2009 Survey of Owners of Non-Qualified Annuity Contracts

Conducted by

The Gallup Organization

and

Mathew Greenwald & Associates

for

The Committee of Annuity Insurers

2009 Survey of Owners of Non-Qualified Annuity Contracts

Conducted by

The Gallup Organization

and

Mathew Greenwald & Associates

for

The Committee of Annuity Insurers

The Gallup Organization
World Headquarters
47 Hulfish Street
Princeton, NJ 08542

Mathew Greenwald & Associates, Inc.
4201 Connecticut Avenue, NW
Suite 620
Washington, DC 20008

The Committee of Annuity Insurers
The Willard Office Building
1455 Pennsylvania Avenue, NW
Suite 1200
Washington, DC 20004
www.annuity-insurers.org

This report may be cited as
"The Committee of Annuity Insurers, Survey of Owners of Non-Qualified Annuity Contracts
(The Gallup Organization and Mathew Greenwald & Associates, 2009)."

Questions regarding this report may be directed to the Committee of Annuity Insurers
through its website, www.annuity-insurers.org.

Table of Contents

Introduction

Between March and April 2009, The Gallup Organization ("Gallup") surveyed 1,003 owners of non-qualified annuity contracts on behalf of the Committee of Annuity Insurers (the "Committee"), a diverse group of life insurance companies that issue annuity contracts and that represent more than two-thirds of the annuity business in the United States. The results of the Survey of Owners of Non-Qualified Annuity Contracts (the "2009 Survey") are presented in this report. Mathew Greenwald & Associates, Inc. ("Greenwald & Associates") consulted with the Committee of Annuity Insurers on the 2009 Survey, including the analysis of results presented in this report.

Gallup, Greenwald & Associates, and the Committee have conducted the Survey in nine previous years:

- February 1992,
- October 1993,
- December 1994,
- December 1995,
- February 1997,
- April 1998,
- July 1999,
- November 2000, and
- January 2005.

Where appropriate, this report compares the findings from prior Surveys to the findings of the 2009 Survey. All of the prior Surveys are available on the Committee of Annuity Insurers' website (www.annuity-insurers.org).

The principal purpose of the Survey is to obtain a profile of the demographic characteristics of owners of non-qualified annuity contracts and to gain insight into their attitudes toward a variety of issues relating to retirement savings and security, including how they save for retirement, what they think about saving for retirement generally, what sources of funds they used to purchase their annuity contracts, the reasons why they bought them, and how they plan to use them.

To ensure that only owners of non-qualified annuity contracts (i.e., annuity contracts purchased with after-tax dollars apart from any qualified retirement plan or IRA) were interviewed in the 2009 Survey, 24 life insurance companies that are members (or affiliates of members) of the Committee provided the names of individuals who currently own such contracts. 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 24 companies are geographically diverse, represent a mix of large and small companies, and account for more than five million non-qualified annuity contracts currently in force. They also utilize a mix of the main distribution channels for marketing and selling non-qualified annuity products.

Gallup selected the individuals who were interviewed at random from the samples provided by the 24 companies. Gallup and Greenwald & Associates are confident that, based on the sampling procedures used and other research that Gallup has conducted in this area, the results of the 2009 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.

2009 Key Findings

There is a great deal of stability in the demographics and attitudes of non-qualified annuity owners. Their demographic characteristics, sources of funds for purchasing annuities, reasons for purchasing annuities, and opinions on saving for retirement are similar to those of previous Surveys. Some of the few changes, when compared to the 2005 Survey, include an increase in the proportion of owners who hold variable (as opposed to fixed) annuities, an increase in the average age of annuity owners (and a corresponding increase in the proportion of owners who are retired), and an increase in concern among owners regarding the potential need to cut back on their standard of living in retirement. In addition, the 2009 Survey reveals that current workers and retirees have significantly different expectations regarding their sources of income in retirement.

Demographic Profile

- *Age at First Purchase.* Most annuity owners (79%) purchased their first annuity before age 65. The average age at which owners purchased their first annuity was 52. The proportion of owners who purchased their annuity prior to age 50 has decreased from 43% in 2005 to 37% in 2009.

- *Retention of First Annuity.* Almost all non-qualified annuity owners (93%) still own the first annuity they purchased.

- *Current Age.* The average age of non-qualified annuity owners is 70, which marks an increase from 2005, when the average age was 66.

- *Gender.* Non-qualified annuity owners are more likely to be female than male (58% vs. 42%).

- *Employment Status.* Seven in ten non-qualified annuity owners are retired (69%), up from 58% in 2005. The proportion of owners who are currently employed (either full- or part-time) has decreased from 35% in 2005 to 23% in 2009.

- *Household Income.* Non-qualified annuity owners have moderate incomes. Eight out of 10 have annual household incomes below $100,000, and only 4% have annual household incomes greater than $200,000. Almost half (42%) have annual household incomes below $50,000. Their average annual household income is just over $75,000.

Characteristics of Annuities

- *Product Type.* Variable annuities are more widely held than fixed annuities (56% vs. 44%). This marks a reversal of the trend seen in recent years, where the proportion of fixed annuity owners had increased from 35% in 2001 to 51% in 2005.

- *Guaranteed Lifetime Withdrawal Benefit.* Nearly nine in ten owners of variable annuities (85%) state that a guaranteed lifetime withdrawal benefit is a valuable product feature, including 47% who say it is a very valuable feature. Among owners who report that they have a variable annuity with this feature, 86% say the feature was an important factor in their decision to purchase an annuity, and 23% say they have begun taking withdrawals pursuant to the benefit.

Attitudes Towards Annuities

- *Reasons for Purchase.* In addition to the tax treatment of non-qualified annuities, owners cite a number of reasons as being important in their decision to purchase their contract, the most common of which is that "it was a safe purchase" (89%).

- *Guarantees.* Over four-fifths of owners (85%) agree that investment and insurance guarantees are very important benefits of non-qualified annuities.

- *Persistency of Positive Attitudes.* Despite the financial turmoil and market volatility of recent times, owners' beliefs that annuities are an effective way to save for retirement (86%), are safe and secure (79%), and offer a good return (76%) has remained quite high.

Uses of Annuity Savings

- *Retirement.* Clearly, annuity owners intend to use their annuities during retirement. The most frequent intended use is as financial protection in case long life puts pressure on their finances. Eight in ten non-qualified annuity owners say that they will use their annuity savings as a financial cushion in case they or their spouse live well beyond their life expectancy (83%) or to avoid being a financial burden on their children (81%). Retirement income remains a key use that owners intend to make of their non-qualified annuities. Three-quarters of owners (76%) say that they intend to use their annuities for this purpose.

- *Other Uses.* Just under three-quarters of owners purchased an annuity to cover the potential expense of unpredictable events such as a catastrophic illness or the need for nursing home care (73%).

Taxation

- *Tax Deferral as Incentive to Save.* Just under nine in ten non-qualified annuity owners agree that keeping the current tax treatment of annuities is a good way to encourage long-term savings (88%).

- *Treatment of Distributions as Incentive to Save.* Over nine in ten owners (91%) report that they try not to withdraw any money from their annuities before they retire because they would have to pay tax on the money that is withdrawn.

