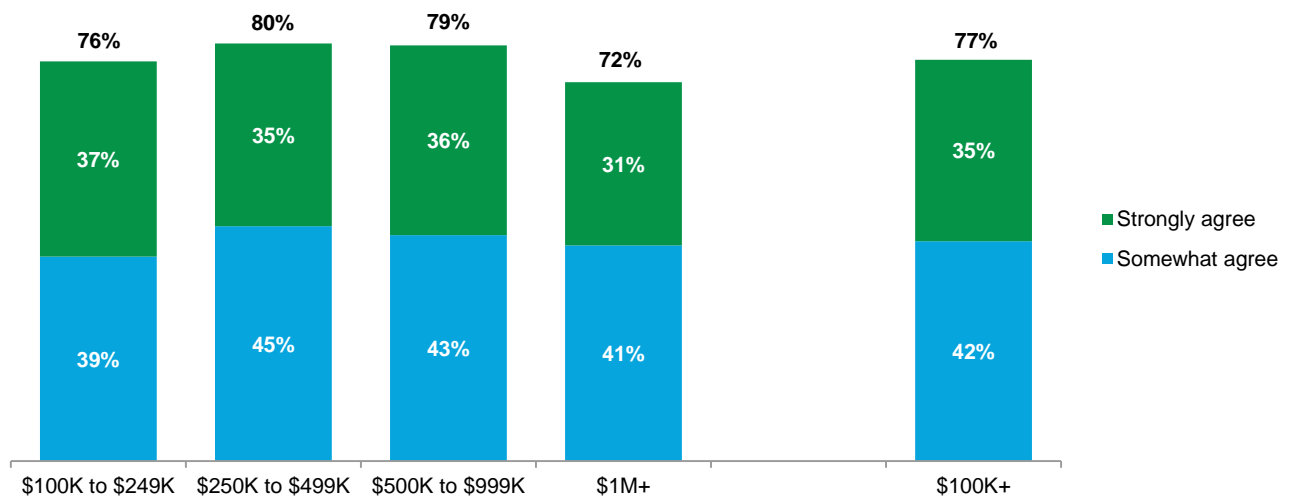
**Figure 18 — Words and Phrases Most Closely Associated With GLI**



Source: 2015 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 1,370 Americans aged 50 to 79 with \$100,000 or more in household financial assets.

**Figure 19 — Agreement With Statement, “Having lifetime-guaranteed income gives people peace of mind in retirement”**

By Asset Segment



Source: 2018 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 1,800 Americans aged 50 to 79 with \$100,000 or more in household financial assets.

- Across assets segments, there is widespread agreement that GLI provides peace of mind to retirees (Figure 19).
- Among pre-retiree and retiree investors who prioritized lifetime guarantee features over other features of their retirement income (such as the potential for investment growth), “peace of mind” was the most commonly mentioned reason why creating GLI was important to them. This finding was consistent for both annuity owners and non-owners.<sup>24</sup>

These and other research findings strongly indicate that “peace of mind” — the freedom from worry that comes from knowing that the income will last as long as you live — is the most fundamental value provided by GLI, from the perspective of those receiving it.<sup>25</sup>

Aside from peace of mind, other potential forms of value derived from GLI include:

**Protection during cognitive decline.** By age 80 and older, between 25 percent and 40 percent of people will exhibit signs of Alzheimer's disease or other form of dementia.<sup>26</sup> Even among healthy retirees, the normal aging process will result in some reduction in mental functioning relative to younger people. This decline could in turn result in less optimal financial decisions or even exploitation by others, including family members.<sup>27</sup> Annuity income can provide a degree of protection against these outcomes.<sup>28</sup>

<sup>24</sup> Based on 835 consumers aged 50 to 75, with \$100,000 or more in household financial assets, who prioritized “Income is guaranteed for life” as one of the top 5 features most important to them when selecting products/investments that create income. Source: Retirement Income Attitudes and Preferences Study, LIMRA Secure Retirement Institute, 2013.

<sup>25</sup> For example, see *2018 Guaranteed Lifetime Income Study – Summary Findings and Charts*, Greenwald & Associates and CANNEX, 2018 <http://www.cannex.com/wp-content/uploads/2018/03/2018-GLIS-Factsheet.pdf> [Accessed October 1, 2018].

<sup>26</sup> Plassman, B.L., et al., “Prevalence of Dementia in the United States: The Aging, Demographics, and Memory Study,” *Neuroepidemiology*, 2007 Nov; 29(1-2): 125–132. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2705925/> [Accessed October 1, 2018]

<sup>27</sup> Finke, Michael S., Howe, John S., Huston, Sandra J., “Old Age and the Decline in Financial Literacy,” *Management Science*, Vol. 63 (1), January 2016. <https://pubsonline.informs.org/doi/10.1287/mnsc.2015.2293> [Accessed August 22, 2018].

<sup>28</sup> Gross, Craig M., and Kahler, Jonathan R., “Perspective on Annuities for Accumulation In Defined Contribution Plans,” Vanguard Commentary, May 2017.



**The ability to take more risks with the remaining portfolio for more potential gains.** Assuming that a retiree wants to maintain the same overall risk level, following the conversion of some of the investment portfolio to annuitized income, he or she can offset the conservative effect of the annuity by taking on more risk with the remaining savings. Being able to take on more investment risk implies the possibility of greater participation in market gains, which in turn can extend the life of the portfolio.<sup>29</sup> In fact, some analyses have demonstrated that the ability to gradually increase equity exposure during retirement, rather than mortality credits provided by partial annuitization of the portfolio, drives retirement income sustainability.<sup>30</sup>

**Improved retirement lifestyle.** As noted earlier, evidence suggests that retirees adjust their spending to match the level of whatever existing sources of income they receive (and are reluctant to pull money out of their savings regularly for spending). Converting assets that would otherwise remain untapped into GLI produces income that retirees can spend, enabling a more comfortable lifestyle as measured by discretionary spending. Our research has shown that retirees' confidence in their ability to live their desired retirement lifestyle is highest when their discretionary spending levels align with (or are somewhat higher than) their pre-retirement expectations.<sup>31</sup>



<sup>29</sup> For example, see Macqueen, Alexandra, "Proof that SPIAs Still Make Sense," *Retirement Income Journal*, March 17, 2016.

<sup>30</sup> Kitces, Michael, and Pfau, Wade D. "The True Impact of Immediate Annuities on Retirement Sustainability: A Total Wealth Perspective," July 15, 2013. Available at SSRN:

[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2296867](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2296867) [Accessed October 1, 2018].

<sup>31</sup> *Retirement Spending: Experience versus Expectations*, LIMRA Secure Retirement Institute, 2017.



# Annuities — Knowledge, Attitudes, and Ownership

## Summary

- Objections to annuity products represent a mix of rational and less rational factors.
- Many pre-retiree and retiree investors claim to be familiar with annuity products, but deeper knowledge is limited, even among those who claim to have high levels of investment and financial product knowledge.
- Overall, pre-retiree and retiree investors are more likely to perceive annuities in positive versus negative terms.
- Individuals who are more knowledgeable about annuities are more likely to have more positive perceptions of the overall value of annuities.
- Sentiment toward annuities is significantly better among annuity owners than among non-owners. Annuity owners are far more likely to agree that annuities are a good fit for their financial needs and that they would recommend annuities to friends and family members.
- Increasing awareness and appreciation for annuity products could lead to higher rates of ownership.
- Pre-retiree and retiree investors who own any type of annuity express more confidence than non-owners in their ability to live their desired retirement lifestyles.
- Ownership of annuity products is significantly higher among those currently working with a financial planner (FP) than those who are not, 27 percent vs. 9 percent, respectively. For clients whose FPs recommend annuities, the take-up rate is quite high — when recommended, 71 percent invested in the product.
- Retirees who select GLI from an annuity place significant value on their products, and express very little regret in their decision to purchase.
- Nine in 10 advisors acknowledge that GLI products can provide “peace of mind” in retirement.
- Three in four advisors agree that their clients place value on the concept of GLI and that the products provide benefits beyond what can be accomplished with non-guaranteed income products.

While GLI is almost universally acknowledged as a positive element of retirement income, the same cannot be said of annuity products. For example, personal finance media gurus sometimes malign deferred annuities as high-cost, low-flexibility investments pushed onto customers by aggressive salespeople. At the same time, the media describes income annuities — including “longevity insurance” — in mostly positive terms, and they are the focus of many academic research studies.<sup>32</sup> People often overlook the fact that all deferred annuities are capable of producing GLI. Such mixed messages likely contribute to the ongoing confusion about — and opposition to — annuity products among the general public.

A great deal of research has delved into the question of why so many people — in particular, those who would apparently benefit from them — reject annuity products. While an exhaustive review of all “annuity puzzle” work is beyond the scope of this paper,<sup>33</sup> key objections include:

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<sup>32</sup> Most DIAs are not sold as longevity insurance — typically, the products are bought between ages 55 and 65 with 5- to 10-year deferral periods, with payouts usually starting at age 65 or 70; only rarely are payouts set to start at age 85. Source: *Creating Guaranteed Lifetime Income: Income Annuity Buyer Study*, LIMRA Secure Retirement Institute, 2016. Also, academics who develop models of optimal saving and consumption behavior often include lifetime inflation-adjusted annuities (with no periods

certain or refunds) in their calculations, despite the fact that such products are rarely sold.

<sup>33</sup> For example, see Beshears, John, Choi, James J., Laibson, David, and Madrian, Brigitte C., “Behavioral Household Finance,” NBER Working Paper No. 24854, July 2018. <http://www.nber.org/papers/w24854.pdf> [Accessed October 1, 2018].

**Lack of need.** Social Security and traditional pensions may provide sufficient GLI to cover basic living expenses, or more. Many of today's retirees with moderate to high household incomes do in fact receive significant income from pensions. But they will represent an ever-shrinking proportion of future retirees, who will instead have to generate income from savings within DC plans, IRAs, and other accounts.

**Concern about future spending needs.** Annuitized wealth cannot be held in store for emergency spending due to healthcare or other “shocks” that may occur in retirement. Despite this concern, relatively few retirees face substantial healthcare costs, and these tend to be clustered in the final years of life.<sup>34</sup> Moreover, comprehensive financial planning in retirement should be able to strike the best balance between deploying assets toward regular income and keeping some in reserve for future contingencies.

**Pricing.** “Money’s worth” calculations may show that payout annuity or annuitization cost factors are not “actuarially fair.” However, it is unlikely that any but the most sophisticated of investors would both be able to determine money’s worth and to make a decision based on the outcome of that calculation.

**Rates of return.** Similar to concerns about money’s worth, individuals may make direct comparisons between payout annuities and investments, attempting to calculate rates of return.

**Desire to leave a bequest to charities or heirs.** Annuitized wealth will not be passed on to beneficiaries. However, research indicates that making bequests is not a high priority, even in wealthy households; and people can purchase or keep in-force life insurance policies, or select features available on annuity products such as joint and last survivor payouts, periods certain, or cash refunds.

**Concern about the ability of the insurer to make all promised payments.** This objection, possibly driven by fears about a financial crisis similar to what occurred in 2008–2009, may result from a misunderstanding or lack of awareness of state guarantee association backstops.

Although these plausibly rational objections to annuities could be factors, in many cases objections are based on preferences and attitudes — or even biases — held by potential buyers. As explained previously, by far the most common reason for preferring a lump sum rather than a GLI involves the desire for control over the money. People also have difficulty equating the value of lump sums versus GLI, believing that GLI should cost much less than it actually does. Potential cognitive biases include the fact that people value their savings because they have a natural tendency to place high value on what they already possess (a form of the endowment effect), and lower value on future income streams than money owned today (a form of hyperbolic discounting).<sup>35</sup> Having amassed a retirement nest egg over the course of decades of work, retirees may be reluctant to crack it open because having wealth provides expressive and emotional benefits.<sup>36</sup> These subjective factors are undoubtedly at work when people evaluate annuity products.

It is important to acknowledge and find ways to eliminate these barriers to greater adoption of annuities. But it is equally important to examine the interconnection between knowledge, attitudes, and ownership. Better knowledge of annuities among consumers may lead to improved attitudes toward them. And as we will demonstrate in this section, LIMRA SRI research shows that individuals who actually own annuities tend to view them in overwhelmingly favorable terms.

<sup>34</sup> For example, see Barnato, Amber E., McClellan, Mark B., Kagay, Christopher R., and Garber, Alan M, “Trends in Inpatient Treatment Intensity among Medicare Beneficiaries at the End of Life,” *Health Services Research*, 39(2), April, 2004, pp. 363–376. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1361012/> [Accessed October 1, 2018].

<sup>35</sup> For example, see Gazzale, Robert A., and Walker, Lina, “Behavioral Biases in Annuity Choice: An Experiment.” March 2009. Williams College Economics Department Working Paper Series. Available at SSRN:

<https://ssrn.com/abstract=1370535> or <http://dx.doi.org/10.2139/ssrn.1370535> [Accessed October 1, 2018].

