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COMMITTEE OF ANNUITY INSURERS

1998 Survey Of Owners Of
Non-Qualified Annuity Contracts

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Introduction

In April 1998, The Gallup Organization (“Gallup”) surveyed 1,029 owners of non-qualified annuity contracts for the Committee of Annuity Insurers, a diverse group of life insurance companies that issue annuity contracts. The results of the 1998 Survey Of Owners Of Non-Qualified Annuity Contracts (the “1998 Survey”) are presented in this report. Mathew Greenwald & Associates, Inc. (“Greenwald & Associates”) consulted with the Committee of Annuity Insurers on this project.

This Survey has been conducted in five previous years. Each time, in February 1992, October 1993, December 1994, December 1995, February 1997, and April 1998, over 1,000 owners of non-qualified annuity contracts were interviewed by Gallup. Where applicable, the findings from three prior Surveys – 1992, 1995, and 1997 – are compared to the findings of the 1998 Survey in this report.

The principal purpose of the Surveys is to obtain a profile of the demographic characteristics of owners of non-qualified annuity contracts and to gain insight on owners’ saving for retirement, sources of funds for purchasing annuity contracts, and reasons for purchasing annuities. The 1998 Survey contains many of the same questions asked in previous Surveys.

To ensure that only owners of non-qualified annuity contracts were interviewed in this Survey, 36 life insurance companies provided the names of individuals who currently own non-qualified annuity contracts (i.e., annuity contracts purchased with after-tax dollars). The companies used specific sampling procedures developed by Gallup and Greenwald & Associates to ensure that a representative sample of owners of non-qualified annuity contracts was identified. The 36 companies are geographically diverse, represent a mix of large and small companies, and account for more than 4.5 million non-qualified annuity contracts currently in force. They also utilize a mix of the main systems for distributing annuities.

The people interviewed were selected at random by Gallup from the samples provided by 36 companies. It is Gallup’s view (based on the sampling procedures used and other research that Gallup has conducted in this area) that the results of this Survey represent the characteristics of owners of non-qualified annuity contracts, with a sampling error of plus or minus 3 percentage points, at the 95 percent confidence level.

1998 Survey Summary

There is a great deal of stability in the demographics and attitudes of non-qualified annuity owners. Opinions on saving for retirement, sources of funds for purchasing annuities, reasons for purchasing annuities, and demographic characteristics are similar to those found in previous Surveys. The findings of the 1998 Survey differ little from the results of the 1997 Survey.

Demographic Profile

- The average age of owners of non-qualified annuity contracts is 66. There are slightly more female than male owners of non-qualified annuity contracts (53% vs. 47%).
- Six in ten owners of non-qualified annuity contracts (59%) are married, while 26 percent are widowed.
- Six in ten owners of non-qualified annuity contracts (56%) are retired, while 28 percent are employed full-time.
- Most owners of non-qualified annuity contracts have moderate annual household incomes. Three quarters (75%) have total annual household incomes under \$75,000.
- Three quarters of owners of non-qualified annuity contracts (or their spouses) (73%) are currently eligible for, or are participating in, a pension plan or are receiving money from a pension plan from their current or former employers.

Age When Annuities Purchased

- Six in ten owners of non-qualified annuity contracts (58%) purchased their first annuity when they were under 55 years old. The average age at which owners purchased their first annuity was 51.

Saving For Retirement

- More than eight in ten owners of non-qualified annuity contracts (86%) believe that people in the United States do not save enough money for retirement.
- Eight in ten owners of non-qualified annuity contracts (79%) believe that the government should give tax incentives to encourage people to save.

Financial Preparedness For Retirement

- Nine in ten owners of non-qualified annuity contracts (90%) believe that they have done a very good job of saving for retirement. However, many express concern that the costs of a catastrophic illness or nursing home care might bankrupt them (48%), that they might run out of money during retirement (42%), or that their spouse may not have enough savings to make ends meet if the owner predeceases the spouse (35%).

Uses Of Annuity Savings

- Eight in ten owners of non-qualified annuity contracts say that they will use their annuity savings for retirement income (83%) and to avoid being a financial burden on their children (82%).
- Three quarters of owners of non-qualified annuity contracts (75%) purchased an annuity to cover the potential expense of unpredictable events such as a catastrophic illness or the need for nursing home care.

Attributes Of Annuities

- Nearly all owners of non-qualified annuity contracts (91%) agree that keeping the current tax treatment of annuities is a good way to encourage long-term savings.
- Nearly all owners of non-qualified annuity contracts (89%) agree that annuities are an effective way to save for retirement.

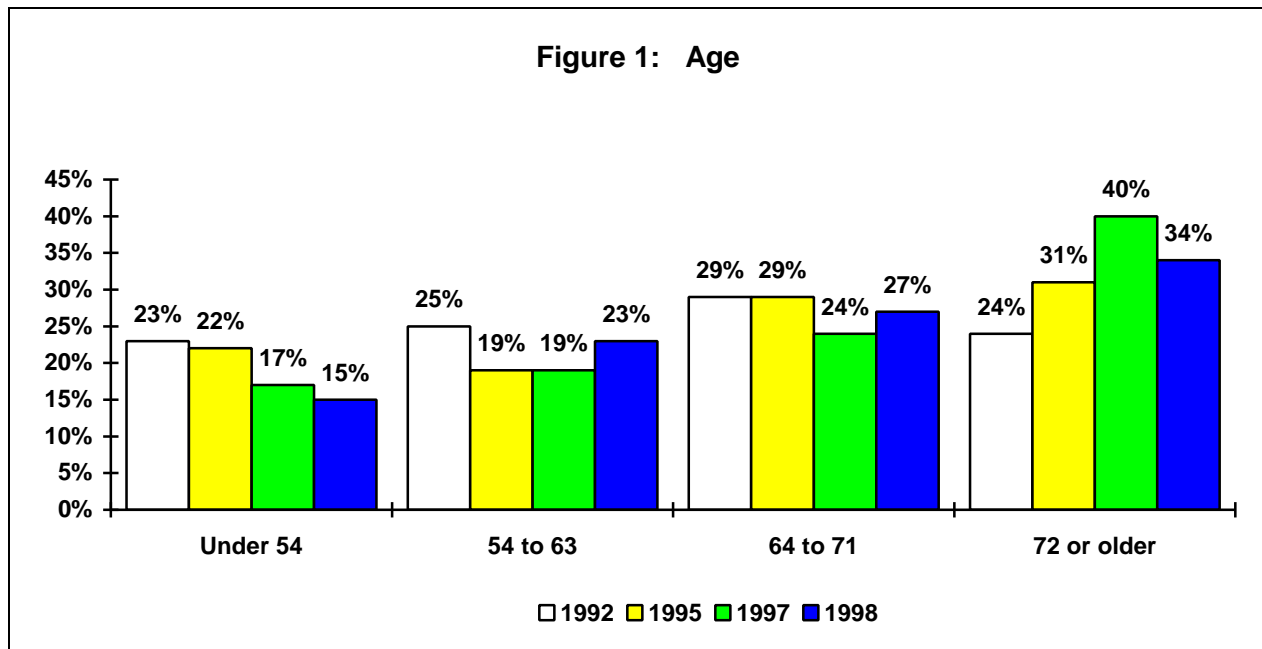
Profile Of Owners Of Non-Qualified Annuity Contracts

Typical Owner Of A Non-Qualified Annuity Contract

The typical owner of a non-qualified annuity contract is at least a high school graduate, has a moderate annual household income, and is slightly more likely to be female than male. The average age of owners of non-qualified annuity contracts is 66. Eighteen percent of owners of non-qualified annuity contracts currently are receiving regular payouts from their annuity contracts.