Financial Preparedness for Retirement

- *General Optimism on Retirement Preparedness.* Most non-qualified annuity owners believe that they have done a very good job of saving for retirement (91%, which is an increase of four percentage points from the 2005 Survey).

- *Concern about Having to Cut Standard of Living.* The proportion of annuity owners who believe they have enough or more than enough money to cover their financial needs in retirement has not changed since 2005 (55% in both 2009 and 2005). More owners are now concerned, however, that they will have to cut back on their standard of living as they get older (55% in 2009 vs. 40% in 2005). In other words, annuity owners still generally think that they will have enough savings to "get by" in retirement, but more have begun to think that "getting by" will require them to reduce their standard of living.

Sources of Retirement Income

- *Expectations Differ by Employment Status.* Retired annuity owners are more likely than working annuity owners to cite Social Security (58% vs. 39%) and money their employers put into a retirement plan for them (48% vs. 40%) as major sources of income in retirement. In contrast, working owners are more likely than retired owners to consider money they put into a retirement plan at work (38% vs. 25%) or other personal savings (37% vs. 26%) as major sources of retirement income.

Profile of Non-Qualified Annuity Owners

A Snapshot of the Typical Non-Qualified Annuity Owner

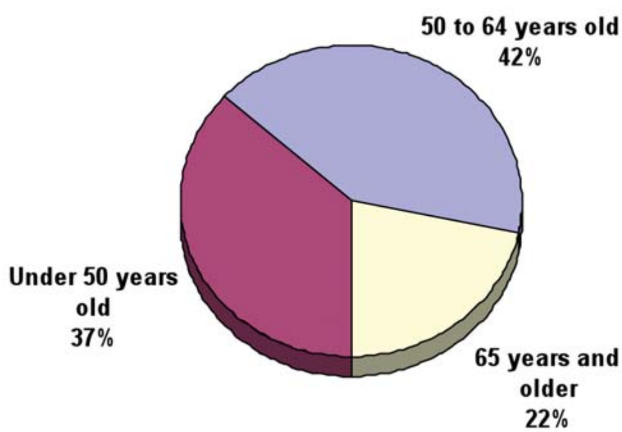
The typical owner of a non-qualified annuity is an older, retired woman. She has at least some college education and a moderate annual family income between $50,000 and $75,000. She recently celebrated her 72nd birthday, and she still owns the same annuity contract that she purchased 20 year ago. She bought that contract and continues to hold it because she thinks it is safe and secure, offers a good return, and is an effective way to save for retirement. She also thinks that the investment and insurance guarantees in her contract are very important benefits, expects her contract to be a good source of emergency funds in old age, and feels more secure in times of financial uncertainty as a result of owning her contract. The details of the 2009 Survey's findings regarding the demographic attributes of non-qualified annuity owners are set forth below.

Age and Gender of Non-Qualified Annuity Owners

Average Age at First Annuity Purchase

The average age at which non-qualified annuity owners purchased their first annuity is 52. Over one-third (37%) made their first purchase when they were younger than 50. A slightly larger share (42%) purchased their first annuity between the ages of 50 and 64. Just over one-fifth (22%) purchased their first annuity at the age of 65 or older. (See Figure 1)

Figure 1: Age at which First Annuity was Purchased



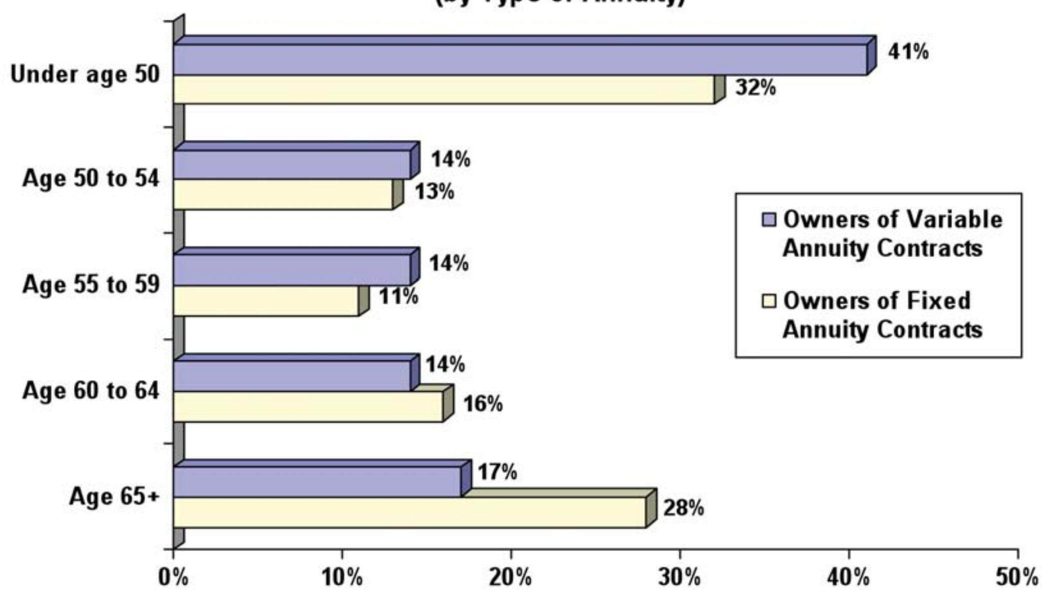
Comparing the 2005 and 2009 Surveys, annuity owners are now purchasing their annuities at a later age. The average age at which an annuity was first purchased rose from 50 to 52, while the proportion of those purchasing their first annuity prior to age 50 dropped from 43% to 37%.

Retention of First Annuity Purchased. Nearly all respondents (or their spouses) still own the first annuity that they purchased (93%), which indicates that only a relatively small proportion of owners have surrendered their annuities or exchanged them for new ones. In this regard, only 6% of non-qualified annuity owners say that they do not still own their first annuity.

Education. Education factors into when annuity owners purchase their first annuity. Over two-fifths of owners who graduated college (44%) purchased their first annuity when they were under the age of 50. However, only three in ten owners who did not graduate from college (31%) purchased their first annuity prior to age 50.

Product Type. Older individuals are more likely to choose fixed annuities (as opposed to variable annuities) when they first purchase their contracts, perhaps reflecting more conservatism in their investment risk profiles. In particular, the average age of a first-time purchaser of a fixed annuity is 54, while the average age of a first-time purchaser of a variable annuity is 51. As shown in Figure 2, one-third of fixed annuity owners (32%) were under age 50 when they purchased their first contracts, while two-fifths of variable annuity owners (41%) were under age 50. Likewise, fixed annuity owners were more likely than variable annuity owners to purchase their first annuity at age 65 or older (28% and 17%, respectively).