<sup>36</sup> Discussion among members of the Society of Actuaries Committee on Post-Retirement Needs and Risks ListServe, April-May, 2018. See also Statman, Meir, *Finance for Normal People: How Investors and Markets Behave*, New York: Oxford University Press, 2017.

## Does the “A-word” itself suppress interest?

Proponents of annuities sometimes avoid using the term “annuity” because of the negative baggage associated with the term. They assume that individuals will not be open to the concept of GLI if they include “annuity” in the description. To test this assumption, a recent LIMRA SRI survey asked pre-retiree and retiree investors about their interest in converting a portion (or additional portion) of their assets into GLI. We randomly presented survey respondents with two versions of the same question (boldface indicates the differences between the two versions):

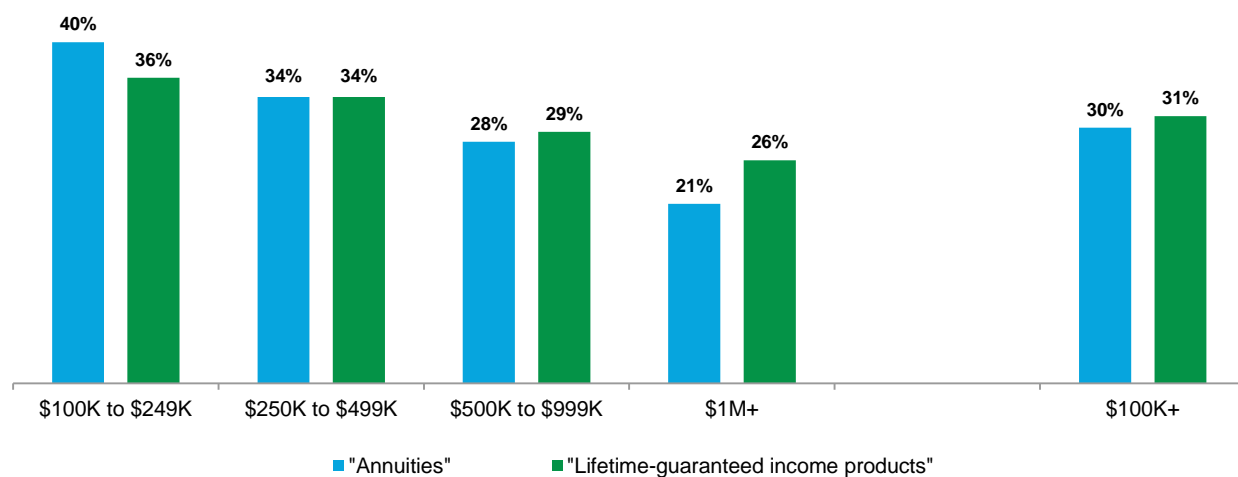
[VERSION 1] As you may know, **annuities** can provide an income stream that is guaranteed by an insurance company to last for your life (or the combination of your life and your spouse’s life) in exchange for a premium. In the case of some **annuities**, individuals may no longer have access to the assets invested in that **annuity**, only the right to receive income for life, or for a specified period. Would you consider converting a portion of your assets or an additional portion of your assets into a lifetime-guaranteed **annuity** in retirement?

[VERSION 2] As you may know, **lifetime-guaranteed income products** can provide an income stream that is guaranteed by an insurance company to last for your life (or the combination of your life and your spouse’s life) in exchange for a premium. In the case of some **lifetime-guaranteed products**, individuals may no longer have access to the assets invested in that **product**, only the right to receive income for life, or for a specified period. Would you consider converting a portion of your assets or an additional portion of your assets into a **lifetime-guaranteed income product** in retirement?

While it might be expected that the version specifically mentioning “annuities” would produce lower interest levels, there was virtually no difference between the two, even when controlling for wealth levels (Figure 20).<sup>37</sup> The findings suggest that interest in annuitization is *not* largely determined by terminology — in short, the “a-word” itself is not the main issue.

**Figure 20 — Interest in Annuities and GLI Products**

*By Type of Description and Asset Segment*



Source: 2018 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 1,800 Americans aged 50 to 79 with \$100,000 or more in household financial assets. Approximately half (n = 894) of respondents were presented with a description of “annuities” while the remaining respondents (n = 906) were presented with a description of “lifetime-guaranteed income products.”

<sup>37</sup> The effect of wealth on the preference for annuitization is slightly more pronounced in the “annuities” version of the description. Wealthier investors are more likely to have heard of annuity products and are therefore more apt to have developed a negative impression of them based on media stories or financial professionals (e.g., RIAs) who reject annuities.

## Knowledge of Annuities

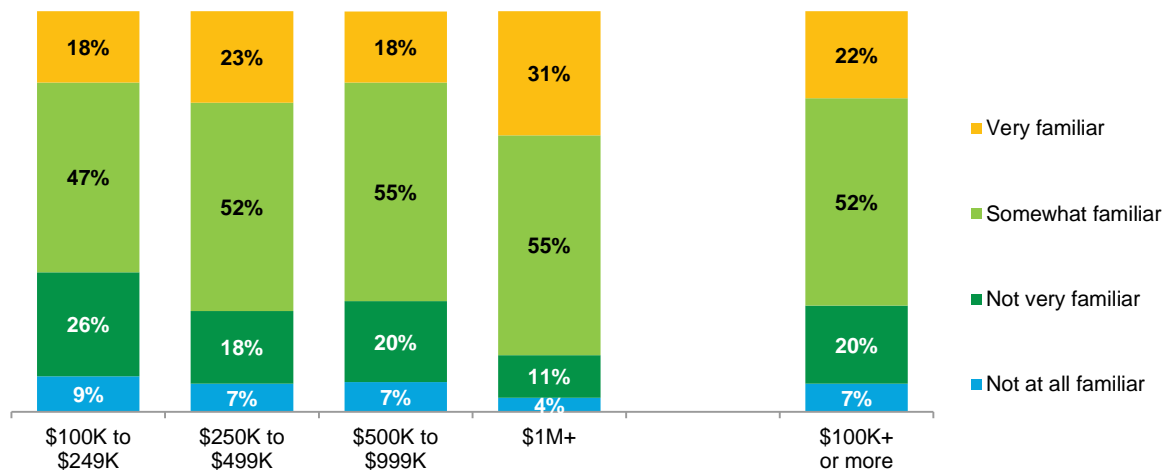
Annuities represent the sole financial product that an individual can purchase in order to generate GLI. Given the widespread interest in GLI, how many people are familiar with annuities?

Most pre-retiree and retiree investors understand the basic definition of “annuity.” Eighty percent recognize that “Annuities are financial products that can provide a series of payments to a person that will last as long as he or she lives.”<sup>38</sup>

Three in four pre-retiree and retiree investors claim to be at least “somewhat familiar” with annuity products (Figure 21). Not surprisingly, self-reported familiarity increases with wealth, but even among those with \$100,000 to \$249,999 in financial assets, 18 percent say they are “very familiar” and 47 percent say they are “very familiar” and 47 percent say they are “somewhat familiar” with annuities.<sup>39</sup>

**Figure 21 — Self-Reported Familiarity With Annuities**

By Asset Segment



Source: 2017 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 1,190 Americans aged 50 to 79 with \$100,000 or more in household financial assets.

Even within a segment of the population that might be expected to have knowledge about annuities, deep understanding is limited. When we asked pre-retiree and retiree investors a series of 12 true/false questions, a majority answered incorrectly or “don’t know” across all questions. Nearly 40 percent do not know or are incorrect about a key benefit of

annuities, tax-deferred earnings. Three quarters are also unclear on other features, such as the requirement that deferred annuity owners convert their balances into payouts after a certain time period. Many believe that, if the insurer were to go out of business, they would lose all of the money invested, or that the insurer would keep all the money that would have been paid if an annuitant dies.<sup>40</sup>

<sup>38</sup> Analysis of LIMRA Second Quarter 2013 Consumer Sentiment Survey, LIMRA Secure Retirement Institute. Results based on 390 Americans aged 50 to 79 with \$100,000 or more in household financial assets.

<sup>39</sup> Other research has provided a definition before asking for self-rated familiarity. Interestingly, the inclusion of a definition of income annuities appears to weaken self-reported familiarity among less-wealthy survey

respondents and slightly increases self-reported familiarity among wealthier respondents. That may suggest that, in the absence of a definition, some

individuals are inflating their knowledge or confusing annuities with other financial products. Source: Analysis of LIMRA Fourth Quarter 2012 Consumer Sentiment Survey, LIMRA Secure Retirement Institute. Results based on 189 Americans aged 50 to 79 with \$100,000 or more in household financial assets.

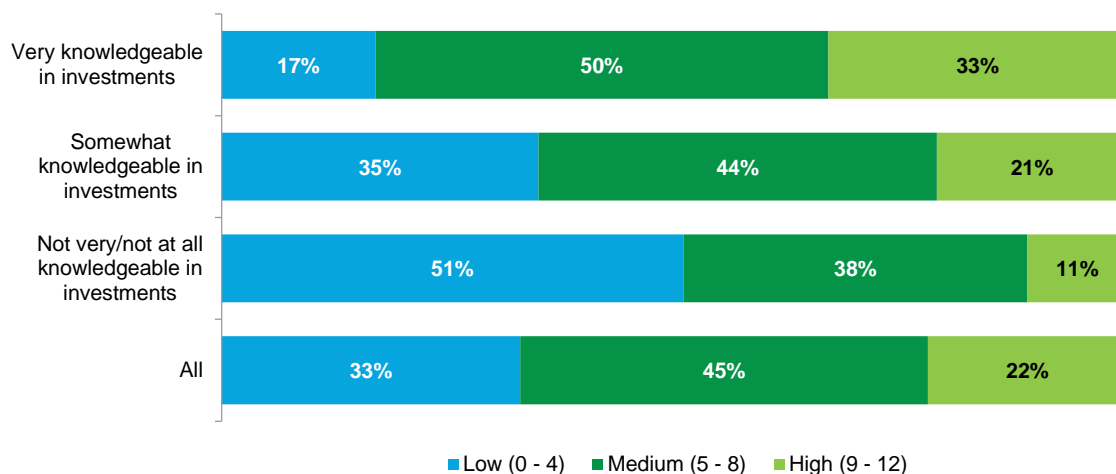
<sup>40</sup> Based on 2,000 consumers aged 50 to 75 with \$100,000 or more in household financial assets. Source: *Annuities: Love Them When You Know Them, Hate Them When You Don't*, LIMRA Secure Retirement Institute, 2014.

Not only is their knowledge limited, there is a disconnect between these pre-retiree and retiree self-ratings of financial knowledge and their actual understanding of annuities. Only one third who claim that they are “very knowledgeable” about investments or financial products scored well (answered at least nine questions correctly) on the 12-question annuity quiz (Figure 22). Of the bulk of

pre-retiree and retiree investors who claim to be “somewhat” knowledgeable about investments and financial products, two thirds answered five or more questions correct. These findings indicate that insurance companies and advisors have a responsibility to make the key benefits of annuities clear and transparent to investors.

**Figure 22 — Annuity Knowledge Score**

*By Self-Reported Investment Knowledge*



Based on 2,000 consumers aged 50 to 75 with \$100,000 or more in household financial assets. Source: *Annuities: Love Them When You Know Them, Hate Them When You Don't*, LIMRA Secure Retirement Institute, 2014.

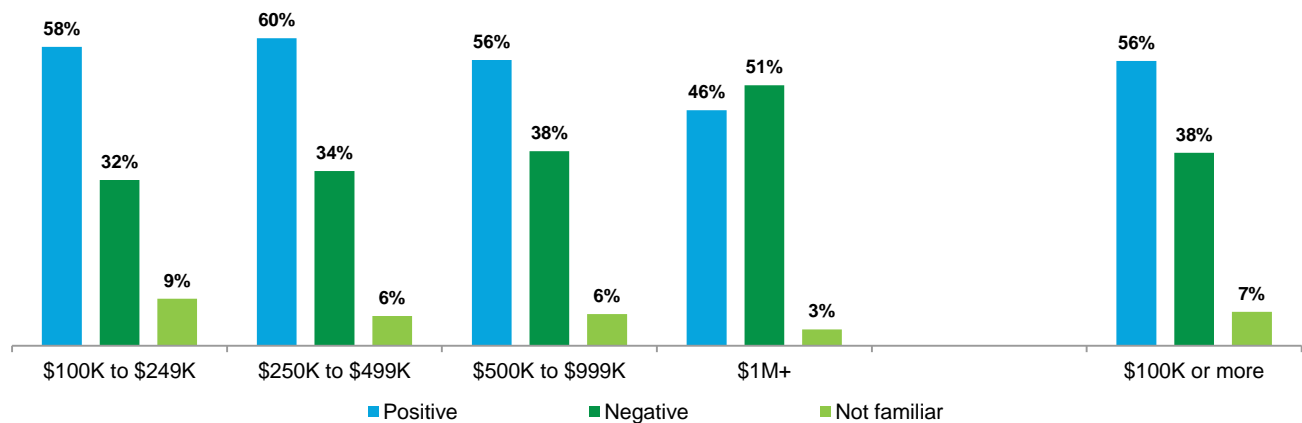
## Attitudes Toward Annuities

Overall, pre-retiree and retiree investors are more likely to perceive annuities in positive versus negative terms (Figure 23). Notably, positive sentiment toward annuities is highest among those in the middle- and mass-affluent markets. High-net-worth investors are slightly more likely to view

annuities in negative rather than positive terms. To some extent, this sentiment may reflect wealthier individuals' tendencies to work with financial advisors, especially RIAs, who do not offer annuities or who describe them in critical terms to their clients.<sup>41</sup>

**Figure 23 — Perception of Annuities**

By Asset Segment



Based on 2,000 consumers aged 50 to 75 with \$100,000 or more in household financial assets. Source: Retirement Income Attitudes and Preferences Study, LIMRA Secure Retirement Institute, 2013.