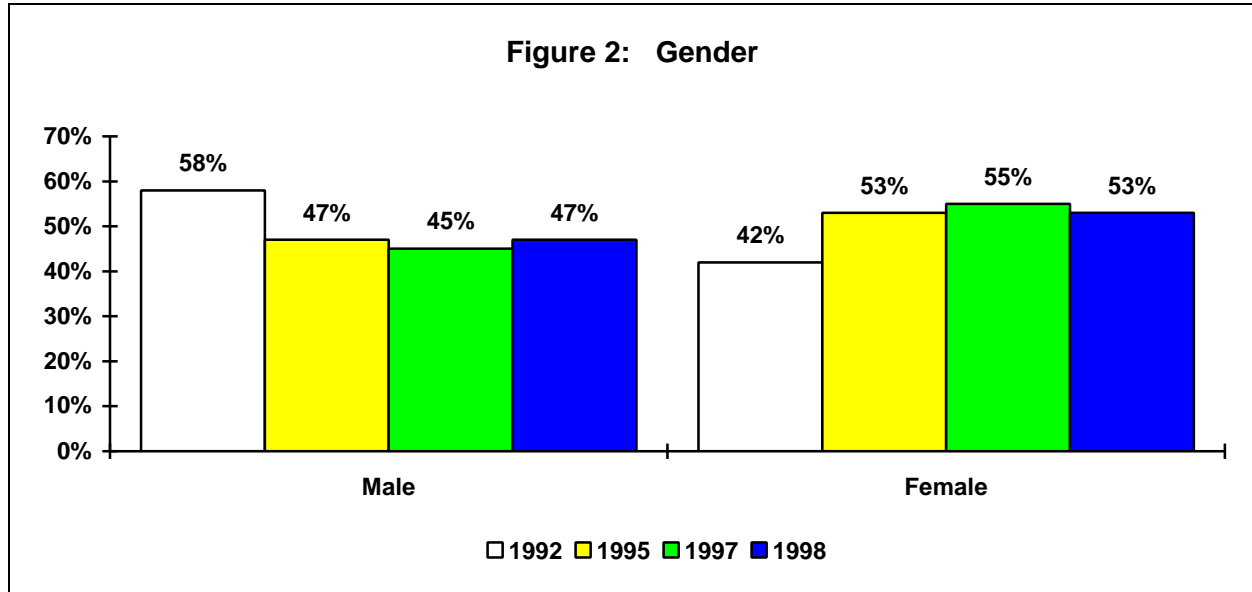
Age

The average age of owners of non-qualified annuity contracts is 66. One third of owners of non-qualified annuity contracts (34%) are age 72 or older. This is up 10 percentage points from the 1992 Survey, but is lower than it was in the 1997 Survey. Fifteen percent of owners of non-qualified annuity contracts are under age 54 — the lowest proportion to date. About one quarter of the owners are between age 54 and age 63 (23%) or between age 64 and age 71 (27%). (See Figure 1.)



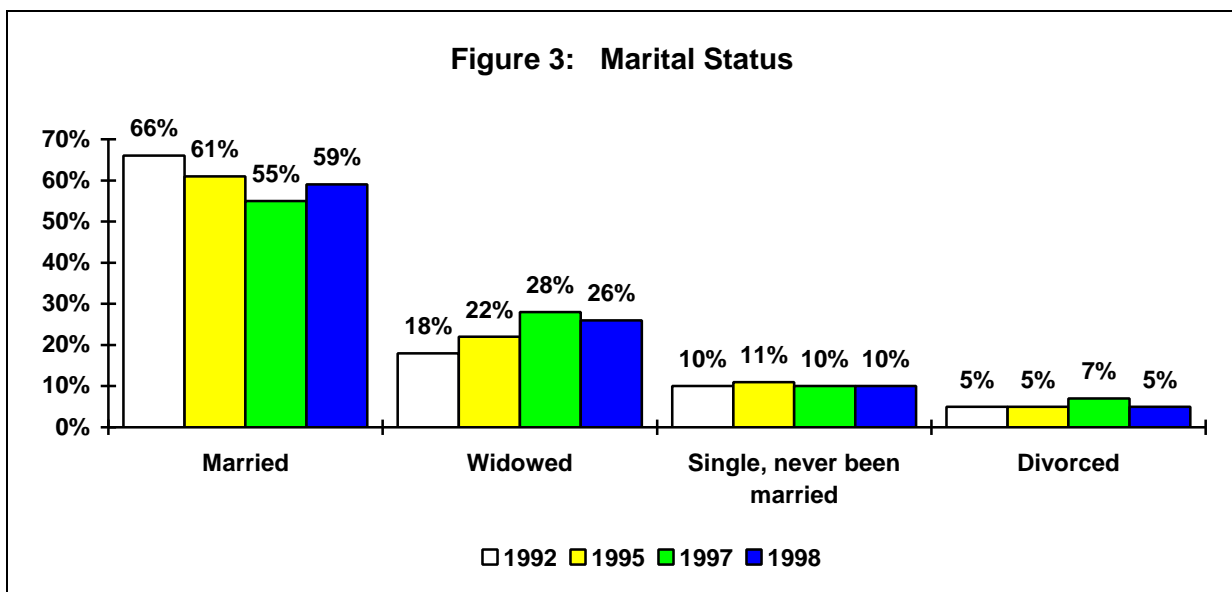
Gender

Owners of non-qualified annuity contracts are slightly more likely to be female than male (53% vs. 47%). There has been an increase in the percentage of female owners since 1992. (See Figure 2.)



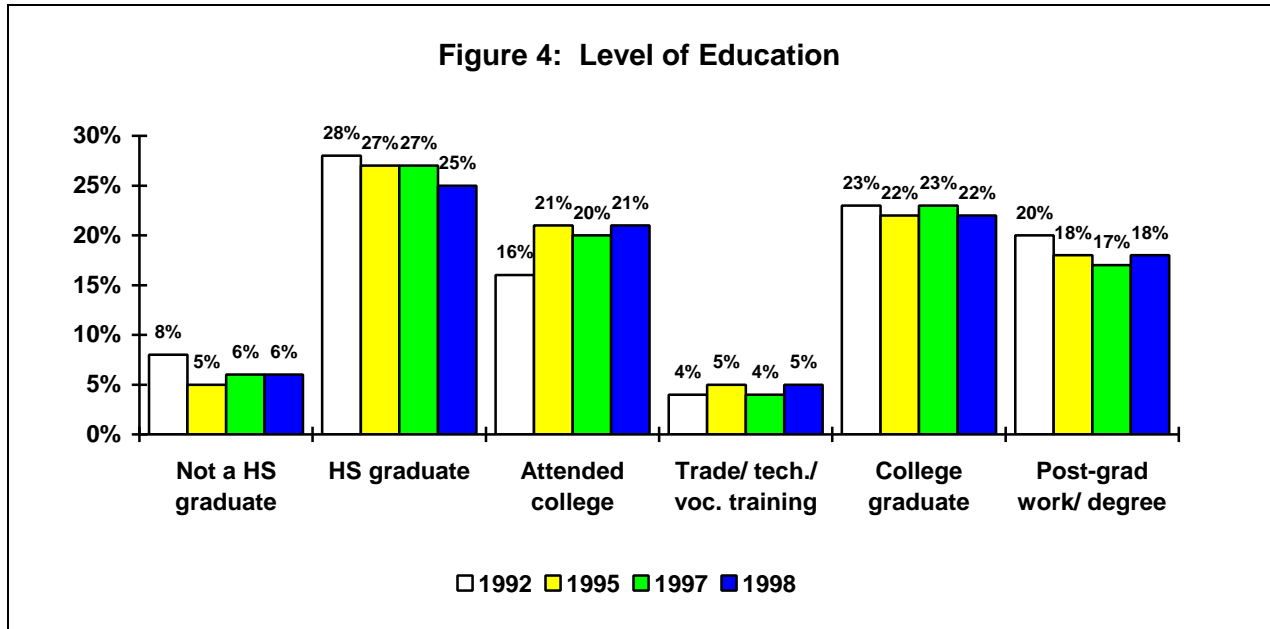
Marital Status

As shown in Figure 3, a majority of owners of non-qualified annuity contracts (59%) are married. One quarter of owners of non-qualified annuity contracts (26%) are widowed. Only 10 percent of owners of non-qualified annuity contracts are single.