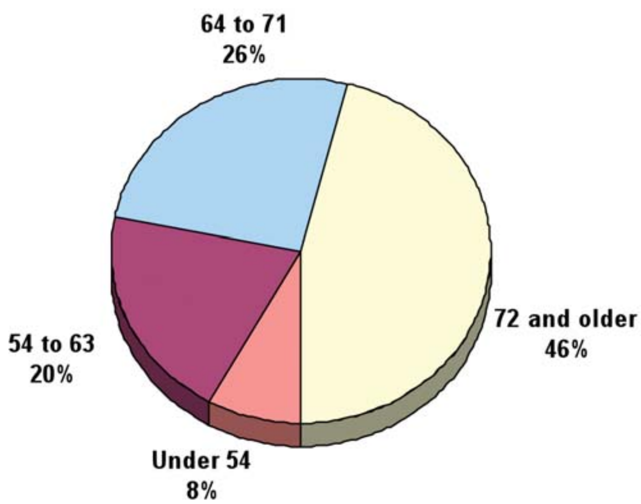
Figure 2: Age at which First Annuity was Purchased (by Type of Annuity)



Average Current Age of Owners

The average current age (as opposed to the average age at first purchase) of non-qualified annuity owners is 70. Over seven in ten annuity owners are age 64 or older (72%), including nearly half who are age 72 or older (46%). (See Figure 3) One-fifth are between the ages of 54 and 63 (20%). Only 8% are under age 54, which represents the lowest proportion of this age group in the Survey's history. The average age of non-qualified annuity owners had remained relatively constant over the years, ranging from 63 to 66 years of age for the nine previous years in which the Survey has been conducted. This year's results suggest an aging trend among those who own annuities. The difference between the average age at the time of first purchase (52) and the average current age of owners (70) also shows that owners tend to keep their contracts for many years.

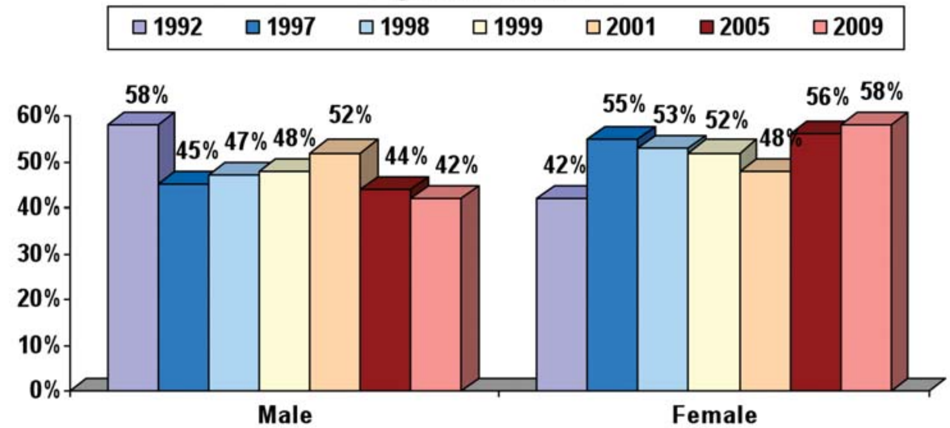
Figure 3: Current Age



Gender of Owners

Non-qualified annuity owners are more likely to be female (58%) than male (42%), which is consistent with the 2005 Survey. The difference between male and female ownership has varied somewhat over the years the Survey has been conducted. However, with the exception of the 2001 Survey, female owners have outnumbered male owners in every Survey dating back to 1997. (See Figure 4)

Figure 4: Gender

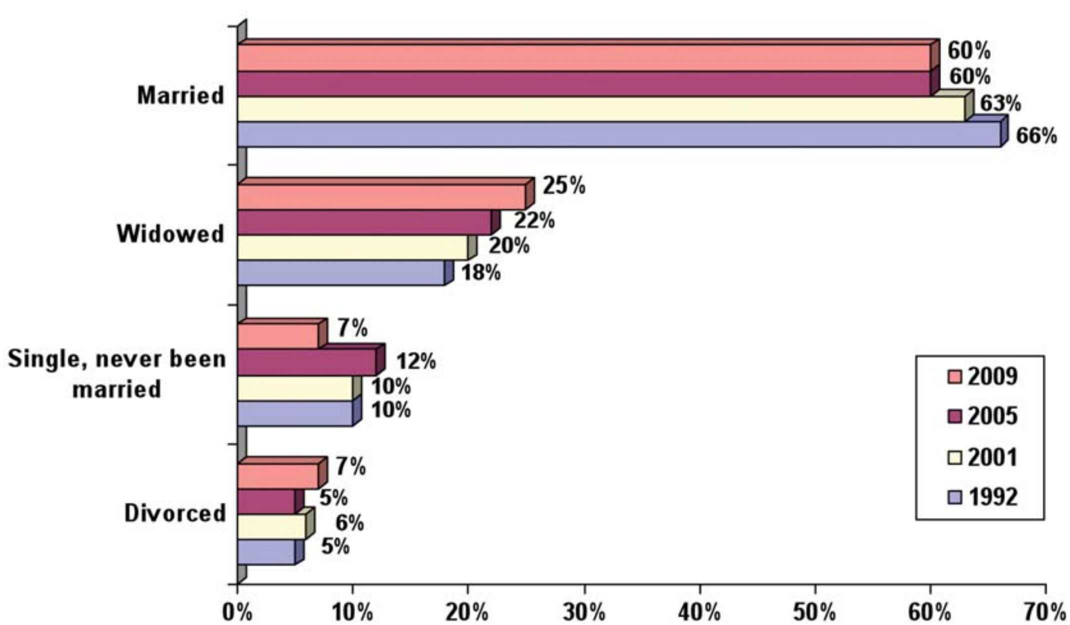


Marital Status and Education of Non-Qualified Annuity Owners

Marital Status

The majority of non-qualified annuity owners are married (60%). One-quarter of owners are widowed (25%), while less than one in ten are divorced (7%) or have never been married (7%). These proportions are similar to those of prior Survey years. (See Figure 5)

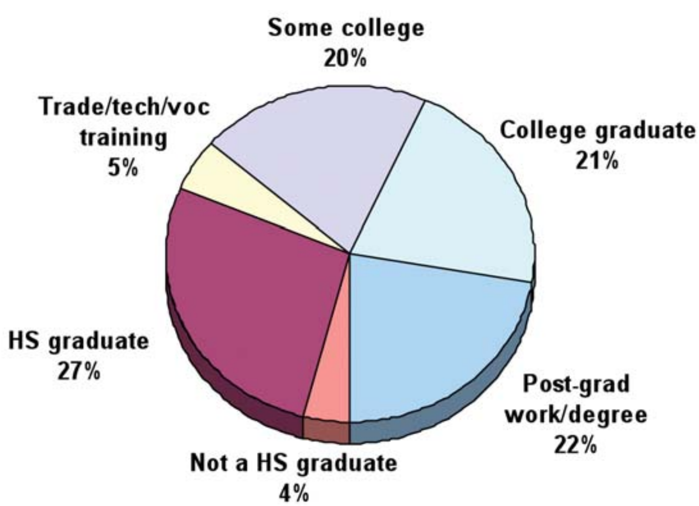
Figure 5: Marital Status



Education

The diverse educational backgrounds of non-qualified annuity owners show that they represent a cross section of American society. Over four in ten (43%) have graduated college, including 22% who have done postgraduate work or earned a graduate degree. One-quarter (25%) attended some college without earning a college degree or attended a trade or vocational school following high school. Just under one-third (31%) have no education beyond high school, including 4% who are not high school graduates. (See Figure 6)