Individuals who are more knowledgeable about annuities, as determined by their quiz score, are more likely to have more positive perceptions of the overall value of annuities. Only a quarter of households with strong knowledge and 40 percent of households with moderate knowledge of annuities think they are too complicated (Figure 24). More

than half with moderate or high knowledge of annuities see them as a good fit for their financial needs. They are also less likely to think that annuities are only appropriate for retirees who do not have guaranteed income from pensions, but instead can be leveraged by all retirees.<sup>42</sup>

<sup>41</sup> For example, among 1,500 financial professionals with at least 3 years of industry sales experience, annuities represented 24 percent of the business mix of those working at banks, and 17 percent of the mix for those working at broker-dealers. In contrast, only 9 percent of full-service broker-dealer advisor business and 5 percent of RIA business was made up of

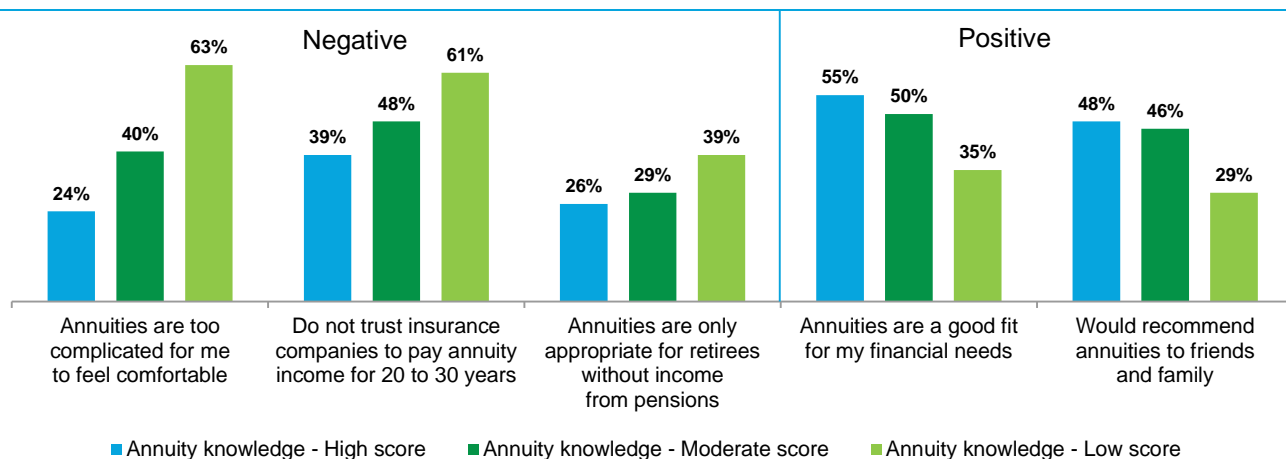
annuities. Source: *The LIMRA EY Experienced Advisor Study: Key Metrics of Advisor Practices*, LIMRA and EY, 2018.

<sup>42</sup> It should be noted that even some households with high annuity knowledge do not trust that more people knew about state guarantee associations, they would be less likely to doubt that



**Figure 24 — Use of Annuities and Trust of Insurance Companies**

By Annuity Knowledge



Figures represent percentage who “strongly agree” or “somewhat agree” with statements. Based on 2,000 consumers aged 50 to 75 with \$100,000 or more in household financial assets. Source: *Annuities: Love Them When You Know Them, Hate Them When You Don’t*, LIMRA Secure Retirement Institute, 2014.

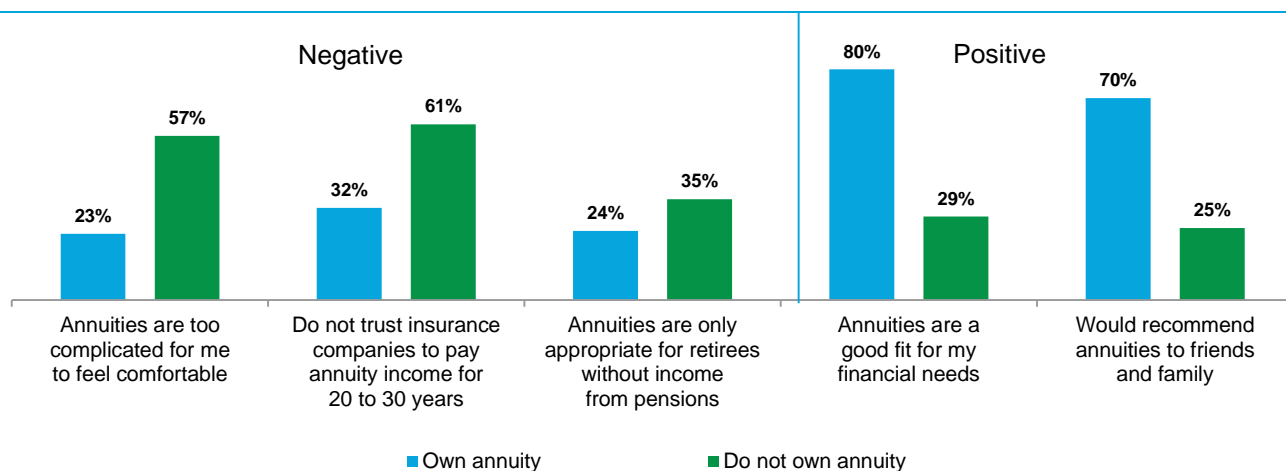
**Link Between Ownership and Attitudes**

Sentiment toward annuities is significantly better among annuity owners than among non-owners. For example, owners are much more likely than non-owners to disagree with negative statements about annuities being overly complex or only appropriate for those retirees without pension income

(Figure 25). Only 4 percent of owners “strongly” agree that insurers cannot be trusted to pay annuity income for 20 to 30 years. In contrast, owners are far more likely to agree that annuities are a good fit for their financial needs and that they would recommend annuities to friends and family members.

**Figure 25 — Use of Annuities and Trust of Insurance Companies**

By Annuity Ownership



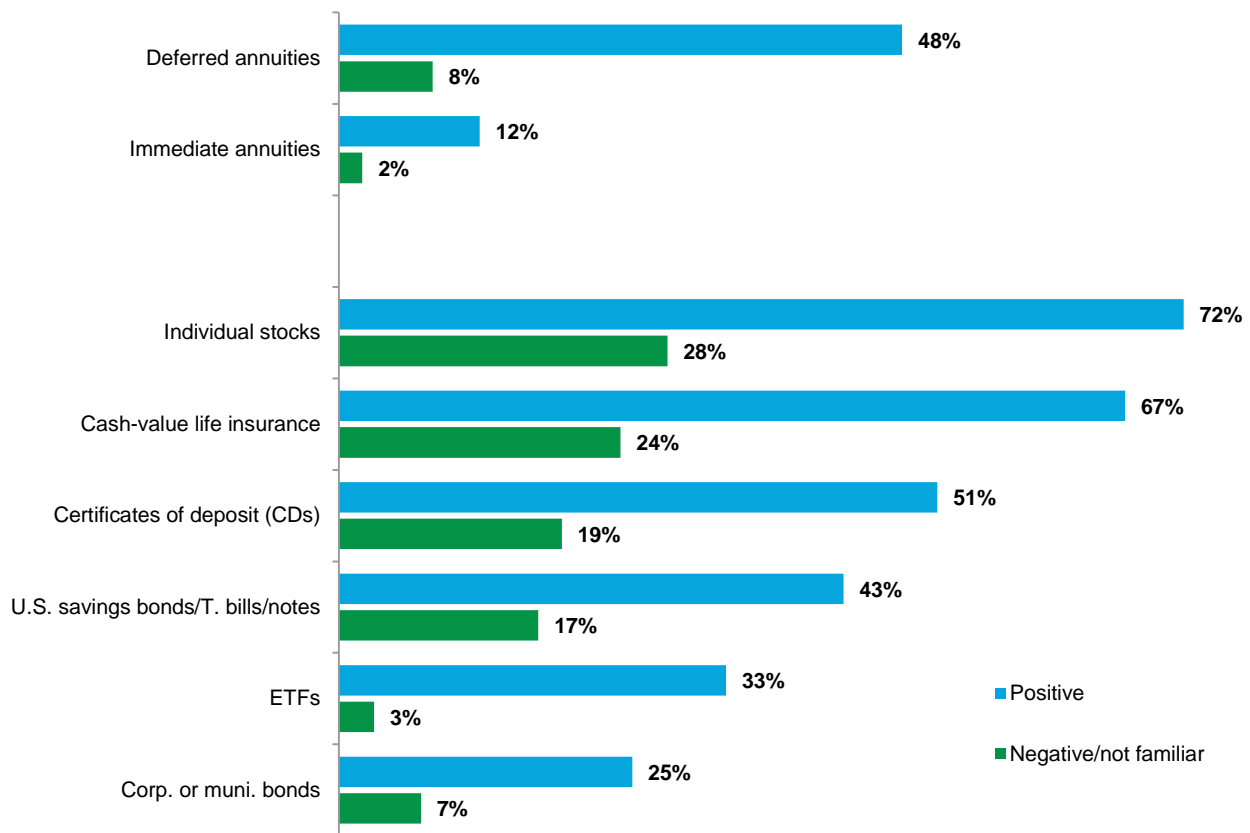
Based on 2,000 consumers aged 50 to 75 with \$100,000 or more in household financial assets. Source: *Annuities: Love Them When You Know Them, Hate Them When You Don’t*, LIMRA Secure Retirement Institute, 2014.

We have seen that positive attitudes about annuities increase with higher annuity literacy. Our research also demonstrates that positive attitudes translate into higher ownership rates. Nearly half of households with a strong or somewhat positive attitude own a deferred annuity — six times higher than those who do not view annuities positively or are not familiar with annuities (Figure 26). The relationship and 6-to-1 ratio holds for immediate

annuity ownership. It can be argued that this relationship is merely a result of the fact that when people own something, they generally have positive sentiments toward it (and vice versa). However, it is more likely that investors' annuity purchase decisions link directly to their depth of annuity knowledge and positive attitudes arising from that knowledge. Such findings suggest that increasing awareness and appreciation for annuity products could lead to higher rates of ownership.

**Figure 26 — Product and Investment Ownership**

*By Sentiment*



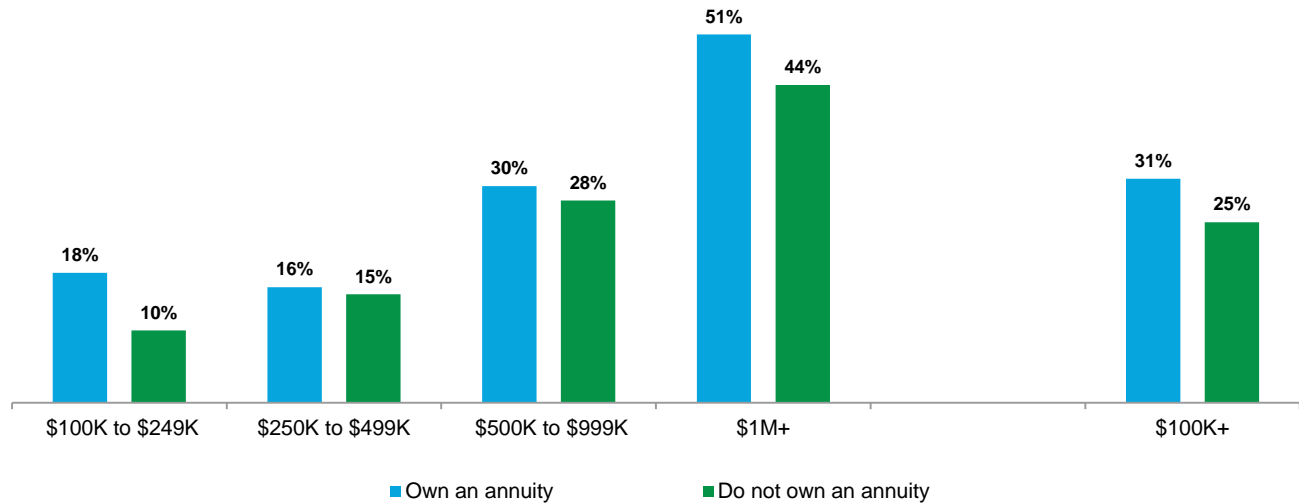
Based on 2,000 consumers aged 50 to 75 with \$100,000 or more in household financial assets. Source: Retirement Income Attitudes and Preferences Study, LIMRA Secure Retirement Institute, 2013..