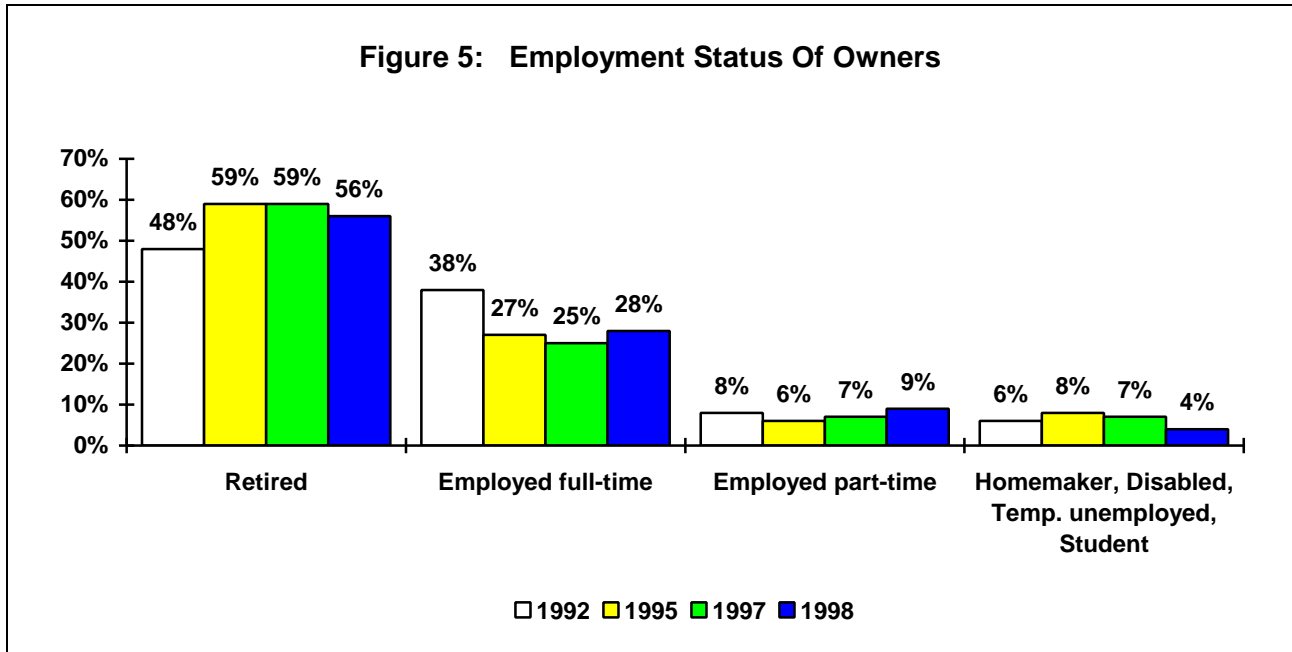
Education

As shown in Figure 4, owners of non-qualified annuity contracts have diverse educational backgrounds. Three in five owners of non-qualified annuity contracts (57%) are not college graduates, while two in five (18%) have done post-graduate work or have post-graduate degrees. These proportions are similar to those found in previous Surveys.

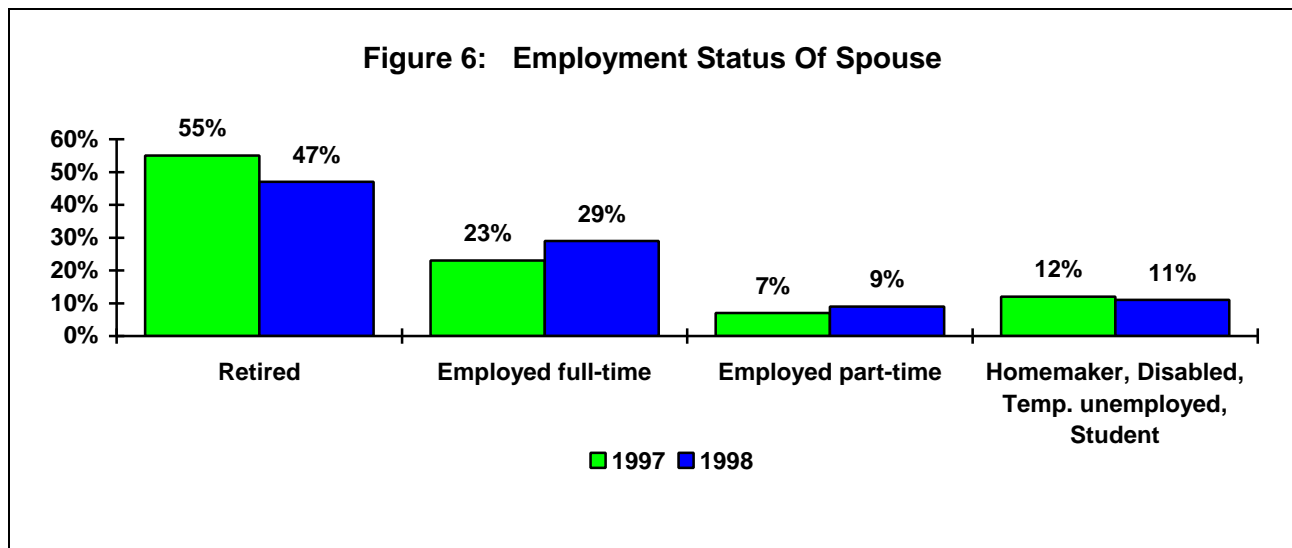


Employment Status

As was true in previous Surveys, many owners of non-qualified annuity contracts (56%) are retired. Three in ten (28%) are employed full-time, while another 9 percent are employed part-time. (See Figure 5.)

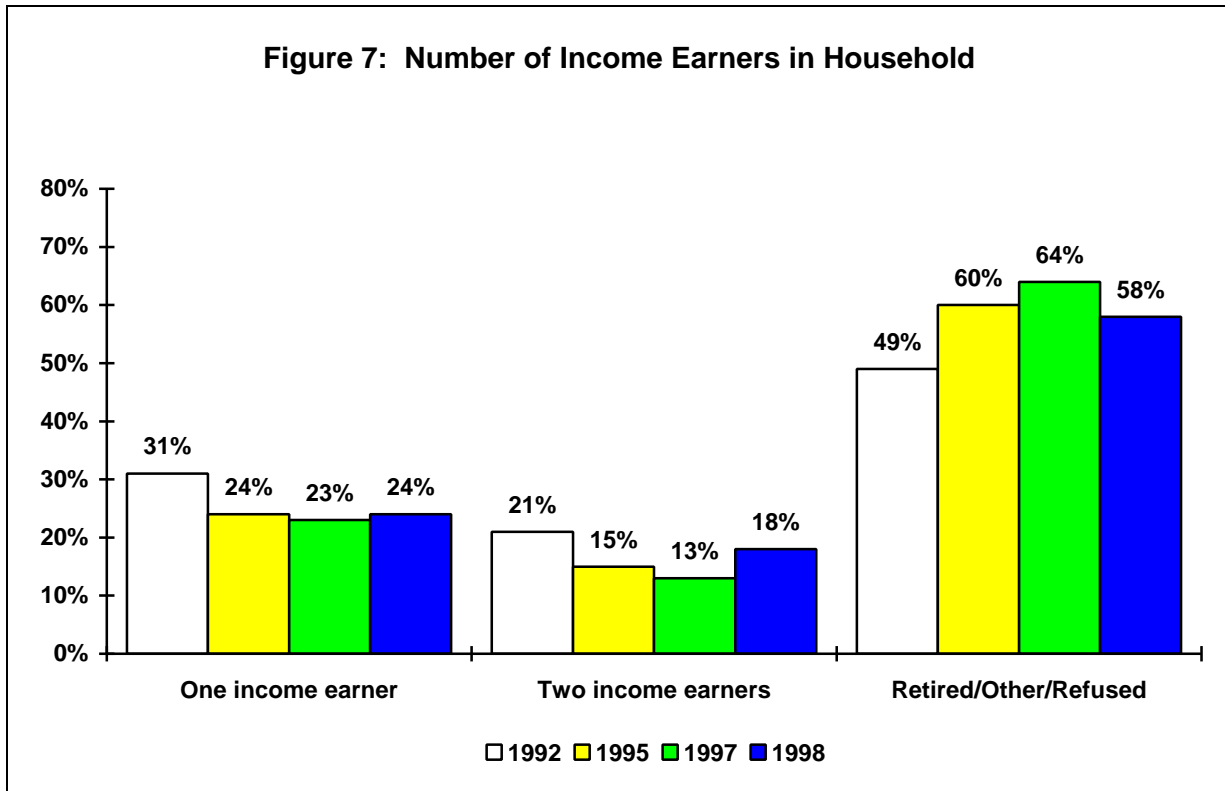


Nearly half of the spouses of owners of non-qualified annuity contracts (47%) also are retired. Three in ten (29%) are employed full-time, while a few (9%) are employed part-time. Slightly fewer spouses are retired this year than last year, and slightly more are employed full-time this year. (See Figure 6.)



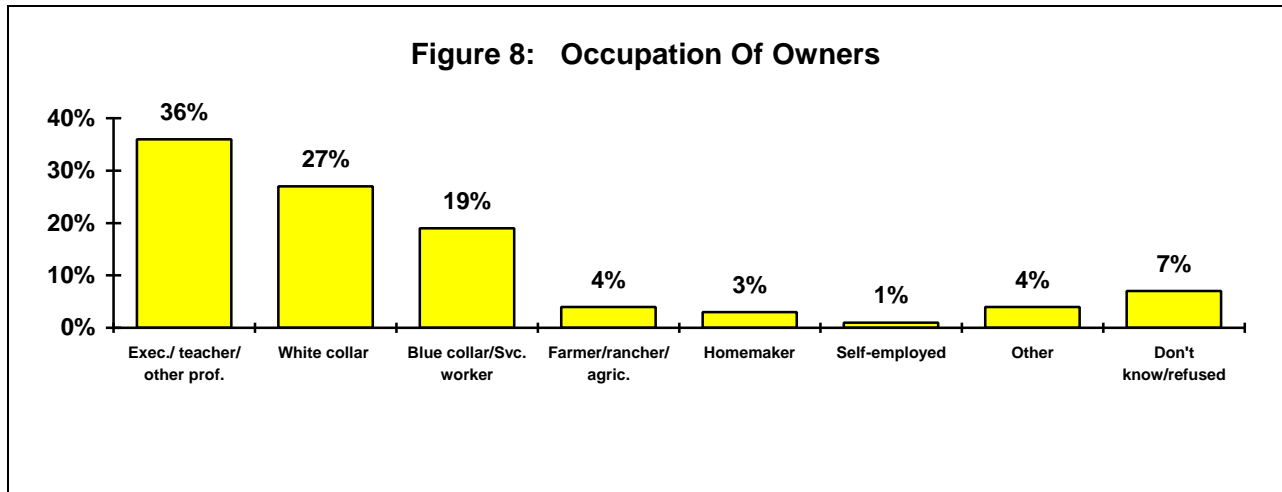
As shown in Figure 7, one quarter of the respondents (24%) have only one income earner in their household (defined as those who work full or part-time). Slightly fewer have two income earners in their household (18%). Most of the rest are retired. These figures have remained stable since the 1995 Survey.