Figure 6: Level of Education



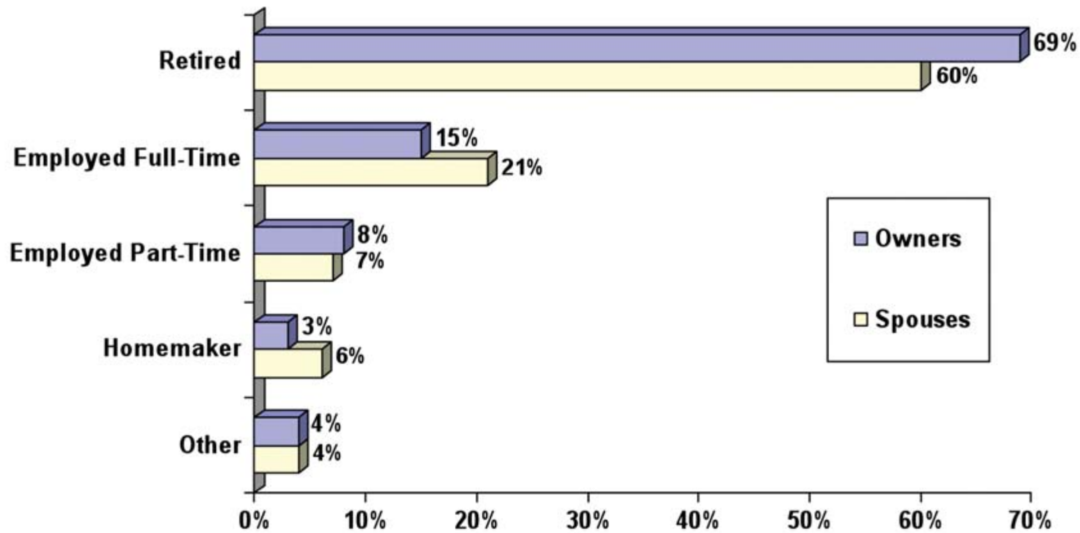
Employment and Income

Employment Status

Employment Status of Owners. The majority of owners (69%) are retired. Just under one-quarter (23%) are employed, including 15% who are employed full-time. (See Figure 7) The proportion of annuity owners who are retired is the largest in the history of the Survey. Previously, the largest proportion of retired owners had been 59% (in 1995 and 1997).

Employment Status of Spouses. The majority of annuity owners' spouses are retired (60%). Over one-quarter are employed (28%), including 21% who are employed full-time. (See Figure 7)

Figure 7: Employment Status of Owners and Spouses



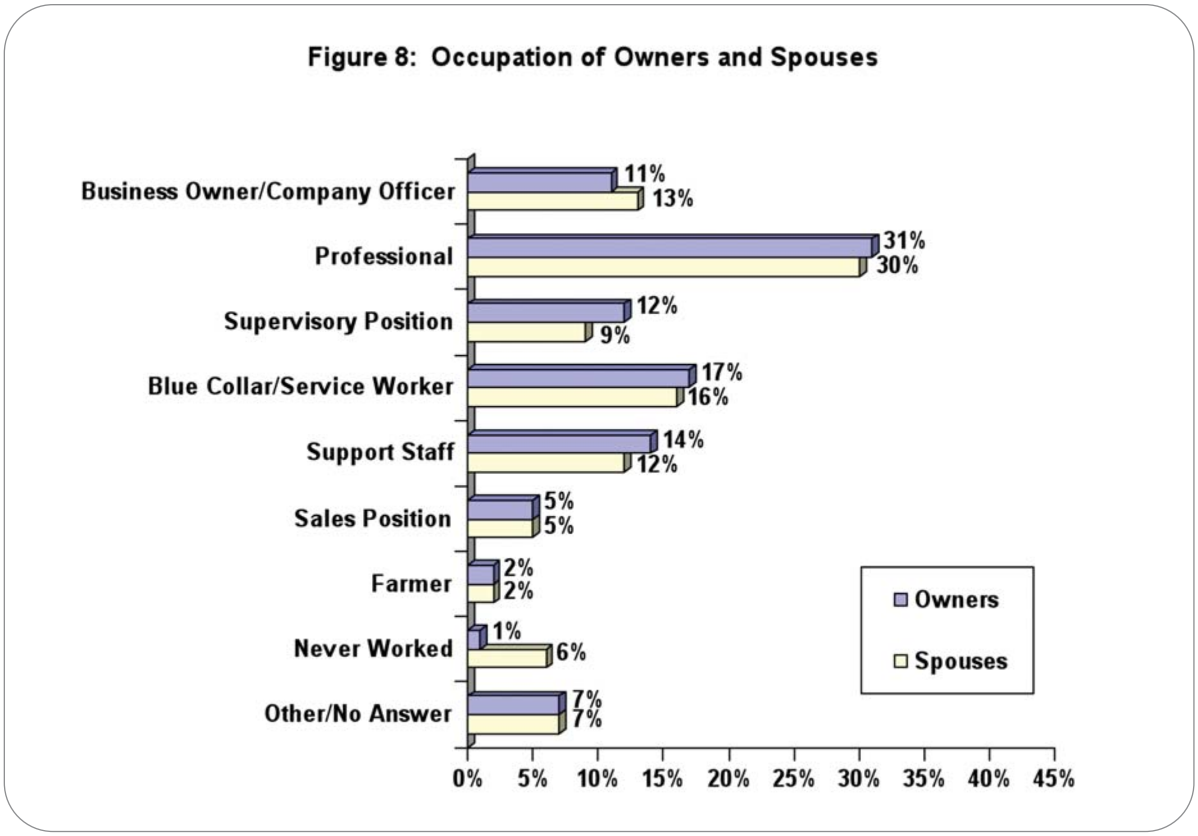
Occupation

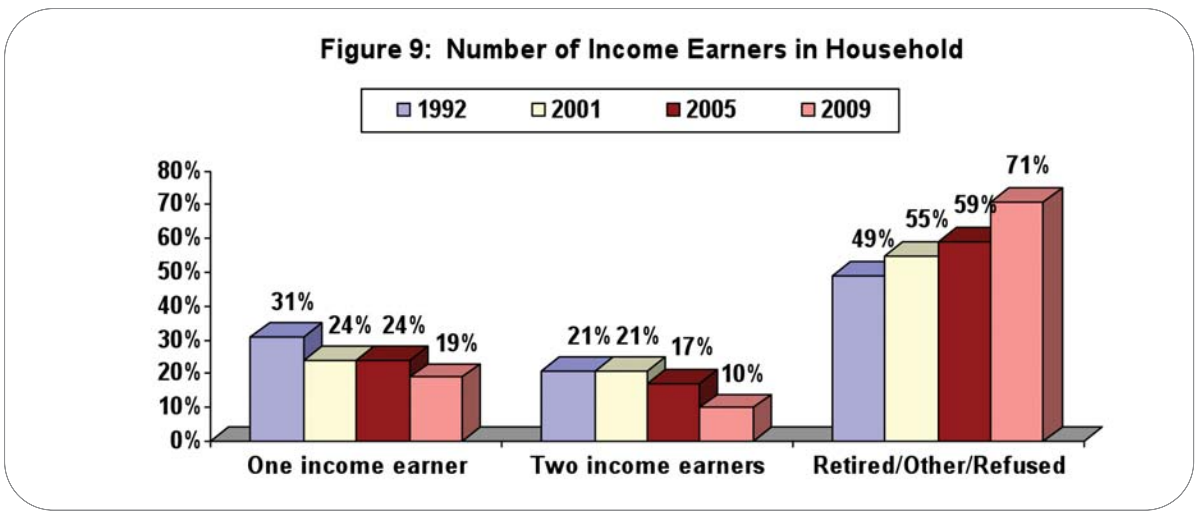
Occupation of Owners. Over three in ten non-qualified annuity owners (31%) identify their occupation (or former occupation, if retired) as being professionals, such as doctors, lawyers, or teachers. Almost one in five are/were blue-collar workers or service workers, such as cashiers or members of cleaning crews (17%). Almost as many work/worked as support staff, such as secretaries (14%); hold/held a supervisory position, such as factory foremen or office managers (12%); or are/were business owners or company officers (11%). (See Figure 8)