Pre-retiree and retiree investors who own any type of annuity express more confidence than non-owners in their ability to live their desired retirement

lifestyles. This difference in confidence holds true even for individuals with different wealth levels (Figure 27).

### Figure 27 — Confidence in Ability to Live Desired Retirement Lifestyle

By Annuity Ownership and Asset Segment



Source: 2018 Consumer Survey, LIMRA Secure Retirement Institute. Based on 1,295 Americans aged 50 to 79 with \$100,000 or more in household assets..

### Testimonials of Retirees Currently Receiving Annuity Income

One of the best ways to establish the value of GLI is to talk with real-life annuity owners. In a series of in-depth interviews with retirees who currently receive income from an annuity,<sup>43</sup> LIMRA SRI asked:

- Why they purchased the annuity
- What expenses the annuity income covers
- How important the annuity is in maintaining their living standards
- Whether they have any regrets in purchasing the annuity
- How they would defend annuities from common objections

Of those interviewed, nearly all (20 out of 21) are happy with their decision and express no regrets.

<sup>43</sup> Results selected from a series of in-depth interviews of 52 retirees who had participated in a quantitative survey, *Sources of Retirement Income*, LIMRA Secure Retirement Institute, 2017. All interviewees a) were retired, b) were age 50 to 75, c) had household incomes of at least \$35,000, d) had at least \$100,000 in household investable assets, and e) had worked with a financial professional to create a formal, written plan for managing their income, expenses, and assets in retirement. Of these 52 interviewees, 21 reported receiving annuity income.

## The following are verbatim responses from these annuity owners.

What specific purpose did you have in mind when buying the annuity?

*“Guaranteed Income for life.”*

76-YEAR-OLD FEMALE

*“We just wanted to make sure that we have a stable amount of income. A certain amount of monthly income in addition to our pensions that we could depend on.”*

61-YEAR-OLD FEMALE

*“For financial security.”*

64-YEAR-OLD FEMALE

*The amount that I put in was guaranteed, so I couldn't lose anything... it represented a lifetime guarantee of a stream of income.*

69-YEAR-OLD MALE

*I'd rather have them manage the money than have me try to figure out which stock market thing to put the money into. I'd rather let them fiddle with it.*

71-YEAR-OLD MALE

Can you tell me about how you use your annuity income? Would you say that you use this annuity income mainly to pay the bills for basic living expenses, or do you use it for things like entertainment, traveling for pleasure, going out to eat, and other extras?

*“Oh, yes. Food, everything. Car payments, insurance, electric, gas, telephone, cable. It's what I live with.”*

75-YEAR-OLD MALE

*“It supplements my Social Security, so it is basic living expenses on the one that I am drawing income from.”*

76-YEAR-OLD FEMALE

*“Right now we need to get our home ready to possibly sell... We were sitting down with our plan to renovate for sale and we were using one of the annuities to help with those costs.”*

61-YEAR-OLD FEMALE

*“Everything. We get a monthly payment, and parts are taken out from the IRA, parts are taken out from the annuity – they're kind of pieced together to give us what we need to survive for monthly income.”*

60-YEAR-OLD MALE

How important is that annuity income to maintaining your living standard in retirement?

*“Very important. It’s essential. Without that I couldn’t survive.”*

75-YEAR-OLD MALE

*“Very important because it gives me stability.”*

71-YEAR-OLD MALE

*“Very important. It’s even more important than we realized because, again, with these additional expenses, our homeowner’s association increasing, almost doubling, that particular annuity we use for all of our household surprises — really important, because we’re having a lot of them.”*

61-YEAR-OLD FEMALE

Do you have any regrets about purchasing your annuity or annuities? For example, do you wish you invested more in an annuity, or less, or wish you hadn’t bought an annuity at all?

*“We’re thrilled that we did. We did the right thing. It was the right thing to do.”*

61-YEAR-OLD FEMALE

*“I wish I’d invested a little bit more.”*

61-YEAR-OLD MALE

**How would you respond to your friend if he or she made the following statements:**

“I don’t want to tie up my money in annuity and I want to have control of all of my assets.”

*“I would think you would have to be very astute to take complete control of your assets.”*

66-YEAR-OLD FEMALE

*“They don’t have to – they can start small, see how they like it, and then build. But I would suggest that they go to a planner to help them because they’re new to the game. I would suggest that they get with someone that really knows what they’re doing... Go to somebody reputable, and I would tell them, “Take your time, try a little bit. You don’t want to dump everything into an annuity, but just try a little bit and see.”*

61-YEAR-OLD FEMALE

"I have heard bad things about annuities."

*"You hear bad things about everything. It's only as good as your research, and making sure that you're in the right product and that you're talking to the right planner."*

61-YEAR-OLD FEMALE

*I have too. I don't think there's anything that's all good, because then everybody would be doing it. I only took a portion of my retirement savings and put that into the annuity.*

69-YEAR-OLD MALE

"I won't live that long, and so I don't need guaranteed lifetime income."

*"Be careful, you just might... I think people are living longer now, and I think that's why a guaranteed income is better."*

66-YEAR-OLD FEMALE

*"How do you know? If I could predict the future I wouldn't be sitting here talking to you, probably."*

62-YEAR-OLD MALE

*"I would probably tell him, "Maybe not for you, but for me it gives me a type of assurance and it also gives me stability for myself and my family if something happens to me."*

71-YEAR-OLD MALE

*"I look to the future and I've always got my kids in mind and my grandkids. That is what I would say – not so much for myself, but for my family and my spouse."*

64-YEAR-OLD FEMALE



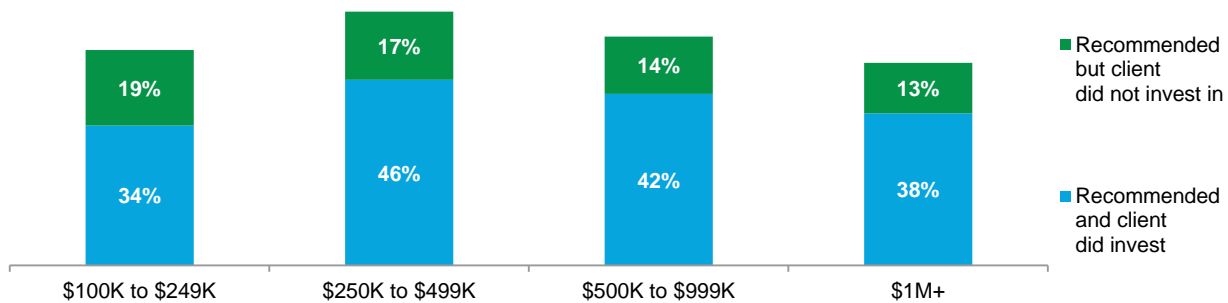
## Financial Professionals and Annuities

Working with a paid FP, such as a financial advisor, broker, or planner, is often a prerequisite for annuity purchase. Ownership of annuity products is significantly higher among those currently working with an FP than those who are not, 27 percent vs. 9 percent, respectively.<sup>44</sup> However, not all FPs offer or recommend annuities to their clients.

Recommendations appear to be most common for clients with \$250,000 or less than \$1 million in household financial assets (Figure 28). For clients whose FPs recommend annuities, the take-up rate is quite high — when recommended, 71 percent invested in the product

**Figure 28 — Has Financial Professional Recommended Annuities?**

By Asset Segment

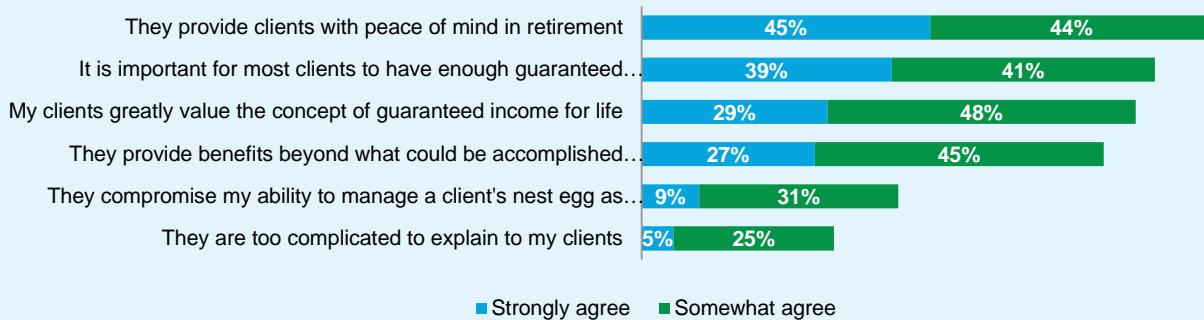


Source: Analysis of LIMRA Second Quarter 2012 Consumer Sentiment Survey, LIMRA Secure Retirement Institute. Results based on 405 Americans age 50 to 79, with \$100,000 or more in household financial assets, and who work with a financial professional.

## Advisor Perspectives on the Value of GLI

Consistent with consumer research, 9 in 10 advisors acknowledge that these products can provide “peace of mind in retirement” (Figure 29). Three in four agree that their clients place value on the concept of GLI and that the products provide benefits above and beyond what can be accomplished with non-guaranteed income products. Relatively few believe that GLI products are too complicated for their clients to understand.

**Figure 29 — Advisor Attitudes Toward GLI Products**



Source: *What Do Advisors Think About Retirement Income Planning?*, LIMRA Secure Retirement Institute, 2014. Based on 1,004 financial professionals.

<sup>44</sup> 2017 Consumer Survey, LIMRA Secure Retirement Institute. Based on 3,096 Americans aged 20 to 79.

# APPENDIX A

## ***Lifetime-Guaranteed Income: The Current State***

Without question, the need for GLI is growing steadily. Yet, the use of annuities has remained constant or has even declined in recent years. In this section, we describe the current state of GLI in America from the perspective of potential and actual utilization.

### **Summary**

- Many of today's retirees have a large proportion of their income in the form of GLI, mainly Social Security but also DB pensions.
- Future retirees stand to have lower proportions in GLI due to the decline in pensions and lower replacement rates for Social Security.
- A minority of retirees receive income from annuities, either in the form of systematic withdrawals (including activation of GLWBs) or annuitization.
- Deferred annuity and income annuity sales have declined in recent years.
- Access to GLI from DC plans and IRAs is limited.

## ***A Changing Landscape***

A number of factors have combined to make early-21<sup>st</sup>-century retirement a time of rising insecurity. The United States has never before had such a large proportion of its population over age 65. With the ongoing retirement of the Baby Boomer generation, the number of retirees will swell from 54 million in 2018 to over 65 million by 2025.<sup>45</sup>

Another fundamental factor involves the *length* of retirement. Longer retirements require stretching more savings over an uncertain period of time. The typical worker retires in his or her early 60s. The average retirement age for men had been trending downward over the past several decades but has recently begun to climb; for women, the average retirement age has steadily risen. Earlier-than-planned retirements are often associated with greater insecurity.<sup>46</sup>

In addition, the length of time between retirement age and death has increased. Following significant improvements in life expectancy among younger Americans in the late 1800s and early 1900s, the gains at younger ages slowed during the past century, while life expectancy at later ages continues to increase. Today, a woman retiring at age 60 has a life expectancy of more than 27 years, while a man can expect to live nearly 25 more years (Figure A1).<sup>47</sup> Importantly, life expectancy is a moving target as people age: Women and men at age 87 are expected to live approximately 7 more years. And while actuaries can predict group mortality with a high degree of precision, it is impossible for individual retirees to know for how long their assets must last.

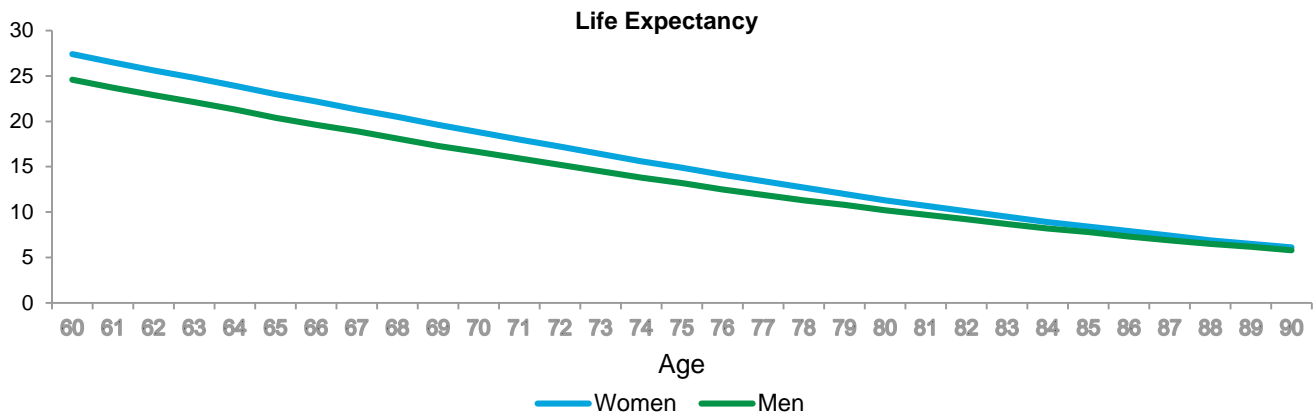
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<sup>45</sup> LIMRA Secure Retirement Institute analysis of 2014 National Projections by Age, U.S. Census Bureau.