Interestingly, owners of variable annuities are twice as likely as owners of fixed annuities to be in a two income earner household (24% vs. 11%).

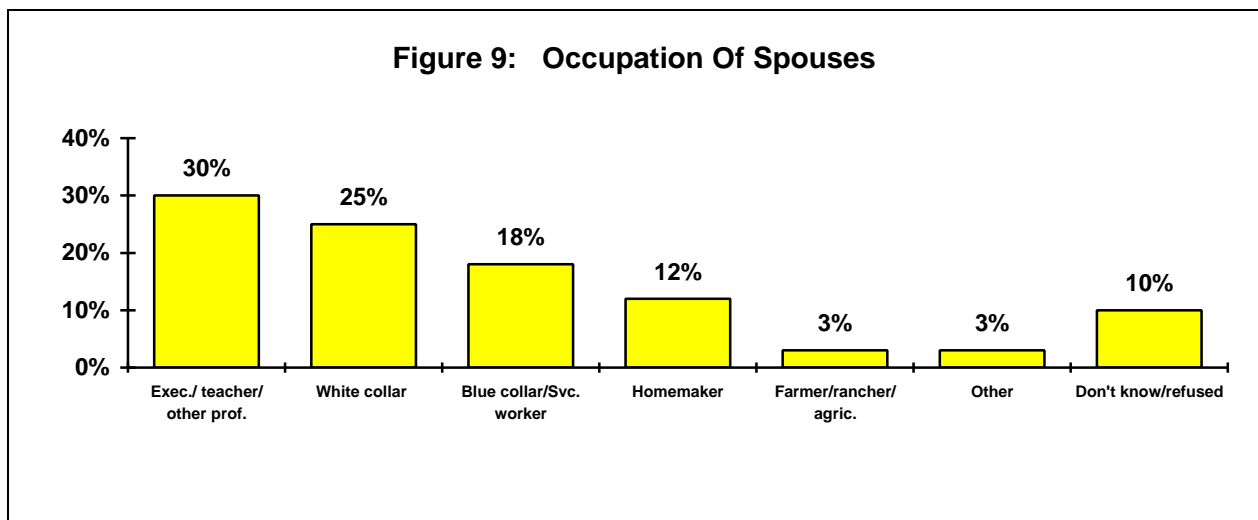


Occupation

In a new question this year, more than one third of owners of non-qualified annuities (36%) identify their occupation (or former occupation, if retired) as being an executive, teacher, or other type of professional. One quarter (27%) are (or were) white collar managers, supervisors, or workers. One fifth report their occupation as blue collar (19%) — supervisor or worker — or as a service worker. Some report that they are (or were) farmers, ranchers, or in other agricultural occupations (4%), homemakers (3%), or self-employed (1%). (See Figure 8.)

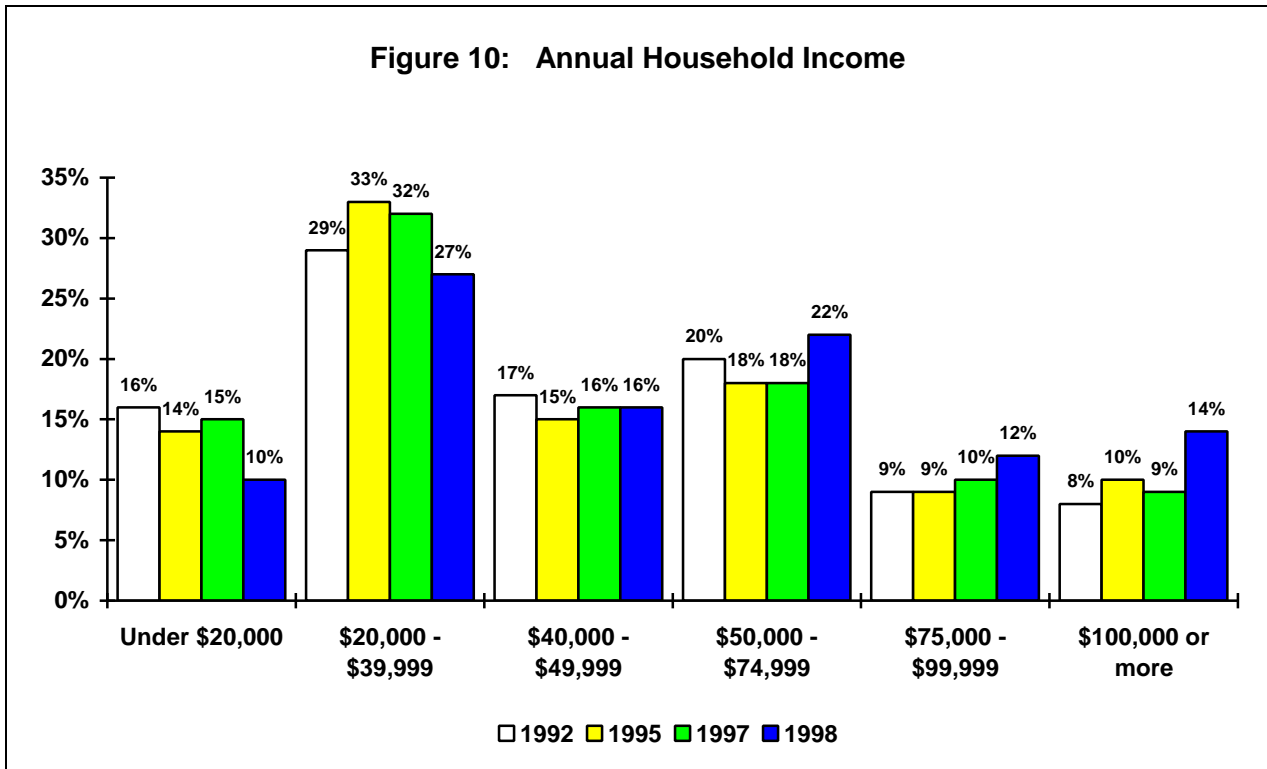


Similarly, three in ten spouses (30%) indicate their occupation (or former occupation, if retired) as being an executive, teacher, or other type of professional. One quarter (25%) are (or were) white collar managers, supervisors, or workers. One fifth report their occupation as blue collar (18%) — supervisor or worker — or as a service worker. One tenth report that they are (or were) homemakers (12%). Some report that they are (or were) farmers, ranchers, or in other agricultural occupations (3%). (See Figure 9.)



Income

Three quarters of owners of non-qualified annuity contracts (75%) have household incomes under \$75,000. More than half (53%) have annual household incomes below \$50,000. More than one third (37%) have annual household incomes below \$40,000 and 10 percent have annual household incomes of less than \$20,000. Just 14 percent have annual household incomes of \$100,000 or more. Figure 10 compares the results of the 1998 Survey with those of previous Surveys.



Family Financial Obligations

One in five owners of non-qualified annuity contracts (21%) currently is helping adult children to pay for higher education or a house. About one in ten has adult children living in their home (13%) and/or has elderly parents that they or their spouse currently are supporting financially or expect to support in the future (8%). As might be expected, most owners of non-qualified annuity contracts who are supporting elderly parents (63%) are under age 64. Just three percent are making alimony or child support payments. (See Figure 11.)