Occupation of Spouses. When asked to identify their spouses' occupation, four in ten non-qualified annuity owners (43%) described them as business owners, company officers, or other types of professionals. More than one in ten (16%) say their spouses are/were blue-collar workers or service workers, while approximately one-tenth reports that their spouses are/were support staff (12%) or supervisors (9%). (See Figure 8)

Income

Number of Household Income Earners. In line with the increased incidence of retirement, the average number of people earning money through work in the households of annuity owners is declining. Only one in ten households now have two income earners (10%), down from 17% in 2005. One in five households have one income earner (19%), down from 24% in 2005. Seven in ten households of annuity owners have no income earners (71%), an increase from 59% in 2005. (See Figure 9)





Annual Household Income. Non-qualified annuity owners have moderate incomes. Eight out of 10 (80%) have annual household incomes below $100,000. Nearly two in three (64%) have annual household incomes under $75,000. Almost half (42%) have annual household incomes below $50,000, including one-quarter (27%) who have household incomes below $40,000. Fewer than one in five (16%) non-qualified annuity owners have annual household incomes between $75,000 and $99,999; an equal share (16%) have annual household incomes between $100,000 and $199,999.

Only two out of 50 (4%) have annual household incomes of $200,000 or more. (See Figure 10) Their average annual household income is just over $75,000.

Consistency of Annual Income Findings. Since these Surveys began in 1992, they have consistently found that non-qualified annuity owners are predominantly middle class, with a majority of the owners in every year having total annual household income between $20,000 and $74,999. (See Figure 11) The average annual household income of non-qualified annuity owners in real dollars (adjusted to 2008 using annual inflation rates) is lower now than in any prior Survey.

Figure 10: Annual Household Income

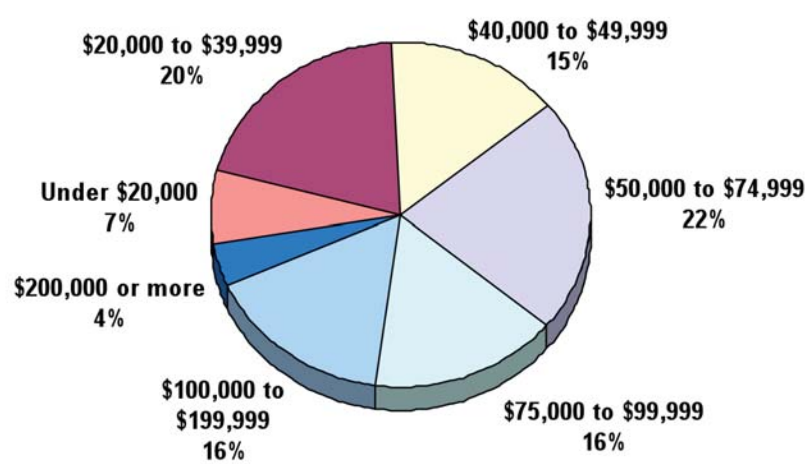
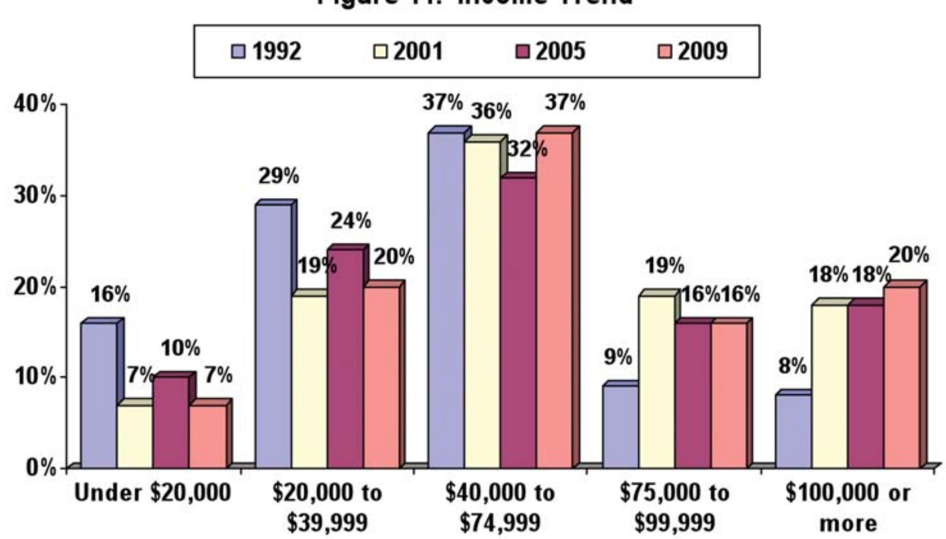


Figure 11: Income Trend



Characteristics of Non-Qualified Annuities

Type of Annuity

Fixed or Variable

Variable annuities are more widely held by annuity owners than fixed annuities (56% and 44%, respectively). The proportion of variable annuity owners generally has increased over time; in 1995, only one-third of annuity owners (33%) held variable annuities. (See Table 1)

Table 1:
Annuity Type (percent by year)

	1995	1997	1998	1999	2001	2005	2009
Fixed Annuities	67	54	46	49	35	51	44
Variable Annuities	33	46	54	51	65	49	56

Household Income. Annuity owners with lower household incomes are more likely to own fixed annuities. Half of those with incomes below $75,000 (50%) own a fixed annuity, compared to 36% of those with incomes of $75,000 or higher.

Gender. Females are more likely than males to own fixed annuities (48% vs. 39%). This is consistent with the past four Surveys (2005: females 54% vs. males 47%; 2001: females 40% vs. males 30%; 1999: females 55% vs. males 43%; 1998: females 49% vs. males 41%).

Age. Owners under the age of 64 are more likely to own variable annuities than those age 64 or older (66% vs. 51%). This is consistent with recent Surveys (2005: under age 64 = 56% vs. over age 63 = 46%; 2001: under age 64 = 80% vs. over age 63 = 55%.)