<sup>46</sup> For example, see *The Inner Workings of Retirement Timing: Consumer Behavior and Attitudes*, LIMRA Secure Retirement Institute, 2018.

<sup>47</sup> Estimates based on Annuity 2000 Mortality table; see <https://www.pqcalc.com/pdf/singlelife.pdf>.

**Figure A1 — Life Expectancy by Current Age**



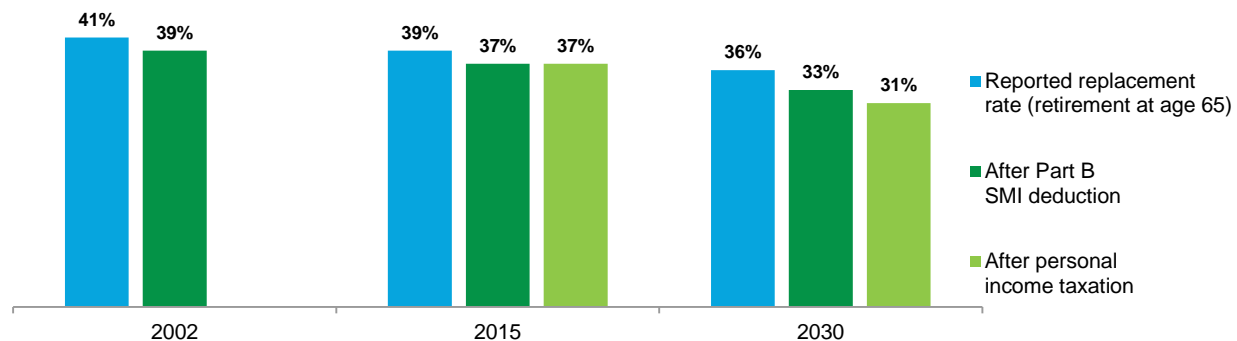
Note: Estimates based on Annuity 2000 Mortality table; see <https://www.pgcalc.com/pdf/singlelife.pdf>

Retirements that are uncertain — yet expected to last longer than ever before — underscore the importance of income sources that will endure throughout retirement. In the United States, the most important source of income guaranteed to last for life is Social Security. For many retirees, it represents the single biggest source of their income. That is especially true for lower-income retirees, but even for those with higher incomes, Social Security can make up a substantial proportion.<sup>48</sup> At its most basic level, Social Security represents a joint-and-survivor,

lifetime-guaranteed annuity with an annual inflation adjustment. Yet Social Security will replace less and less of a retiree’s pre-retirement income, due to increases in the full retirement age, rising Medicare premiums, and higher taxation of benefits (Figure A2).<sup>49</sup> More alarming, the program is not adequately funded: In the mid-2030s, the Trust Fund is expected to be depleted, at which point revenues will only cover three quarters of benefits owed. In short, the foundation of retirement income continues to erode.

**Figure A2 — Social Security Replacement Rates for Average Earner at Age 65**

For Years 2002, 2015, 2030



Source: Center for Retirement Research at Boston College, April 2018.

<sup>48</sup> Among household units headed by someone aged 65 or older and in the lowest quintile of income, Social Security makes up 81 percent of their total income. For units in the highest quintile, Social Security represents 15 percent of their total income; excluding job earnings, the proportion rises to 28% Source: *Income of the Aged Chartbook, 2014*, Social Security Administration, 2016.

[https://www.ssa.gov/policy/docs/chartbooks/income\\_aged/2014/iac14.pdf](https://www.ssa.gov/policy/docs/chartbooks/income_aged/2014/iac14.pdf) [Accessed October 1, 2018].

<sup>49</sup> Munnell, Alicia H., “Falling Short: The Coming Retirement Crisis and What To Do About It,” *Center for Retirement Research at Boston College Issue Brief No. 15-7*, April 2015 [http://crr.bc.edu/wp-content/uploads/2015/04/IB\\_15-7\\_508.pdf](http://crr.bc.edu/wp-content/uploads/2015/04/IB_15-7_508.pdf) [Accessed October 1, 2018].

Employer-sponsored pensions are often considered the second leg of the three-legged stool of retirement. As with Social Security, these are critically important income sources for millions of retirees. But only 15 percent of workers today participate in a pension at their current employers (Table A1).

Moreover, fewer retirees are reaching retirement with any pension benefits (Figure A3). Even among those that do have benefits, they likely make up a smaller proportion of pre-retirement income because

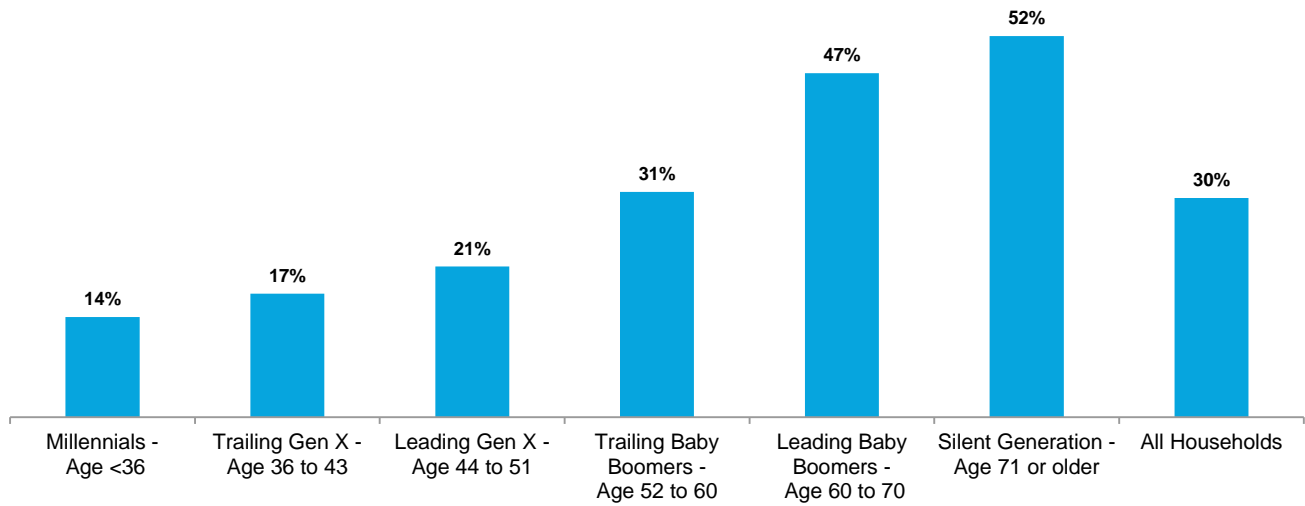
many employers froze their plans over the past two decades, so that additional years of service or salary increases did not increase final benefits. This situation results from a long-term decline in the number of traditional DB pensions plans, an increase the proportion of frozen plans, and less generous formulas for those continuing to accrue benefits (Figure A4). Cash-balance plans have increased in prevalence, and these do offer lifetime income as a payout option, but they function more like profit-sharing plans that allow for lump-sum distributions.

**Table A1 — Percent of Workers With Access to and Participating in Retirement Benefits**

	DEFINED BENEFIT		DEFINED CONTRIBUTION		ALL RETIREMENT BENEFITS	
	Access	Participation	Access	Participation	Access	Participation
All workers	18%	15%	62%	44%	66%	50%
Employer size						
1–99 workers	9	7	50	35	53	37
100+ workers	29	24	76	56	83	65

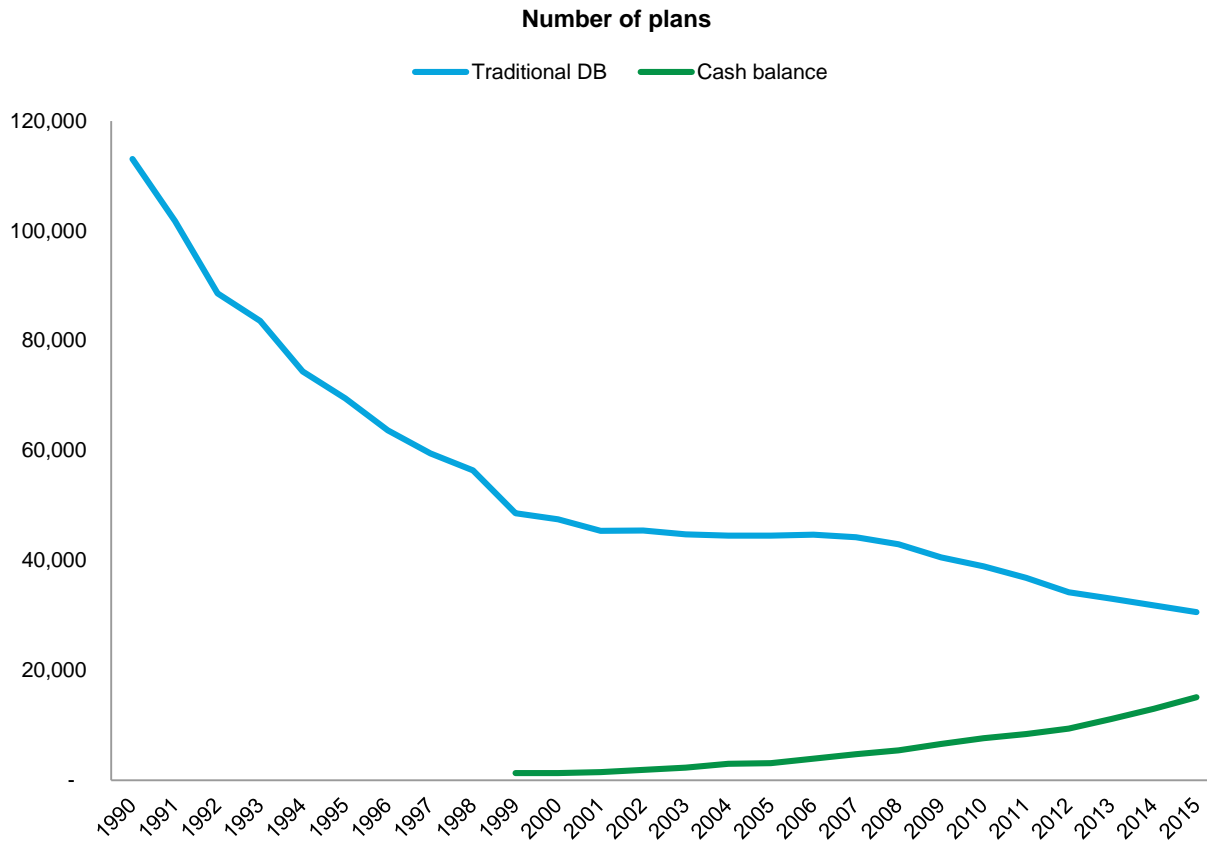
Source: *National Compensation Survey*, Bureau of Labor Statistics, March, 2016. Based on workers in private industry.

**Figure A3 — Percentage of Households Having Access to a DB Plan**



Source: LIMRA Secure Retirement Institute analysis of the 2016 Survey of Consumer Finances, Federal Reserve Board, 2017. Age is the age of head of household in 2016. Percent of households having access to a DB plan denotes either survey respondent or spouse a) has DB pension at current job; b) had accrued a DB pension benefit from a former job but has not yet claimed benefits; or c) currently receiving benefits from DB pension..

**Figure A4 — Number of DB Pension Plans**



Source: *Private Pension Plan Bulletin Historical Tables and Graphs 1975-2015*, Employee Benefits Security Administration, Department of Labor, February 2018.