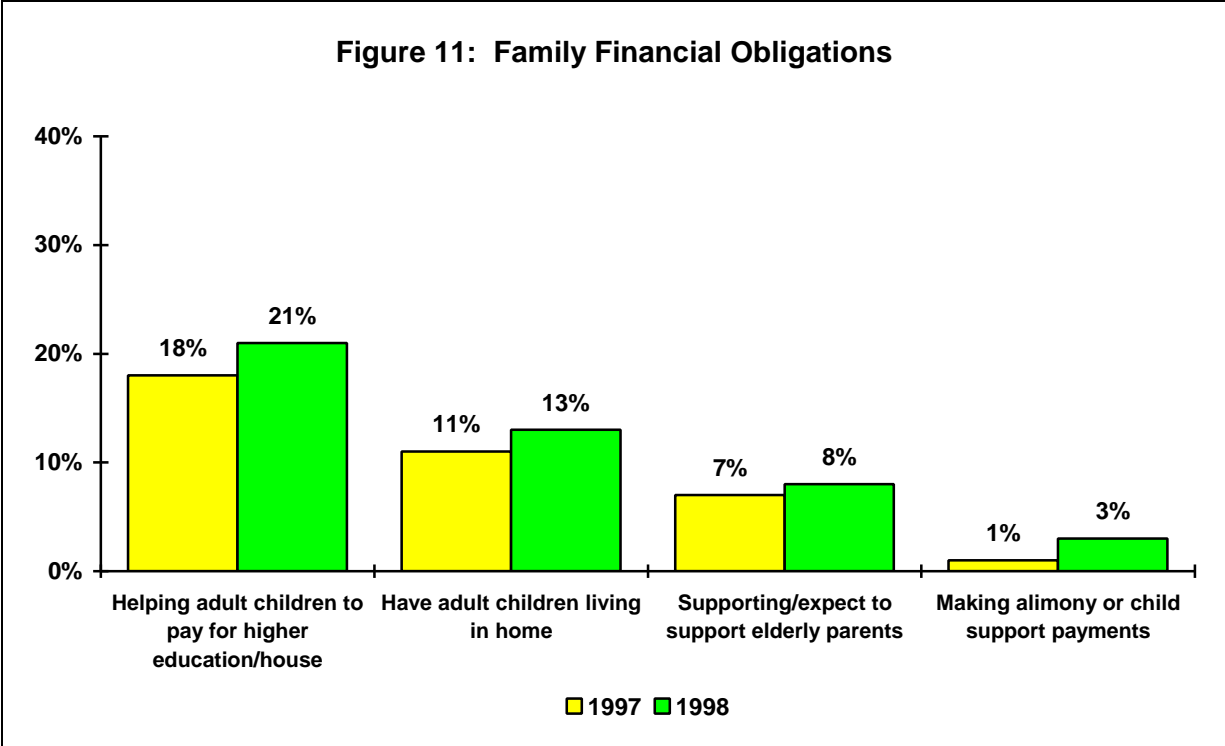
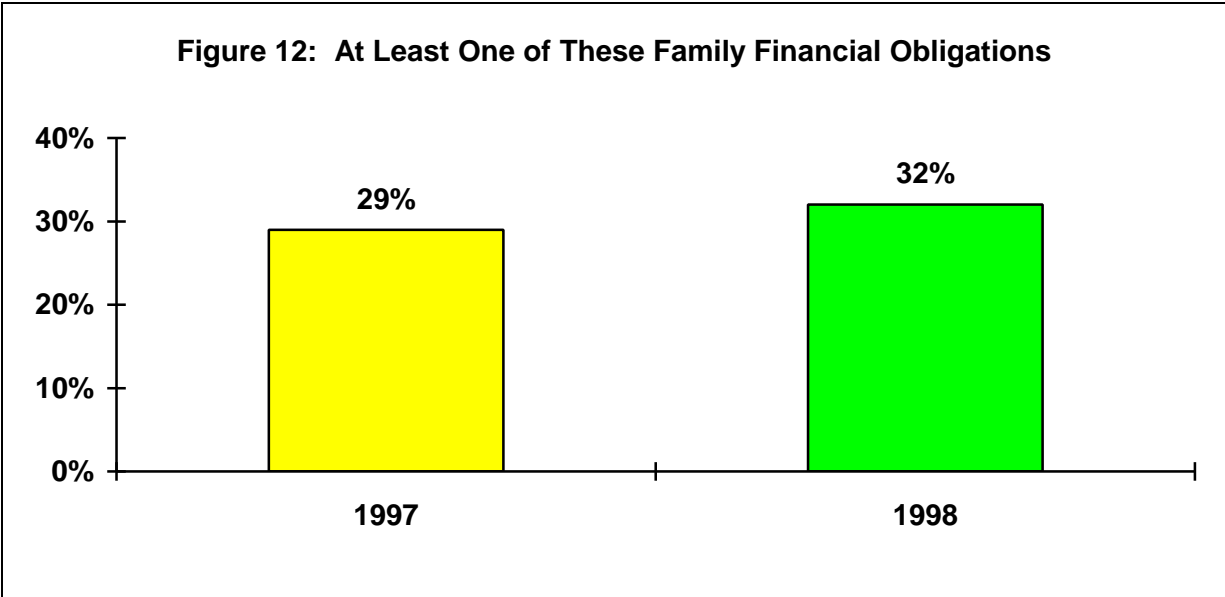


Figure 12 shows that one-third of owners of non-qualified annuity contracts (32%) currently have at least one of these financial family obligations (e.g., helping adult children to pay for higher education or a house, having adult children live in their home, supporting or expecting to support elderly parents, and/or making alimony or child support payments). Owners of variable annuities are slightly more likely than owners of fixed annuities to report they have at least one of these family financial obligations (36% vs. 28%).



Type of Annuity – Fixed or Variable

As shown in Table 1, more than half of the sample (54%) is made up of people who own variable annuities; slightly less (46%) own fixed annuities. The table below shows that the percentage of people who own variable annuities has been increasing since 1995, while the percentage of people who own fixed annuities has been decreasing.

Table 1:
Sample Type

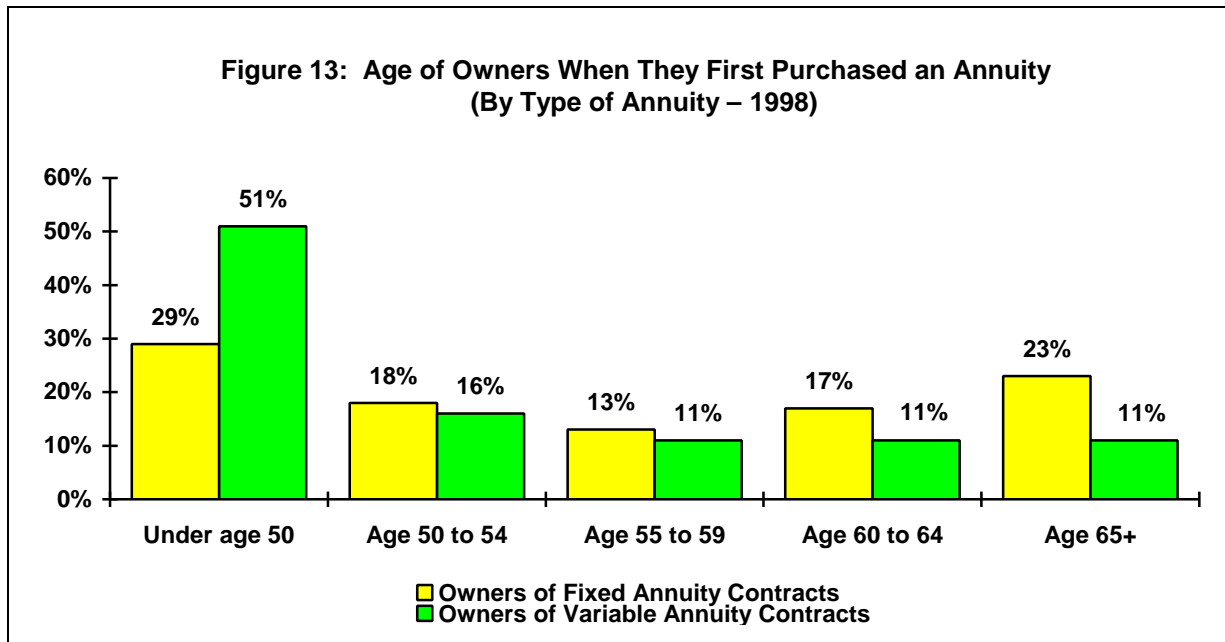
	<u>1992</u>	<u>1995</u>	<u>1997</u>	<u>1998</u>
		(in percent)		
Fixed Annuities	*	67	54	46
Variable Annuities	*	33	46	54

* = not available

Survey Findings

Age When Annuities Purchased

Overall, six in ten owners of non-qualified annuity contracts (58%) purchased their first annuity when they were under 55 years of age. One quarter of the owners (26%) were age 55 to 64, while just 16 percent were age 65 or older. The average age at which owners purchased their first annuity was 51. As shown in Figure 13, many more owners of variable annuity contracts were under age 55 when they bought their first annuities than were owners of fixed contracts (67% vs. 47%).



Almost all respondents (or their spouses) (90%) still own the first annuity that they purchased. Only eight percent say they do not own that annuity and a few (2%) do not know if they still own it (2%).

One quarter of owners of non-qualified annuity contracts (26%) have withdrawn or received money from an annuity that they (or their spouse) still own. Among owners who have withdrawn or received money from an annuity that they still own, the average age at which these owners first withdrew or received money was 64. Of those who have withdrawn or received money from an annuity that they (or their spouse) still own, the age at which they first withdrew or received money was as follows: 40 percent were under age 65, 40 percent were age 65 to 70, and 20 percent were age 71 or older.