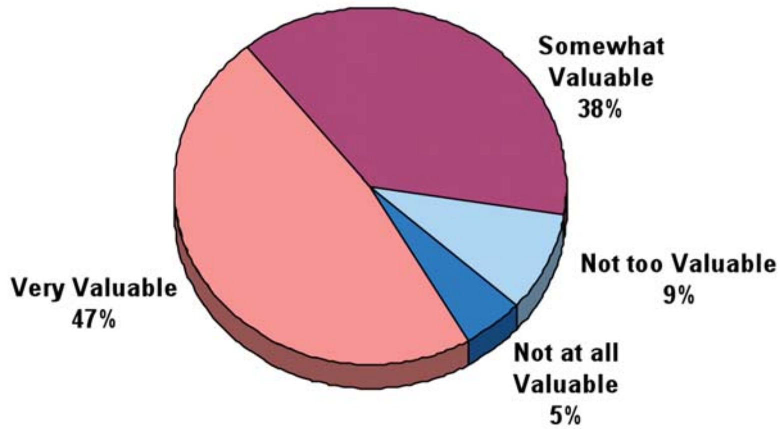
Variable Annuities and the Guaranteed Lifetime Withdrawal Benefit

In order to ensure that variable annuity owners had an understanding of guaranteed lifetime withdrawal benefits, they were read the following description:

Some variable annuities provide protection against a decline in the value of the money that is invested in the stock market. For example, some annuities have a "guaranteed withdrawal benefit," which guarantees that you will be able to withdraw a certain amount from your annuity each year for the rest of your life, irrespective of your actual account balance. You are not required to take any of these guaranteed withdrawals, but once you do, you can stop or start them at any time.

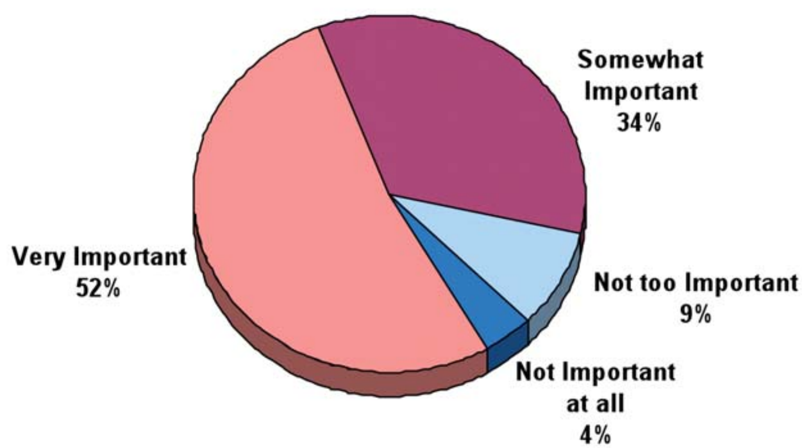
When asked how valuable they consider a guaranteed lifetime withdrawal benefit, more than eight in 10 variable annuity owners (85%) said that the benefit is valuable, including 47% who said it is very valuable. (See Figure 12)

Figure 12: Value of a Guaranteed Lifetime Withdrawal Benefit as Perceived by Owners of Variable Annuities



Two-thirds of annuity owners who state they own a variable annuity (66%) identify their contracts as having guaranteed lifetime withdrawal benefits. Among those owners, almost nine in 10 (86%) say that the benefit was an important factor in their decision to purchase an annuity, including over half (52%) who say it was a very important factor. (See Figure 13)

Figure 13: Importance of a Guaranteed Lifetime Withdrawal Benefit in the Decision to Purchase an Annuity



Among those same variable annuity owners, nearly one-quarter (23%) say they have begun taking withdrawals pursuant to their guaranteed lifetime withdrawal benefit. Not surprisingly, retired owners are more likely than working owners to have begun taking such withdrawals (27% vs. 14%).

Average Annuity Values

Two-fifths of non-qualified annuity owners (40%) have annuities with account values of less than $100,000, including just over one in ten (12%) with account values less than $25,000. Another two-fifths of owners (43%) have annuities with account values of $100,000 or more, including 23% with account values of at least $200,000. Variable annuity owners are more likely than fixed annuity owners to have annuities with account values of $200,000 or higher (27% vs. 18%).

Sources of Funds for Annuity Purchases

Owners of non-qualified annuity contracts have used a variety of sources to fund their annuity purchases. The majority of non-qualified annuity owners (57%) say that they used existing savings to purchase their annuities. Nearly half (45%) say that they used their current income. Three in ten (31%) report that they used investment proceeds to fund the purchase, while one-quarter (26%) used inheritance income. Other "one-time" events that owners used to fund the purchase of their annuities include the sale of a home, farm, or business (17%); a gift from a relative (13%); and a death benefit from a life insurance policy (12%). (See Table 2. Note that the sum of the percentages for a given year exceeds 100% because respondents could have multiple sources to fund their annuity purchases and therefore give multiple answers to the question.)

Table 2:
Sources of Funds for Owners' Annuities (in percent by year)

	1992	2001	2005	2009
Existing savings	62	55	58	57
Their or their spouse's current income	57	53	50	45
Proceeds from another investment	44	35	30	31
An inheritance	20	21	26	26
Sale of family home, farm, or business	16	13	14	17
Gift from a relative	11	11	13	13
Death benefit from a life insurance policy	15	13	14	12
A bonus from their employer	11	10	9	7

Consistency of Sources. The sources used to fund the purchases of annuities have generally remained consistent over the years in which the Survey has been conducted, with a few notable exceptions. Since 1992, the proportion of annuity owners reporting that they used current income to purchase their annuity has decreased from 57% to 45%. Additionally, there has been a decrease in the proportion citing proceeds from another investment as a source for purchasing their annuity (31% in 2009, compared to 44% in 1992).

Employment Status and Martial Status. Employment status and marital status play a role in determining sources of annuity premiums for many non-qualified annuity owners. Annuity owners who are currently employed (either full- or part-time) are more likely than those who are retired to have used current income (55% vs. 43%), while those who are retired are more likely to have used existing savings (61% vs. 49%). Those who are married are more likely to have used current income (51% vs. 36%), while those who are not married are more likely to have used a death benefit from a life insurance policy (19% vs. 9%) or a gift from a relative (17% vs. 11%).

Number of Sources Used and Annuity Value. Nearly two-thirds of owners (64%) combined monies from two or more different sources to purchase their annuity. Those with annuities valued at $100,000 or more are more likely to have used multiple sources than those with annuities valued below $100,000 (75% vs. 55%). In terms of specific sources, owners with annuities valued at $100,000 or higher are more likely to have used existing savings (64% vs. 51%), current income (53% vs. 41%), proceeds from another investment (44% vs. 21%), or an inheritance (30% vs. 22%).

Uses of Non-Qualified Annuities

Actual Uses of Annuity Savings

Incidence and Type of Annuity Distributions

Over one-third of non-qualified annuity owners (36%) have withdrawn or received money in one form or another from an annuity that they (or their spouse) still own, an increase from 29% in 2005. The average age at which these owners first withdrew or received money from their annuities is 66, which is an increase since 2005, when the average age was 64. Overall, three-fifths of non-qualified annuity owners (60%) have never withdrawn money from their annuity and are not receiving a regular periodic payout.