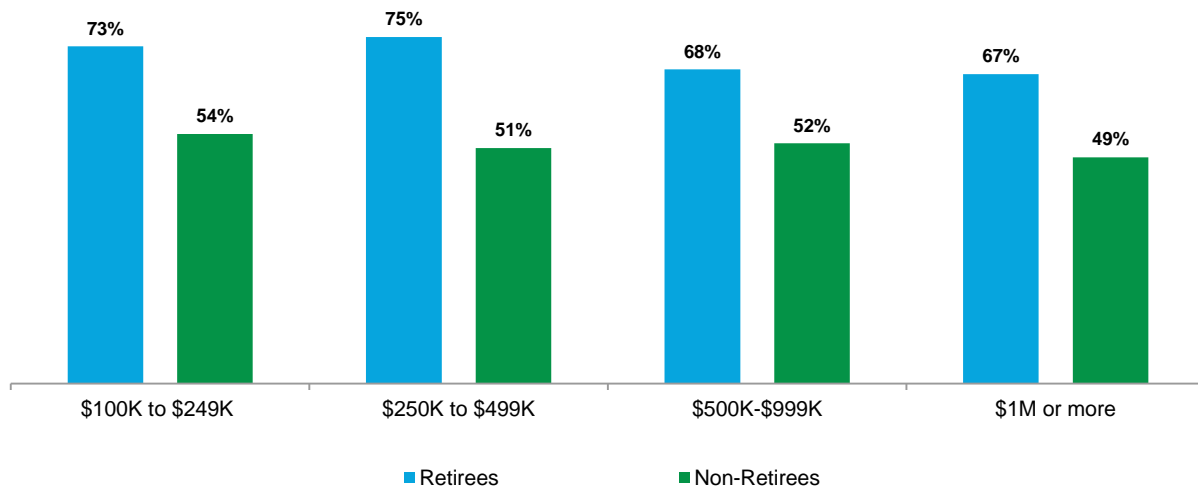
As a result of these trends, only half of non-retirees with savings of at least \$100,000 believe that Social Security and pensions will be sufficient to cover their basic living expenses in retirement, while about 7 in 10 current retirees express this sentiment (Figure A5).

Looking at retirement income more comprehensively, today’s retirees receive about two

thirds of their income in the form of Social Security or pensions, the vast majority of which pay lifetime-guaranteed benefits (Figure A6).<sup>50</sup> Even among retirees with household incomes of \$100,000 or more, these sources make up nearly half of their incomes. However, larger incomes are associated with a smaller proportion of income from Social Security and a correspondingly larger proportion from retirement plans and pensions.<sup>51</sup>

**Figure A5 — Are Social Security and Pensions Enough to Cover Basic Living Expenses?**

*By Asset Segment*



Source: 2017 Consumer Survey, LIMRA Secure Retirement Institute, 2017. Based on 507 retirees and 644 non-retirees aged 50 to 75 with household investable assets of \$100,000 or more.

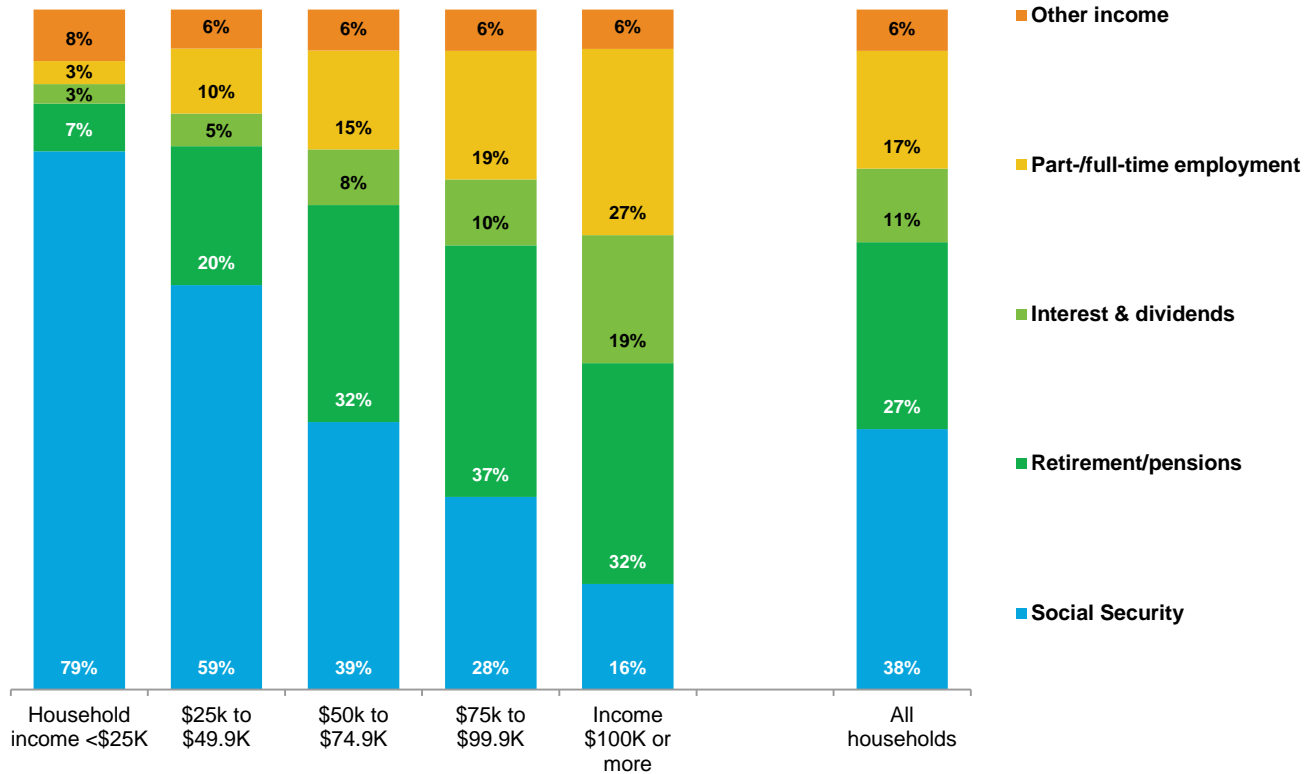
<sup>50</sup> Within the “retirement/pensions” category, approximately 20% of the income is received in the form of systematic withdrawals from DC plans, IRAs, or individual annuities; the remaining 80% is received from company or government pensions.

<sup>51</sup> Nearly 28.1 million taxpayers reported receiving taxable pension or annuity income in 2016. These households make up 22 percent of all U.S.

households. In addition, 14.4 million taxpayers received distributions from IRAs. Source: *Individual Income Tax Returns, Preliminary Data, 2016*, Internal Revenue Service, Statistics of Income Division, May 2018. <https://www.irs.gov/pub/irs-soi/16-soi-a-inpd-id1802.pdf> [June 1, 2018]



**Figure A6 — Percentage of Income by Source, Fully Retired Households**



Source: LIMRA Secure Retirement Institute analysis of U.S. Census Bureau's Current Population Survey, March 2017 Supplement. Analysis based on fully retired households. Household income represents total income received in 2016.

Comparing actual sources of income received by retiree investors with expected sources of income from pre-retiree investors yields several insights (Figure A7):

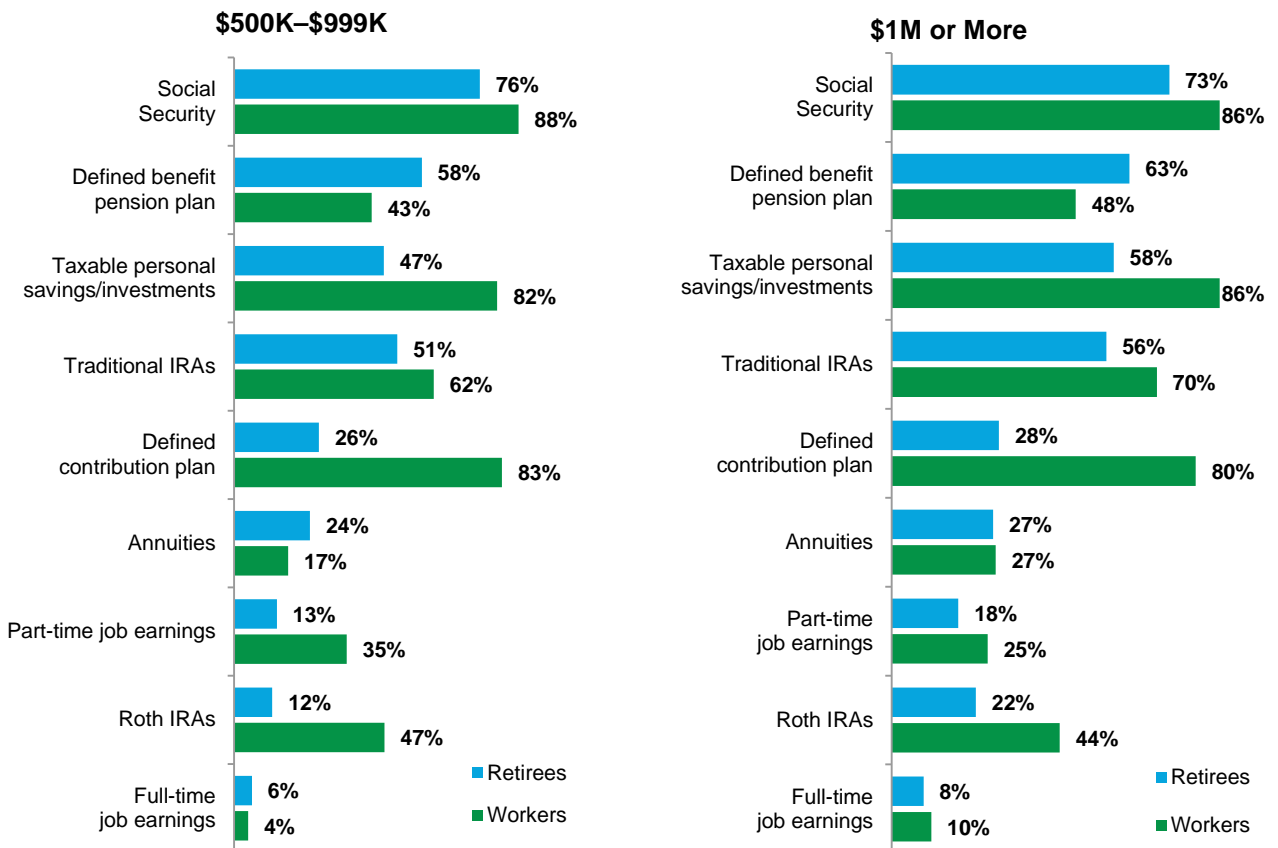
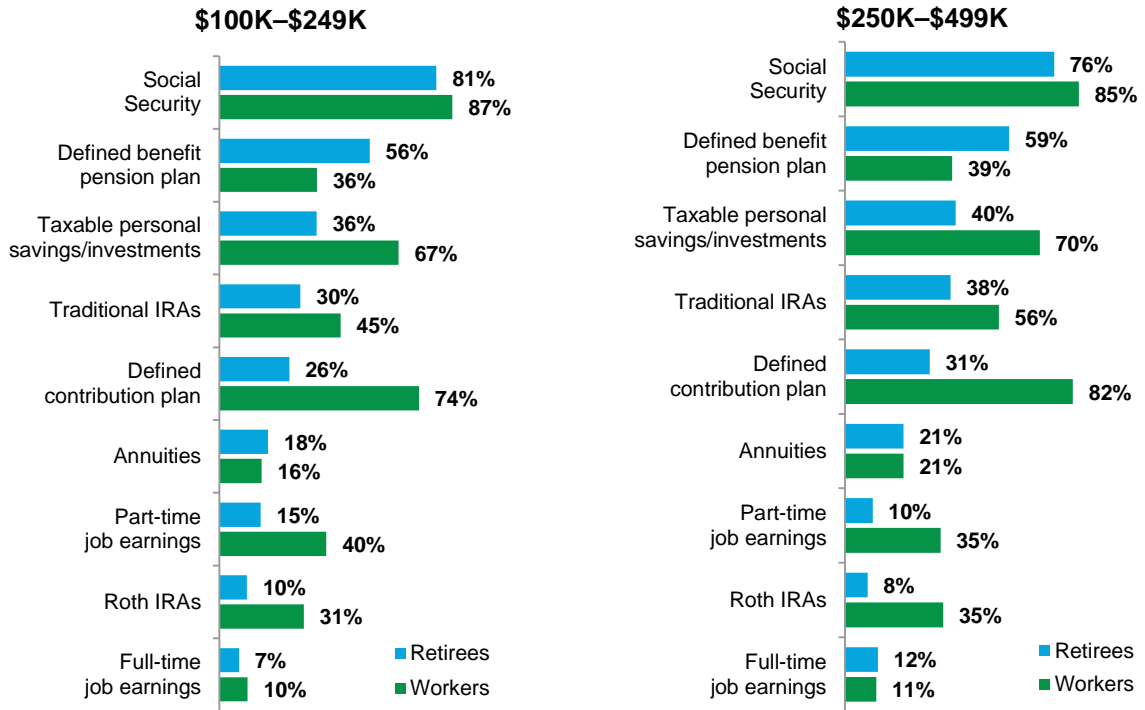
- The majority of retirees receive DB pension income, but less than half of workers in their 50s and 60s expect to receive any income from them.
- Workers are far more likely than retirees to anticipate receiving income from DC plans, Roth IRAs, and savings held outside of tax-advantaged

accounts. Workers are also more likely than retirees to expect to receive income from traditional IRAs, although the worker-retiree difference is smaller among higher-income households.

- While only about 14 percent of retirees work part-time, more than one third (35 percent) of workers believe they will have part-time jobs in retirement.
- A minority of retirees and workers have any income from annuities.

**Figure A7 — Percentage of Retirees Receiving versus Workers Expecting Retirement Income Source**

By Assets Segment



Source: 2017 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 576 retirees and 614 workers, aged 50 to 79, with \$100,000 or more in household financial assets.