Saving For Retirement

More than eight in ten owners of non-qualified annuity contracts (86%) believe that people in the United States do not save enough money for retirement. This proportion is similar to that found in previous Surveys.

A very large majority of owners of non-qualified annuity contracts (79%) believe that the government should give tax incentives to encourage people to save. Of note, younger owners of non-qualified annuity contracts (those under age 72) are more likely than those who are older to believe that the government should give incentives to encourage people to save.

Eighty-four percent of owners of non-qualified annuity contracts report that they have saved more money than they would have if the tax advantages of an annuity contract were not available. Almost nine in ten (88%) report that they try not to withdraw any money from their annuity contract before they retire because they would have to pay tax on the money withdrawn from an annuity contract. Similar to last year, almost 20 percent of owners of non-qualified annuity contracts (18%) currently are receiving regular payouts from their annuity contracts.

Financial Preparedness For Retirement

While most owners of non-qualified annuity contracts are confident that they have done a very good job of preparing financially for retirement, many express concern about their ability to cover the costs of a catastrophic illness or nursing home care and about running out of money during retirement. Interestingly, over the six year period covered by the Surveys, owners have become more confident that they have done a very good job of preparing financially for retirement and less concerned about being able to cover the costs of a catastrophic illness or nursing home care and about running out of money during retirement.

As shown in Table 2, 90 percent of owners of non-qualified annuity contracts believe that the statement “you have done a very good job of preparing financially for retirement” describes them “very” well or “somewhat” well — up six percentage points from 1992, an all-time high. Nevertheless, about half of owners of non-qualified annuity contracts (48%) express concern about being able to cover the costs of a catastrophic illness or nursing home care — a proportion that has steadily decreased since a high of 66 percent in the 1992 Survey. Four in ten owners of non-qualified annuity contracts (43%) are concerned about figuring out how to maintain their current standard of living in retirement and about running out of money during retirement (42%).

Similar to last year, 35 percent feel that their surviving spouse may not have enough money to make ends meet, 32 percent feel that they (or their spouse) are at a high risk of suffering a catastrophic medical condition in old age, and 24 percent feel that they (or their spouse) are at a high risk of needing to be confined to a nursing home in old age.

**Table 2:
Agreement With Various Statements About Preparedness For Retirement**

	Very/Somewhat Well			
	<u>1992</u>	<u>1995</u>	<u>1997</u>	<u>1998</u>
	(in percent)			
They have done a very good job of saving for retirement.	84	86	89	90
They are concerned that a catastrophic illness or nursing home care might bankrupt them during retirement.	66	59	54	48
It will be difficult to figure out how to maintain their current standard of living in retirement.	*	*	*	43
They are concerned that they might run out of money during retirement.	52	53	42	42
Upon the death of the owner, the surviving spouse may not have enough savings to make ends meet.	*	*	38	35
They (or their spouse) are at a high risk of suffering a catastrophic medical condition in old age.	*	*	31	32
They (or their spouse) are at a high risk of needing to be confined to a nursing home in old age.	*	*	24	24

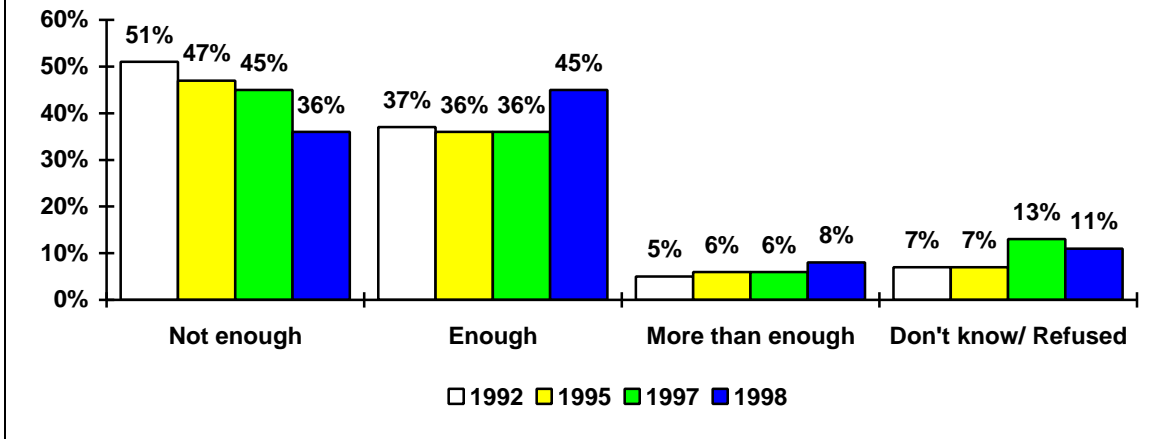
* = not asked

Savings Of Owners Of Non-Qualified Annuity Contracts

Three quarters of owners of non-qualified annuity contracts (or their spouses) (73%) are currently eligible for, or are participating in, a pension plan or are receiving money from a pension plan from their current or former employer. As shown in Figure 14, more than one-third of owners of non-qualified annuity contracts (36%) do not feel that the money they will receive from pensions and other employment-related retirement programs (including Social Security) will be enough to take care of their financial needs in retirement. Note that the percentage of owners who do not believe that money from pension and retirement plans will be enough has been steadily decreasing since the 1992 Survey when it was 51 percent.

Nearly half of owners of non-qualified annuity contracts (45%) believe that this money will be enough — up eight percentage points from 1992; just 8 percent say that it will be more than enough.

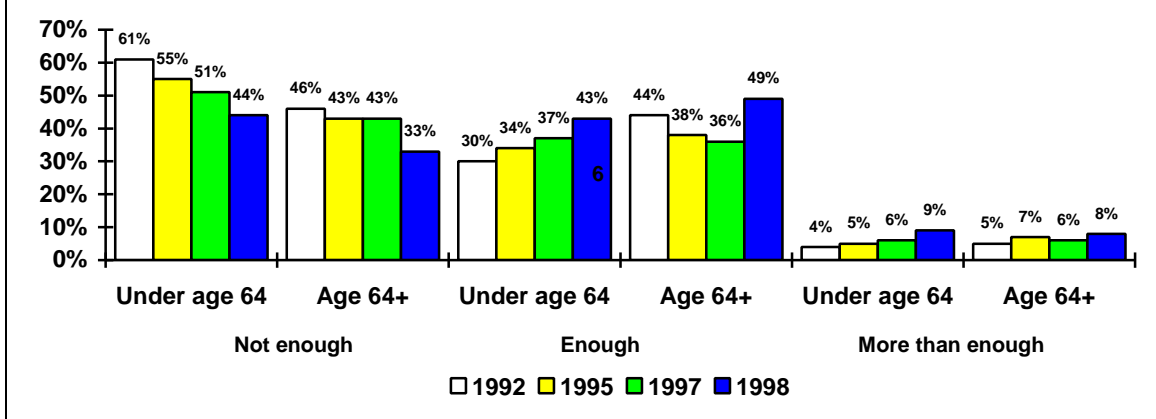
Figure 14: Whether Money From Pension and Retirement Plans Will Cover Retirement Expenses



Owners of non-qualified annuity contracts who are under age 64 appear more concerned that money from pension and retirement plans (including Social Security) will not be enough to take care of all of their financial needs in retirement. Four in ten owners of non-qualified annuity contracts who are under age 64 (44%) do not believe that money from pension and retirement plans will be enough. (See Figure 15.)

The percentage of owners who are under age 64 and feel that money from pension and retirement plans will be enough has increased steadily from the 1992 Survey figure of 30 percent to the current 43 percent. The proportion who are age 64 or older and feel their pension plan income will be enough has increased 13 percentage points just since the 1997 Survey.