Periodic Payments. Similar to prior Survey findings, two in ten non-qualified annuity owners (21%) are currently receiving distributions from their annuity contracts on a regular or periodic basis, e.g., they receive a check every month.

Ad Hoc Withdrawals. Nineteen percent of non-qualified annuity owners have withdrawn money from their annuities at some point but are not currently receiving regular periodic payments.

Periodic Payments Coupled with Ad Hoc Withdrawals. Seventeen percent of non-qualified annuity owners have withdrawn money from their annuities in the past and currently are receiving a regular periodic payout.

Demographic Characteristics to Distributions

Employment Status. As would be expected, retired owners are more likely than working owners to have withdrawn money from an annuity they still own (41% vs. 19%) and receive regular payments (25% vs. 7%). Conversely, owners who are employed are more likely than retired owners to have neither withdrawn money nor received a regular pay-out (80% vs. 54%).

Age. Owners who are 64 or older are more likely than younger owners to have either withdrawn money or received a regular distribution (47% vs. 18%). Among those who are currently receiving distributions from their annuities on a regular or periodic basis, 88% are 64 or older.

Household Income. Annuity owners with incomes below $75,000 are more likely than those with higher incomes to have withdrawn money from an annuity (42% vs. 25%), and they are twice as likely to be receiving a regular distribution from an annuity (27% vs. 13%).

Intended Future Uses of Annuity Savings

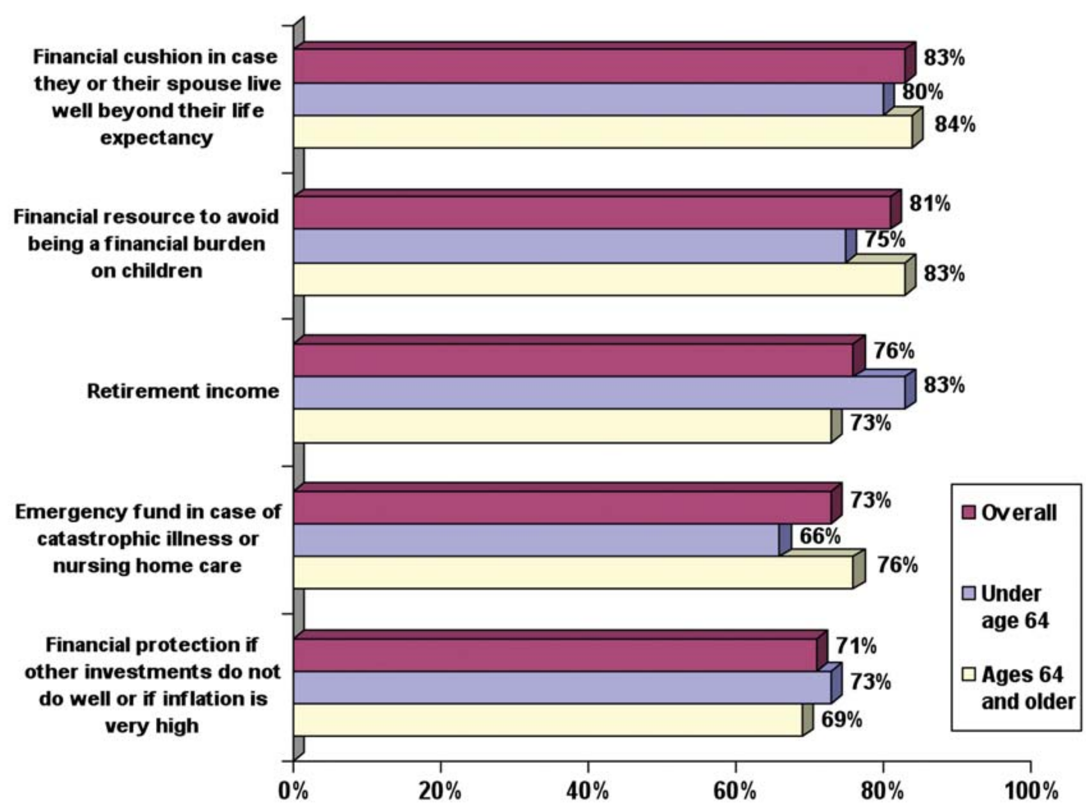
Primary Intended Uses

Non-qualified annuity owners were asked if they intend to use their annuity savings in any of five specific ways. Consistently with prior years, retirement income is a widely cited use.

As shown in Figure 14, approximately three-quarters of owners state that they plan to use their annuity savings for retirement income (76%). Slightly higher proportions say they plan to use their annuity savings as a financial cushion in case they or their spouse live well beyond their life expectancy (83%) or to avoid being a financial burden on their children (81%). Seven in ten plan to use their savings as an emergency fund in case of a catastrophic illness or the need for nursing home care (73%), or as financial protection in case other investments do not do well or if inflation is very high (71%).

> ***Age.*** Not surprisingly, older annuity owners (those ages 64 and older) are more likely than those who are younger to say that they intend to use their annuity savings as an emergency fund in case of catastrophic illness or nursing home care (76%, compared to 66% of those under age 64). Older owners are also more likely to state that they intend to use their annuity savings as a financial resource to avoid being a financial burden on their children (83%, compared to 75% of those under age 64). Younger owners are more likely to say that they intend to use their annuity savings for retirement income (83%, compared to 73% of those ages 64 and older). (See Figure 14)

Figure 14: Intended Uses of Annuity Savings by Age



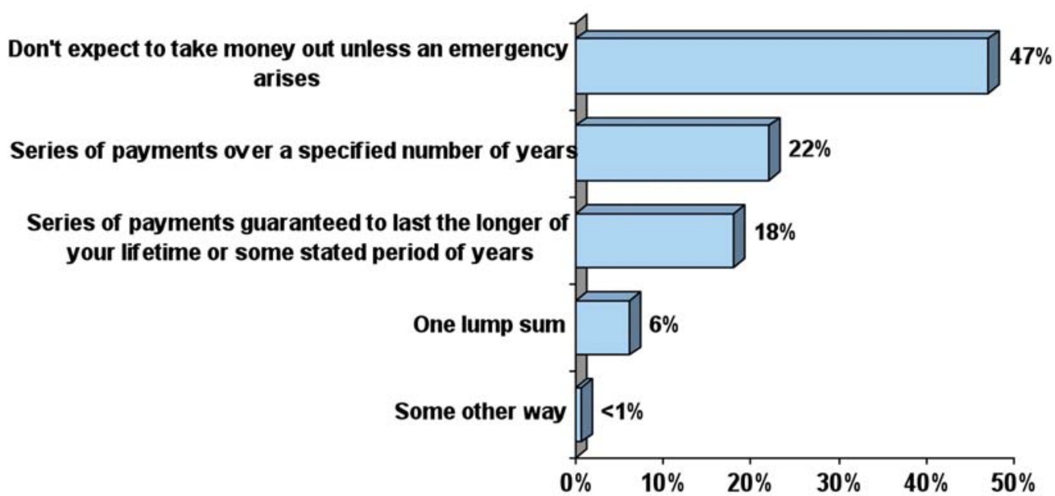
Intended Uses Cited in Response to Open-Ended Question

Non-qualified annuity owners were asked, in a separate open-ended question, to identify the primary uses that they intend to make of their annuity savings. Retirement income is the most-cited use, with more than one in three owners (35%) specifically identifying this as the primary intended use of their annuity. Overall, 63% of non-qualified annuity owners gave a response related to the need for future income (namely, retirement, money to live on or be financially independent, to provide income or supplemental income, for use in old age, and to pay bills).