The common thread through all of these differences between current and future retirees is that in the coming two decades, far fewer retirees will receive GLI and instead will need to rely on the management of savings in tax-advantaged and taxable investment accounts, from which they will generate income. (Notably, these sources usually do not offer GLI payouts, as we will describe later.)

Many future retirees, particularly those with lower asset levels, also feel that they will be working in some capacity during retirement, although whether they will actually want or be able to work is still an open question.<sup>52</sup>

The one area of agreement between retirees and pre-retiree investors seems to be that annuities will remain a source of income for relatively few: only one quarter of wealthier retirees and an even smaller proportion of less-wealthy retirees.<sup>53</sup>



<sup>52</sup> It is possible that pre-retirees anticipate a “phased” approach to retirement, gradually reducing hours worked or briefly taking a part-time job before fully retiring. Regardless, it seems unlikely that there will be a wholesale shift in retirees working into their 70s and 80s.

<sup>53</sup> It is important to note that “annuity income” does not always imply regular payments from a payout annuity. For example, among retirees aged

50 to 79, with at least \$100,000 in household financial assets, and who are receiving some form of annuity income, three quarters (76 percent) are receiving regular or occasional payments from a deferred annuity product. Furthermore, at least 30 percent report that this income is not guaranteed for life. Source: 2017 Consumer Survey, LIMRA Secure Retirement Institute. Finding based on 131 retirees.

## Annuity Market Trends, Ownership, and Activity

The U.S. individual annuity market encompasses two major product types: deferred annuities and income annuities (consisting of immediate and deferred income annuities). In this section, we examine recent trends in sales, ownership, and activity for both main types of annuities. As we will demonstrate, these products have not grown in popularity and remain underutilized, but still represent an important source of security for those that own them.

### Deferred Annuity Products

After peaking in 2008 at \$250 billion in sales, deferred annuities — consisting of variable, fixed-rate, and indexed products — have gradually fallen to \$187 billion in 2017 (Figure A8).

The underlying causes of this sales pattern are many, but two key factors are a) the Great Recession and b) regulation. The stock market crash of 2008 led to substantial investment losses and the reduction of interest rates to historical lows. These conditions had an impact on both variable annuity (VA) and fixed annuity products. Insurers selling variable products began “de-risking” the guaranteed living benefits (GLBs) that had been a major driver of VA sales by reducing benefit generosity, placing

more restrictions on subaccount funds, and increasing rider costs. Issuers of fixed-rate annuities — who initially benefitted from the market volatility — lowered crediting rates and witnessed stagnant or declining sales. The main bright spot in the annuity marketplace were indexed products, which grew every year between 2007 and 2016, thus offsetting some of the drop in overall sales during this time.

As the stock market began a decade-long bull run, and the Federal Reserve began raising short-term interest rates, annuity sales recovered to some extent. But the industry faced a major challenge in the form of the Department of Labor (DOL's) Conflict of Interest/Fiduciary Duty Rule, proposed in 2015, re-proposed in 2016, and partially implemented in 2017. The rule, which placed significant new restrictions on sales practices involving money originating from tax-qualified retirement plans, had a chilling effect throughout the industry, reversing positive sales trends and ultimately resulting in the worst year for annuity sales in 16 years in 2017. While the DOL rule was subsequently vacated by federal judges in June 2018, the industry may face a slow recovery because most distribution firms are not likely to roll back processes put in place to comply with the rule.

Figure A8 — Total Deferred Annuity Sales, 2007–2017 (in billions)



Source: U.S. Individual Annuity Yearbook - 2017 Data, LIMRA Secure Retirement Institute, 2018

In terms of ownership, LIMRA Secure Retirement Institute estimates that 27 percent of households headed by someone aged 50 to 79 with \$100,000 or more in financial assets own one or more deferred annuities. <sup>54</sup>Not surprisingly, wealthier households are generally more likely to own annuities, though households with \$2.5 million or more in financial assets are slightly less likely to own them than households with \$1 million to \$2.49 million (Table A2).

One factor strongly linked to annuity ownership is the use of FPs, including advisors and brokers. Among households that met or talked with a

financial advisor or planner within the past three years, one third (32 percent) own at least one deferred annuity, compared with only 14 percent of households that did not recently interact with financial advisor/planner. Cause and effect may be difficult to determine, because individuals interested in annuities may be more likely to seek out financial professionals to purchase them, and individuals who already own them might be more inclined to work with financial professionals. However, it is highly likely that ownership depends on the involvement of financial professionals, which in turn implies that ownership penetration could be improved with greater exposure to such professionals.

**Table A2 — Percentage of Households Owning at Least One Annuity**

By household investable assets and age							
	50 to 54	55 to 59	60 to 64	65 to 69	70 to 74	75 to 79	50 to 79
Middle-market (\$100K–\$249K)	22%	20%	21%	27%	26%	28%	<b>23%</b>
Mass-affluent (\$250K–\$499K)	22%	24%	25%	27%	34%	28%	<b>25%</b>
Affluent (\$500K–\$999K)	23%	25%	29%	34%	33%	34%	<b>29%</b>
High-net-worth (\$1M–\$2.49M)	26%	24%	31%	33%	35%	37%	<b>30%</b>
Mega-millionaires (\$2.5M or more)	28%	27%	25%	33%	32%	29%	<b>29%</b>
<b>\$100,000 in HH assets or more</b>	<b>23%</b>	<b>23%</b>	<b>26%</b>	<b>31%</b>	<b>32%</b>	<b>32%</b>	<b>27%</b>

Source: Deferred Annuity Buyer Non-Buyer Study, LIMRA Secure Retirement Institute, forthcoming in 2018. Results based 21,206 respondents age 50 to 79, involved in household financial decision-making, with at least \$100,000 in household financial assets

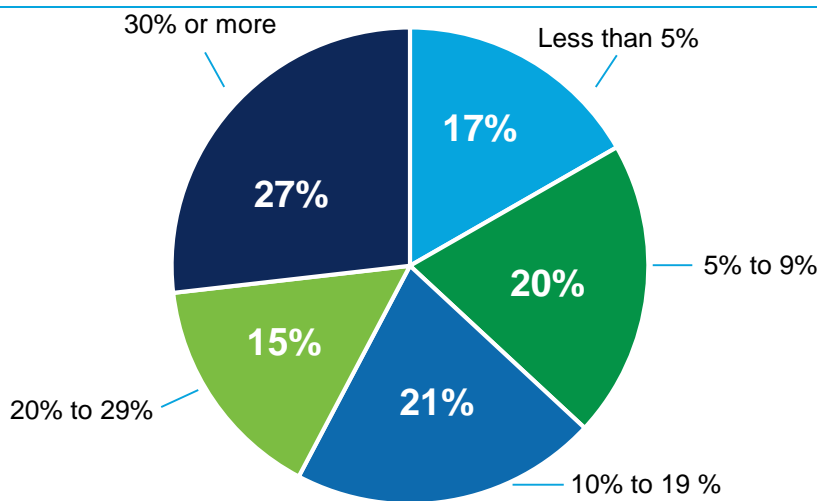
<sup>54</sup> These estimates exclude ownership of annuities purchased within 403(b), 457, or other employer-sponsored plans.

The significance of deferred annuities in portfolios can be measured in terms of the percentage of household financial assets they represent. Among annuity owners aged 50 to 79 with at least \$100,000 in household financial assets, deferred annuities typically make up 10 to 20 percent of assets (Figure A9). But there is wide variation — over one quarter have 30 percent or more of their assets invested in deferred annuities. Furthermore, the proportion varies by wealth tier — among annuity-owning, mass-affluent households, nearly 4 in 10 have deferred annuities representing at least 30 percent of their total financial assets. Deferred annuities thus occupy a sizeable share of many owners' portfolios.

**Annuitization of Deferred Annuities.** Deferred annuities are those with account balances that have not been fully converted into guaranteed payments (i.e., annuitized). LIMRA Secure Retirement Income analyses indicate that only a small proportion of deferred annuity assets are annuitized annually, across all three major product types (Figure A10). These rates are far lower than surrender rates or partial withdrawal rates, but it is important to note that these represent industry-level statistics — annuitization activity will be much higher among owners in their 70s and 80s. Also, these annuitization rates are based on a cross-section of owners during a specific year; owners may surrender one contract in order to purchase another that they later annuitize. And in absolute terms, the amount of assets annuitized exceeds immediate annuity premium. Nonetheless, such low rates of annuitization point to an opportunity to increase the utilization of GLI among deferred annuity owners.

**Figure A9 — Percentage of Household's Financial Assets Invested in Deferred Annuities**

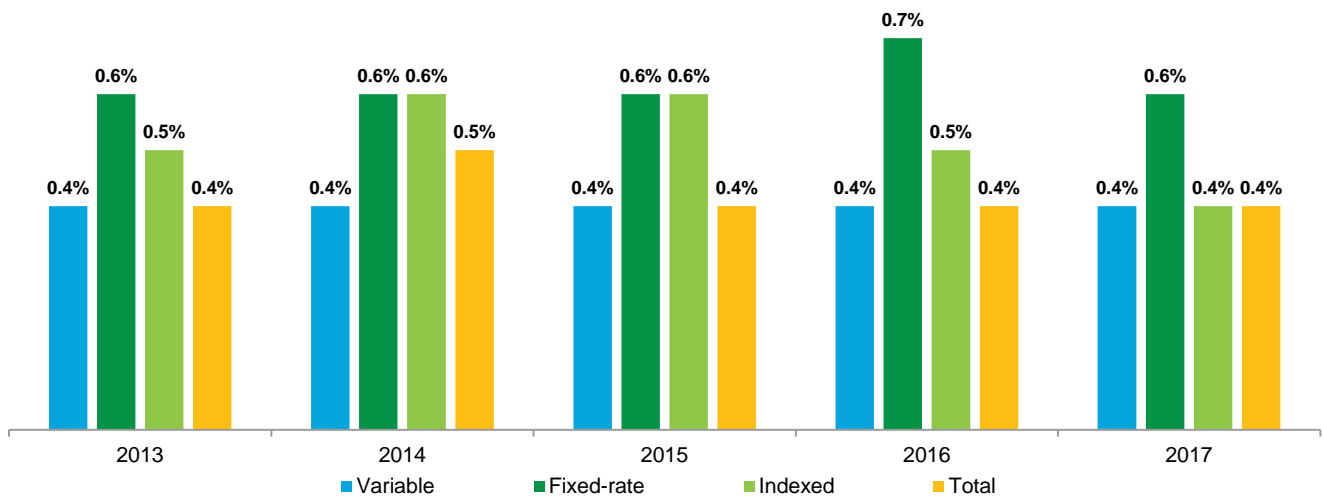
*By Asset Segment*



Source: 2017 Consumer Survey, LIMRA Secure Retirement Institute. Based on 357 annuity owners aged 50 to 79 with \$100,000 or more in household financial assets. Results exclude respondents (about 10 percent of the sample) who were not sure what percentage of their household's financial assets were invested in deferred annuities.



**Figure A10 — Annuitization as a Percentage of Average Assets, by Product Type, 2013–2016**



Source: U.S. Individual Annuity Yearbook - 2017 Data, LIMRA Secure Retirement Institute, 2018.

**Withdrawals from Deferred Annuities.** As noted earlier, a minority of deferred annuity owners are taking withdrawals from their contracts. Across all deferred annuity product types, about 3 to 5 percent of average assets in force are paid out every year, mostly in the form of partial withdrawals.<sup>55</sup> Focusing on VAs with guaranteed lifetime withdrawal benefits (GLWBs), among owners of contracts aged 50 to 79, with balances of \$100,000 or more, 28 percent took some type of partial withdrawal in 2016, with activity

much higher among those in their 70s (Figure A11).<sup>56</sup> The vast majority of these withdrawals represent the activation of the GLWB, meaning that payments are guaranteed to last for the life of the covered life or lives even if the contract value runs out.<sup>57</sup> Collectively, guaranteed payouts from VAs with GLWBs, as well as guaranteed payouts from GLWBs offered in fixed deferred products, represent several billion dollars per year in retirement income.

<sup>55</sup> U.S. Individual Annuity Yearbook - 2017 Data, LIMRA Secure Retirement Institute, 2018. The other types of outflows in this category are death benefits and annuitizations. While difficult to determine with precision, examination of VA GLWB and fixed-indexed annuity contracts suggests that about one quarter of these outflows take the form of death benefits or annuitization, with the remaining three quarters being partial withdrawals.