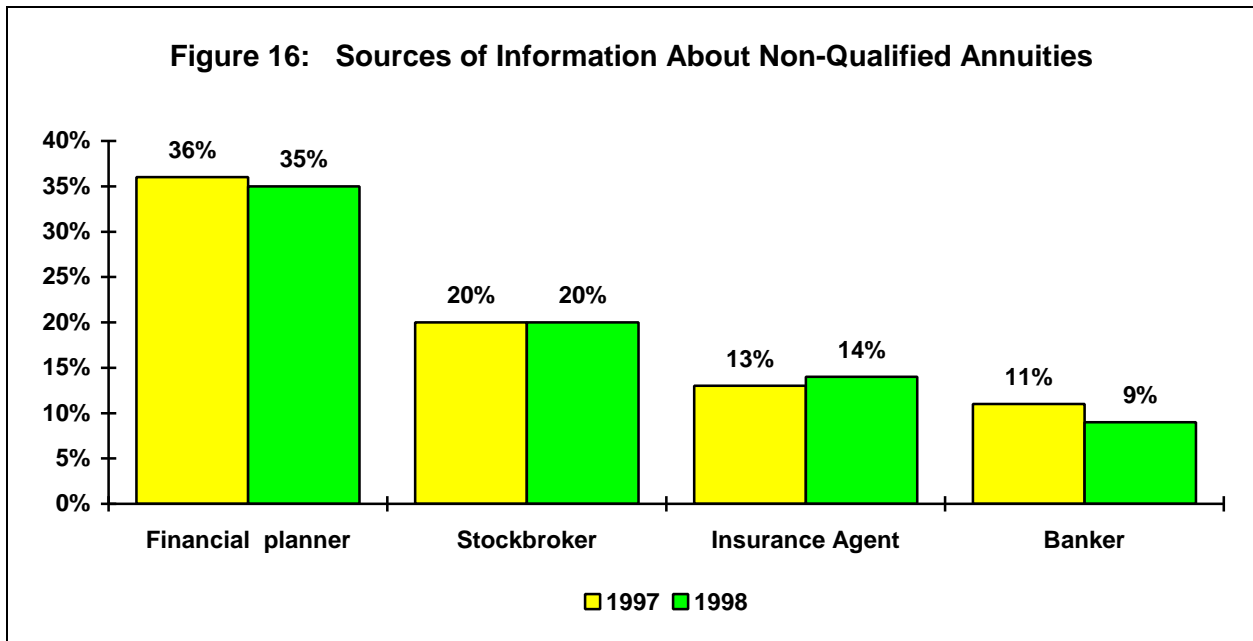
Figure 15: Age and Whether Money From Pension and Retirement Plans Will Cover Retirement Expenses



Approximately four in ten owners of non-qualified annuity contracts (38%) report that the current value of all of the non-qualified annuity contracts that they or their spouse own is between \$25,000 and \$100,000. Fourteen percent of owners of non-qualified annuity contracts say that the value is under \$25,000, while three in ten (29%) say that it is over \$100,000. These percentages are nearly the same as those found in previous Surveys.

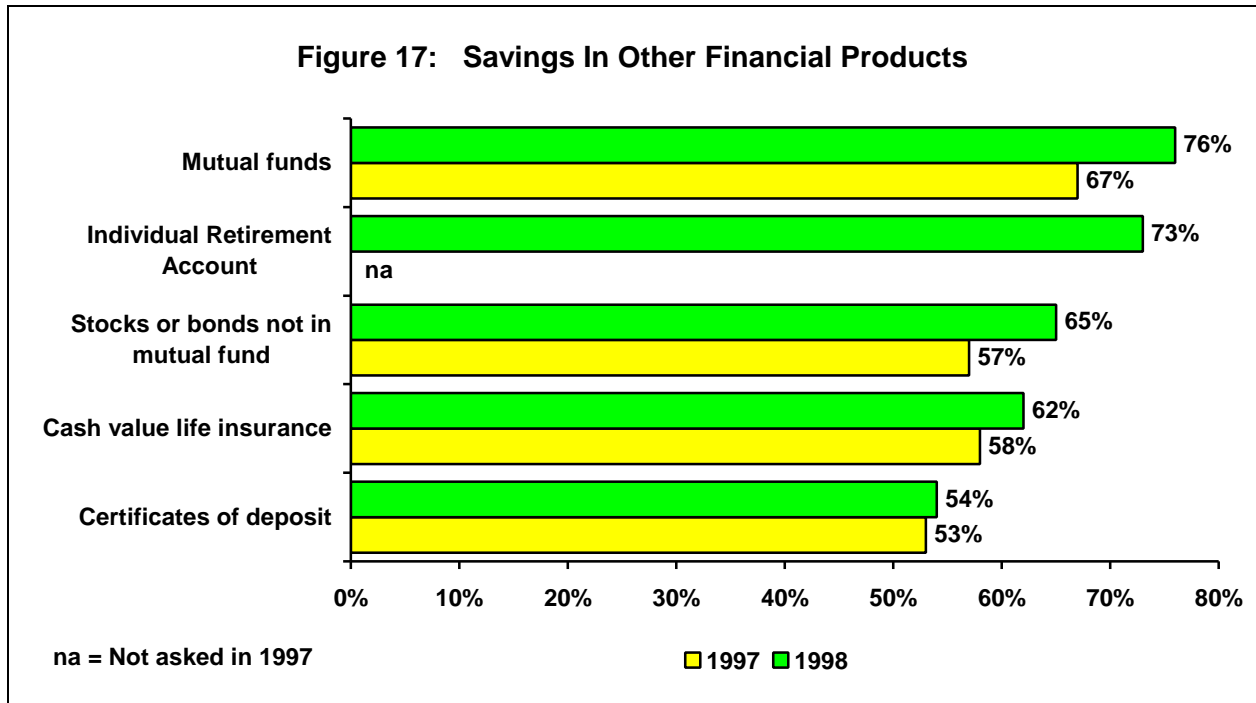
In an open-ended question, owners of non-qualified annuity contracts reported that they talked to a variety of people when making the decision whether to purchase an annuity contract. Most frequently mentioned were financial planners (35%), stockbrokers (20%), insurance agents (14%), and/or bankers (9%). These percentages are similar to last year's Survey. (See Figure 16.)

Owners of variable annuities are more likely to talk to a financial planner (39%) or a stockbroker (25%) than are owners of fixed annuity contracts (29% and 14%, respectively). On the other hand, owners of fixed annuity contracts are more likely to talk to an insurance agent (19%) or a banker (13%) than are owners of variable annuity contracts (10% and 7%, respectively). The older the owner, the less likely it is that the owner spoke with a financial planner. For example, nearly half of those under age 54 (46%) spoke with a financial planner, compared to just 24 percent of those age 72 and older.



Owners of non-qualified annuity contracts also save in a number of other financial products. Three quarters have mutual funds (76%) and individual retirement accounts (73%). Six in ten have stocks or bonds not bought through a mutual fund (65%) and cash value life insurance (62%). Approximately half have certificates of deposit (54%). Not surprisingly, the proportions owning mutual funds and stocks or bonds not bought through a mutual fund have risen since last year (67% and 57%, respectively). (See Figure 17.)

Owners of variable annuities are more likely than owners of fixed annuities to own mutual funds (85% vs. 66%), an individual retirement account (79% vs. 67%), and stocks or bonds not bought through a mutual fund (70% vs. 58%). However, owners of fixed annuities are more likely to own certificates of deposits (62% vs. 48%).

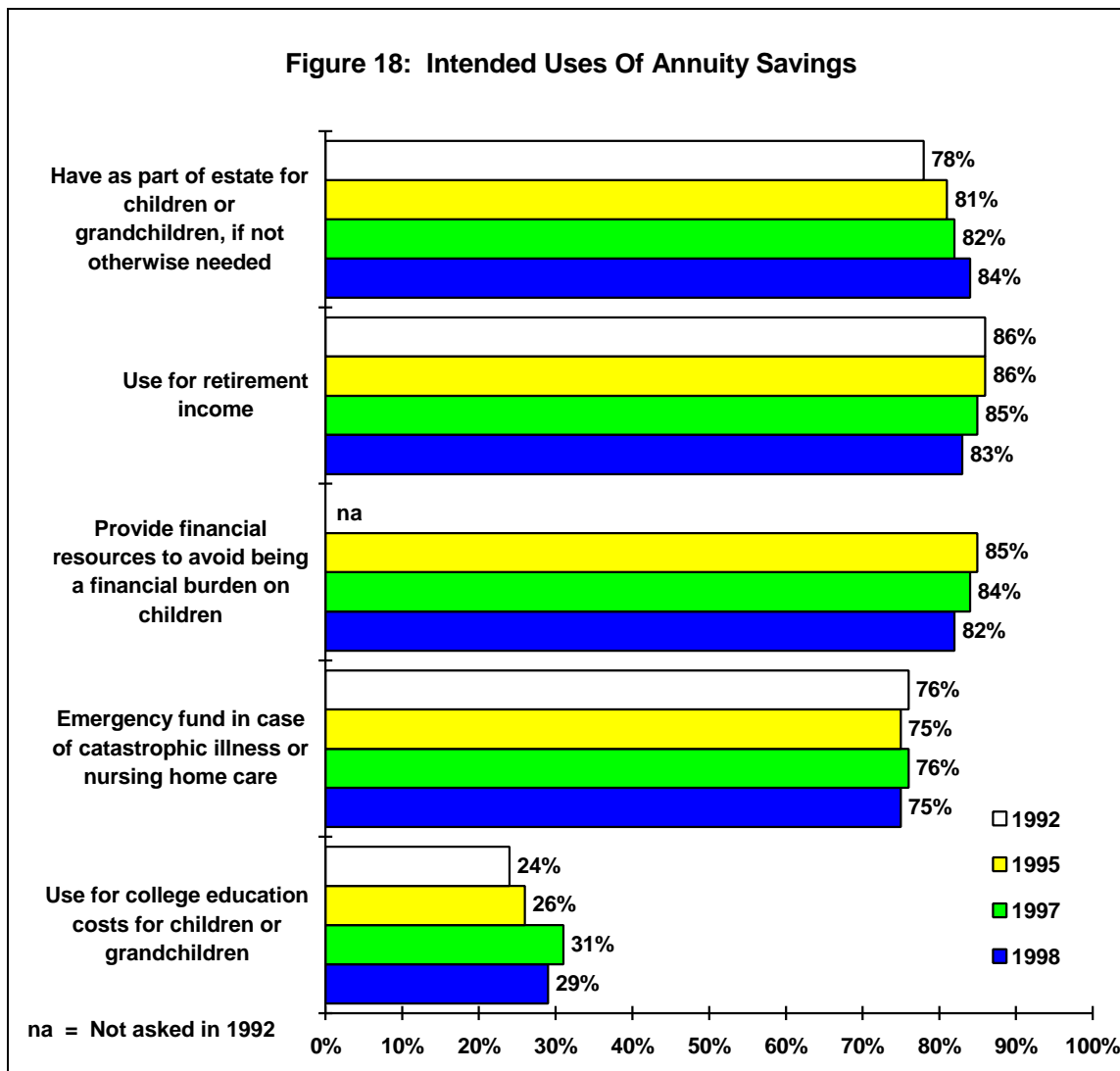


Uses Of Annuity Savings

In an open-ended question, owners of non-qualified annuity contracts were asked to name the primary uses that they intend to make of their annuity savings. Of the many uses given, owners of non-qualified annuity contracts are most likely to say that they intend to use the savings for retirement income (50%), followed by for family needs (12%), and/or to pay for daily living expenses (11%). (Of course, for owners of non-qualified annuity contracts who already are retired, daily living expenses are retirement expenses.)

Owners of non-qualified annuity contracts were asked in a separate question if they intended to use their annuity savings in any of five specific ways. As shown in Figure 18, eight in ten owners of non-qualified annuity contracts stated that they plan to use their annuity savings for the following aspects of retirement: to have as part of an estate to be passed on to children or grandchildren, if not otherwise needed (84%), for retirement income (83%), or to avoid being a financial burden on their children (82%). Another leading use of annuity savings identified is as an emergency fund, in case of a catastrophic illness or the need for nursing home care (75%). These proportions are similar to those found in previous Surveys.

Figure 18: Intended Uses Of Annuity Savings



Older people continue to be concerned about unpredictable events that can have severely adverse financial consequences, such as a catastrophic illness or the need for nursing home care. One of the ways that they deal with these possibilities is saving through non-qualified annuity contracts, which build in value until needed. The fact that a high proportion believe that some of their non-qualified annuity savings may be part of their estates is, no doubt, a reflection of the fact that if the event they fear does not occur, then some of their annuity savings will be left for their heirs.

Reasons For Purchasing Annuities

In an open-ended question regarding their reasons for purchasing their last annuity contract, a plurality of owners of non-qualified annuity contracts (30%) reported that they purchased their annuity contracts to provide retirement income. Just 12 percent reported that tax savings had been their motivation. Nevertheless, the fact that earnings on annuity savings are not taxed until the savings are used is a strong motivation for purchasing a non-qualified annuity. When asked whether any of a list of specific reasons for purchasing an annuity contract were true for them, nine in ten of owners of non-qualified annuity contracts say that the tax treatment of annuity contracts was a “very” or “somewhat” important reason that they purchased a non-qualified annuity (89%).

As shown in Table 3, large numbers also indicate that “very” or “somewhat” important reasons for purchasing an annuity were that it is a safe purchase (89%), that it has a good rate of return (86%), and that they wanted a long-term savings plan (79%).

About seven in ten of owners of non-qualified annuity contracts report the following as “very” or “somewhat” important reasons for purchasing a non-qualified annuity: that it was an easy way to save (74%), they wanted a source of funds for emergencies (72%), and they could get income guaranteed for life (71%). Slightly fewer report as reasons that they have a choice of methods of receiving payments from their annuity savings (67%) and that it provides money in case they or their spouse need to enter a nursing home (66%).

The levels of importance that owners of non-qualified annuity contracts place on the various reasons for buying an annuity contract are very similar to those found in previous Surveys, except for one – the percentage of owners who reported purchasing an annuity to provide money in case they or their spouse needs to enter a nursing home decreased six percentage points from the 1997 Survey (the first year it was asked). Not surprisingly, the percentage of owners who reported purchasing an annuity to provide money in case they or their spouse needs to enter a nursing home increases with age – from 60 percent of those under age 54 to 73 percent of those age 72 or older.

**Table 3:
Importance Of Various Reasons For Buying An Annuity**

	Very/Somewhat Important			
	<u>1992</u>	<u>1995</u>	<u>1997</u>	<u>1998</u>
	(in percent)			
Earnings would not be taxed until the funds were used.	95	92	90	89
Was a safe purchase.	95	92	90	89
Had a good rate of return.	91	89	86	86
Wanted a long-term savings plan.	85	81	78	79
Easy way to save.	78	76	76	74
Wanted a source of funds that could be used to pay for emergencies, such as catastrophic illness during retirement.	71	74	78	72
Could get an income guaranteed for life.	74	76	73	71
Had choices of methods of getting the money.	69	69	71	67
It provides money in case owner or spouse needs to enter a nursing home.	*	*	72	66

* = not asked

Sources Of Funds For Annuities

Owners of non-qualified annuity contracts use more than one source of funds for the purchase of their annuities. Many owners of non-qualified annuity contracts buy annuity contracts with the proceeds from “one-time” events such as an inheritance (20%), the sale of a home, farm, or business (15%), a death benefit from a life insurance policy (15%), a gift from a relative (11%), or a bonus (12%). Overall, about half of owners of non-qualified annuity contracts (49%) say that they have used money from at least one of these one-time events to buy a non-qualified annuity. As shown in Table 4, many owners of non-qualified annuity contracts also indicate that some of their annuity premiums have come from their regular savings (65%), their or their spouse’s current income (53%), and proceeds from an investment (34%).

The sources of funds that owners of non-qualified annuity contracts use to purchase annuities are, for the most part, unchanged over the six year period covered by the Surveys. However, the use of proceeds from an investment is down 10 percentage points from the 1992 Survey.

Age and marital status play a role in determining sources of funds for many owners of non-qualified annuity contracts. Owners of non-qualified annuity contracts who are age 54 and over are more likely to have used money from the sale of a family home, farm, or business. Not surprisingly, those 64 and older are less likely to have used money from current income. Those not married are more likely to have used

money from a death benefit and less likely to say that they have used the proceeds from an investment or a bonus to purchase annuities.

**Table 4:
Sources Of Funds For Owners' Annuities**

	<u>1992</u>	<u>1995</u>	<u>1997</u>	<u>1998</u>
	(in percent)			
Regular savings	62	62	65	65
Their or their spouse's current income	57	51	53	53
Proceeds from an investment	44	35	31	34
An inheritance	20	22	24	20
Sale of family home, farm, or business	16	16	18	15
Death benefit from a life insurance policy	15	14	14	15
A bonus	11	11	12	12
Gift from a relative	11	10	14	11

Attributes Of Annuities

Nearly all owners of non-qualified annuity contracts agree “completely” or “somewhat” that “keeping the tax advantage of annuities is a good way of encouraging long-term savings” (90%), that “annuities are an effective way to save for retirement” (89%), and that “annuities are secure and safe” (87%). (See Table 5.)

Very large proportions of owners of non-qualified annuity contracts agree “completely” or “somewhat” that annuities “are a good way to ensure your [surviving] spouse has a continuing income” (85%), “are a good source of emergency funds in old age” (85%), “are an effective way of assuring money is available to pay for a catastrophic illness or nursing home care” (84%), “have attractive tax treatment” (82%), “offer a good return” (81%), “will prevent them from being a financial burden on their children in their later years” (80%), and “are an important source of retirement security” (80%).

Table 5:
Agreement With Various Statements About Attributes Of Annuities

	Agree Completely/Somewhat			
	<u>1992</u>	<u>1995</u>	<u>1997</u>	<u>1998</u>
	(in percent)			
Keeping the tax advantage of annuities is a good way of encouraging long-term savings.	96	92	93	90
Annuities are an effective way to save for retirement.	95	93	93	89
Annuities are secure and safe.	85	87	90	87
Annuities are a good way to ensure their surviving spouse has a continuing income.	*	*	90	85
Annuities are a good source of emergency funds in old age.	89	87	85	85
Annuities are an effective way of assuring money is available to pay for a catastrophic illness or nursing home care.	*	*	86	84
Annuities have attractive tax treatment.	92	84	88	82
Annuities offer a good return.	90	87	85	81
Annuities will prevent them from becoming a financial burden on their children in their later years.	80	80	83	80
Annuities are an important source of retirement security.	87	84	81	80

* = not asked