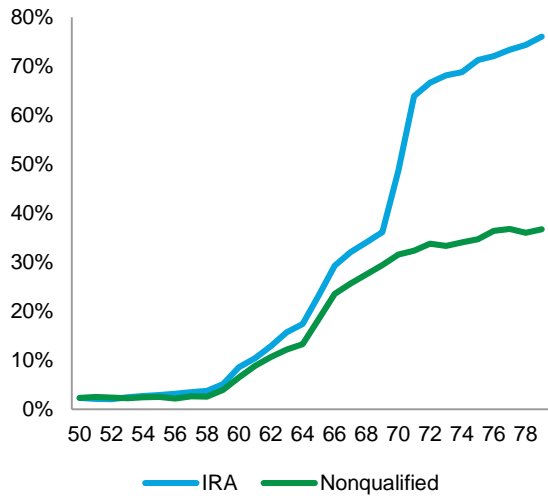
<sup>56</sup> For the VAs in IRAs, the spike in withdrawal activity around age 70 results from IRS required minimum distribution (RMD) rules. The proportion

of contracts taking withdrawals does not reach 100 percent because annuity owners may be able to satisfy RMDs by taking withdrawals from other qualified accounts.

<sup>57</sup> Approximately three quarters of these withdrawals are systematic withdrawals. Also, about 90 percent of GLWB contract owners who initiate withdrawals in one year continue to take withdrawals the next year.

### Figure A11 — Percentage of VA Contracts With GLWBs Taking Partial Withdrawals

by Age of Owner and Source of Funds



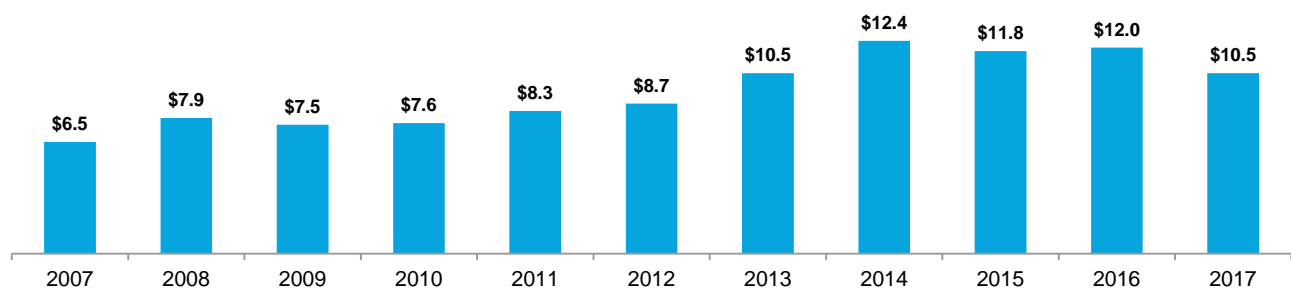
Source: *Variable Annuity Guaranteed Living Benefits Utilization – 2016 Experience*, LIMRA Secure Retirement Institute and the Society of Actuaries, 2018 (forthcoming). Based on 1,136,352 contracts issued before 2016, still in force year-end 2016, with contract values of \$100,000 or more.

Income drawn from deferred annuity contracts will rise in the near future as millions of annuity-owning households reach ages when GLI activity often occurs. Such activity is likely not only because of the RMD inducements at age 70½, but also because recent research points to the central importance of GLI in the decision to purchase deferred annuities. Among individuals who purchased a deferred annuity within the previous three years, the two most important intended uses for their annuities were to supplement Social Security or pension income in retirement (28 percent) and to receive guaranteed income payments for life (26 percent). Despite their ability to accumulate assets, only 15 percent cited this as a reason for purchase.<sup>58</sup> These annuity owners who have not yet turned on income, but intend to do so, represent the potential for a significant increase in GLI activity; this potential could be even greater if financial professionals or others convinced more deferred annuity owners to activate lifetime payouts instead of taking systematic withdrawals or cashing them out altogether.

### Income Annuity Products

Like deferred annuities, income annuity sales have fallen since peaking several years ago (Figure A12). Some of the growth observed from 2011–2014 reflects the rise of deferred income annuities (DIAs), which have represented between one fifth and one quarter of income annuity sales over the past several years.

Figure A12 — Total Income Annuity Sales, 2007–2017 (in billions)



Source: *U.S. Individual Annuity Yearbook - 2017 Data*, LIMRA Secure Retirement Institute, 2018.

<sup>58</sup> Special analysis of Deferred Annuity Buyer/Non-Buyer Study, LIMRA Secure Retirement Institute. Based on 387 deferred annuity

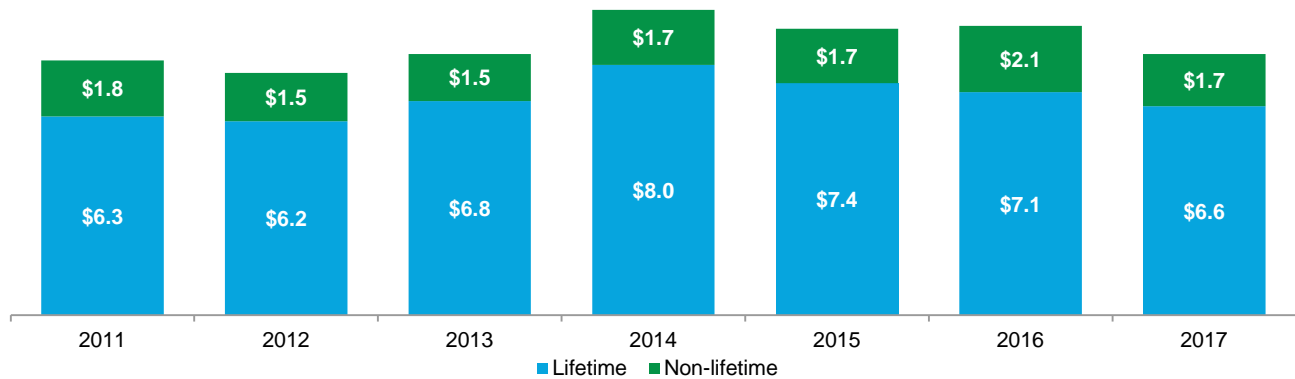
owners, aged 50 to 79, with household investable assets of \$100,000 or more, who purchased their contracts within the past three years.

Some of the regulatory concerns that impacted deferred annuity sales may have also placed downward pressure on income annuity sales, but income products are more a function of interest rates and demographics than other factors. With interest rates remaining low, payout rates likewise remain relatively low. This may be especially true for immediate annuity quotes for younger buyers, for whom “mortality credits” are less of a factor in the pricing than for older buyers. DIAs tend to have considerably higher payouts than immediate annuities for annuitants at the same age, but DIAs must be purchased years — sometimes decades —

in advance of the year payouts commence.<sup>59</sup> When DIA payments start at a late age, such as 85, they are sometimes labeled “longevity insurance.”

Immediate annuities usually take the form of lifetime-guaranteed payments, covering either a single or multiple lives, sometimes with periods certain, refunds, or other features. Less than 1 in 5 immediate annuities take the form of non-lifetime guaranteed payments (Figure A13). DIAs nearly always involve lifetime payouts. Some DIAs are structured as qualified lifetime annuity contracts (QLACs) that have special tax treatment.<sup>60</sup>

**Figure A13 — Immediate Annuity Sales, 2011–2017, by Payout Type (in billions)**



Source: U.S. Individual Annuity Yearbook — 2017 Data, LIMRA Secure Retirement Institute, 2018.

Ownership of income annuities is much less prevalent than ownership of deferred annuities. Based on a 2017 survey of Americans aged 65 to 79 with at least \$100,000 in household financial assets, between 1 and 2 percent reported owning an income annuity.<sup>61</sup> However, the actual ownership rates are likely to be somewhat higher, as some consumers may not consider the receipt of guaranteed payments to be “owned” in the same manner as an investment with an account balance.

<sup>59</sup> For example, according to an online quoting service, a 70-year-old woman who purchases a \$100,000 single-life single-premium immediate annuity (SPIA) with no period certain or cash refund will receive monthly payments of \$592, for an annual payout rate of 7.1%. But a 55-year-old woman who purchases a \$100,000 DIA with a 15-year deferral period (and no death benefit) will receive monthly payments of \$1,096 at age 70, for an annual payout rate of 13.2%, an 85% improvement over the SPIA. Source: ImmediateAnnuities.com, accessed June 6, 2018.

<sup>60</sup> When held within a tax-qualified retirement plan, QLACs are not included in RMD calculations until payouts begin.

<sup>61</sup> Special analysis of Deferred Annuity Buyer/Non-Buyer Study data, LIMRA Secure Retirement Institute. Based on 11,411 respondents aged 65 to 79 with household investable assets of \$100,000 or more.

## Access to Annuities in Qualified Retirement Plans

While anyone can use after-tax dollars to buy an annuity, many Americans will rely on tax-qualified saving accounts to generate income in retirement. These accounts include workplace DC plans and IRAs.

**DC plans.** A central issue with the DC scheme that has come to predominate the retirement savings system in the America is the shift from GLI payouts to lump-sum payouts. While in theory all DC plans could at least offer an annuity payout option, if not default to that payout (as is true for DB plans) when the participant claims his or her benefit, most do not. Only 12 percent of participants in savings and thrift plans (the most common type of DC plan) had a payout option available; 86 percent had a lump-sum payout option.<sup>62</sup> Even among participants with in-plan annuity access, nearly half (44 percent) have guaranteed minimum withdrawal benefits as opposed to traditional fixed immediate annuity payouts.<sup>63</sup>

Therefore, participants who would prefer to receive their benefit in the form of GLI must first take the money out of the plan and then purchase an annuity in the retail marketplace. Often these distributions involve rollovers to IRAs.

**IRAs.** Although popularly known as “individual retirement accounts,” in 1974, the Employee Retirement Income Security Act (ERISA) established “individual retirement arrangements” and “individual retirement *annuities*” (emphasis added). Annuities have therefore been built into the fabric of IRAs from their creation. But the vast majority of IRAs today do not allow owners to receive GLI directly from their accounts. This situation exists because most IRA assets are funded by mutual funds, stocks, bonds, and other investments that do not offer guaranteed payouts. Of the \$8.1 trillion in IRA assets at the end of 2016, \$1.1 trillion were held within individual annuity contracts.<sup>64</sup> Consumer research also points to the scarcity of annuity payout options within IRAs for individuals who recently transferred a balance into an IRA from a DC plan. Among these IRA owners, aged 50 to 75 with at least \$100,000 or more in household financial assets, 19 percent had the option to take an annuity from their accounts.<sup>65</sup>

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<sup>62</sup> *National Compensation Survey: Health and Retirement Plan Provisions in Private Industry in the United States, 2017*, Bureau of Labor Statistics, Department of Labor, May 2018. Note that annuity payout options are more common among non-ERISA DC plans, such as certain 403(b) and 457 plans, which can be funded by individual annuity contracts or by group contracts with a high degree of individual participant control; LIMRA Secure Retirement Institute estimates individual annuity assets in employer plans were \$719 billion as of year-end 2016. Source: *U.S. Individual Annuity Yearbook – 2016*, LIMRA Secure Retirement Institute, 2017.

<sup>63</sup> *401(K) Plans: DOL Could Take Steps to Improve Retirement Income Options for Plan Participants*, GAO, August 2016.

<sup>64</sup> Investment Company Institute, *US Total Retirement Market Assets, Fourth Quarter 2017*; *U.S. Individual Annuity Yearbook – 2016*, LIMRA Secure Retirement Institute, 2017.

<sup>65</sup> *Money in Motion: Understanding the Dynamics of Rollovers, Roll-ins, and IRA Transfers*, LIMRA Secure Retirement Institute, 2017. The incidence of annuity payout options within the IRA was significantly higher among participants who rolled their money to an insurance company (45 percent) and those who rolled into a deferred annuity (59 percent).

# APPENDIX B

**Table B1 — Characteristics of GLI Choosers and Lump-Sum Choosers**

	Chose GLI	Chose lump sum
<b>Age group</b>		
50-54	17%	19%
55-59	19	19
60-64	20	25
65-69	22	22
70-74	16	12
75-79	6	4
<b>Retirement status</b>		
Retired	60%	54%
Not retired	40	46
<b>Gender</b>		
Female	53%	40%
Male	47	60
<b>Marital status</b>		
Married/partnered	73%	79%
Divorced/separated	13	11
Widowed	4	3
Never married	10	7

**Table B1 — Continued**  
**Characteristics of GLI Choosers and Lump-Sum Choosers**

	Chose GLI	Chose lump sum
<b>Work with paid financial professional*</b>		
Yes	57%	54%
No	43	46
<b>Have formal written retirement plan**</b>		
Yes	16%	14%
No	84	86
<b>Retirees: Receive annuity income</b>		
Yes	21%	17%
No	79	83
<b>Pre-retirees: Anticipate receiving annuity income</b>		
Yes	21%	18%
No	79	82
<b>Deferred annuity ownership</b>		
Own	26%	21%
Do not own	74	79
<b>Immediate annuity ownership</b>		
Own	4%	4%
Do not own	96	96

\* Have a formal written retirement plan for managing income, expenses, and assets in retirement.

\*\* Work with a paid financial professional to make at least some household financial and investment decisions.

Source: 2018 Consumer Survey, LIMRA Secure Retirement Institute. Results based on 896 Americans aged 50 to 79, with \$100,000 or more in household financial assets.

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