Expected Form of Future Distributions

When asked how they expect to withdraw most of their money from their annuity, nearly half of annuity owners say that they do not plan on taking the money out unless an emergency arises (47%). One in five expects to withdraw money in a series of payments over a specified number of years (22%). Eighteen percent plan to take their money out in a series of payments guaranteed to last the longer of their lifetime or some stated period of years. Six percent of owners say that they will withdraw their money in one lump sum. (See Figure 15)

Figure 15: Expected Annuity Payout Method



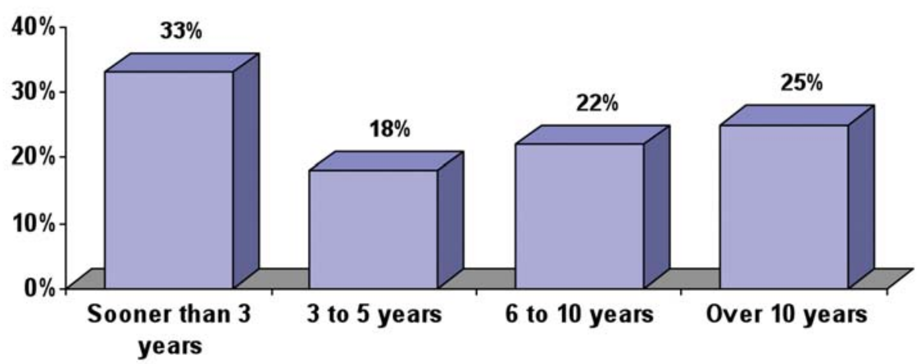
Age. Owners who are under the age of 72 are more likely than older owners to say that they plan on taking money out of their annuity either through a series of payments over a specified number of years (29% under age 72 vs. 15% ages 72 and older), or through a series of payments guaranteed to last their lifetime or some stated period of years (22% vs. 13%). Owners who are age 72 or older are more likely than younger owners to say that they do not plan to take the money out unless an emergency arises (58%, compared to 38% of younger owners).

Education. Owners with higher levels of education are more likely to say that they intend to take most of the money out of their annuity through a series of payments guaranteed to last the longer of their lifetime or some stated period of years (22% of owners who at least graduated college, compared to 14% of owners who did not). Conversely, they are less likely to say they do not plan to take the money out of their annuity unless an emergency arises (40% of college graduates, compared to 53% of owners who did not graduate).

Expected Timing of Future Distributions

Of those who plan to withdraw most of the money from their annuity in a series of payments guaranteed to last their lifetime or some stated period of years, one-third (33%) expect to begin receiving those payments within three years. One-fifth expect to begin receiving payments between three and five years from now (18%) or between six and ten years from now (22%). One-quarter does not expect to begin receiving those payments until at least ten years from now (25%). (See Figure 16)

Figure 16: Expected Timeframe for Beginning of Annuity Payments



Attitudes Towards Non-Qualified Annuities

The Relationship Between Taxation and Savings Through Annuities

Tax Treatment of Earnings as Incentive to Save through Annuities

The fact that earnings on annuity savings are not taxed until monies are withdrawn from the annuity continues to be a strong motivation for purchasing non-qualified annuities. Seventy-three percent of non-qualified annuity owners report that they have set aside more money for retirement than they would have if the tax advantages of annuities were not available. The large majority cite the tax treatment of annuities as a "very" or "somewhat" important reason why they purchased an annuity (89%). (See Table 3, page 26)

Eight in ten non-qualified annuity owners (80%) agree "completely" or "somewhat" that annuities "have attractive tax treatment," and almost nine in ten (88%) agree that "keeping the tax advantage of annuities is a good way of encouraging long-term savings." (See Table 4, page 28)

Demographics. A strong majority of each demographic group identified below agrees with the statement that "annuities have attractive tax treatment," with some differences within each demographic:

- *Education.* Those who have a college degree are more likely to agree than those without a college degree (84% vs. 77%);
- *Employment Status.* Those who are employed are more likely to agree than those who are retired (85% vs. 78%);
- *Age.* Those who are under the age of 64 are more likely to agree than those who are 64 or older (86% vs. 79%);
- *Annuity Values.* Those with annuities worth $100,000 or more are more likely to agree than those with smaller annuity values (87% vs. 75%).

Taxation of Distributions as Incentive for Maintaining Retirement Savings

Nine in ten non-qualified annuity owners (91%) report that they try not to withdraw any money from their annuities before they retire and need the money, because they would have to pay tax on the money that is withdrawn. This suggests that the taxation of pre-retirement distributions from non-qualified annuities is a significant motivating factor in encouraging owners to retain their annuity savings until needed for retirement, and a significant economic disincentive against depleting their retirement savings prior to the time that they actually retire.

Non-Tax Reasons for Saving through Annuities

Reasons for Purchasing Annuities

Non-qualified annuity owners cite a number of reasons other than the tax treatment of annuities as being a very or somewhat important factor for their purchase. The most frequently mentioned of these non-tax reasons for purchasing annuities is "it was a safe purchase" (89%). Interestingly, all key demographic groups were in agreement about annuities being a safe purchase, with at least 86% of each believing it is a very or somewhat important reason.

Two other non-tax related reasons are mentioned by at least four-fifths of owners: annuities have a good rate of return (86%) and owners want a long-term savings plan (80%). The proportion of owners citing these as reasons have remained stable since 2001. (See Table 3)

Table 3:
Importance of Various Reasons for Buying an Annuity

	Very/Somewhat Important			
	1992	2001	2005	2009
	(in percent)			
Earnings would not be taxed until the funds were used.	95	89	88	89
Was a safe purchase.	95	88	88	89
Had a good rate of return.	91	87	87	86
Wanted a long-term savings plan.	85	79	82	80
Could get payments guaranteed to continue for as long as you live.*	74	75	74	72
Easy way to save.	78	72	74	72
Wanted a source of funds that could be used to pay for emergencies, such as catastrophic illness during retirement.	71	71	73	72
Had choices of methods of getting the money.	69	68	72	71
Provides money in case owner or spouse needs to enter a nursing home.	NA	66	66	65

*Prior to 2005: "Could get income guaranteed for as long as you live"

Household Income. Among the reasons mentioned as important for buying annuities, owners with household incomes below $75,000 are more likely to say "it's an easy way to save" (77%, compared to 66% of those with household incomes of $75,000 or more) and they "wanted a source of funds that could be used to pay for emergencies" (76% vs. 64%).

Product Type. Owners of fixed annuities are more likely than owners of variable annuities to cite "it's an easy way to save" as a reason for buying their annuity (79% vs. 67%).

Viewing Annuities as a Flexible Financial Tool

Consistent with prior years, the 2009 Survey confirms that owners of non-qualified annuities view their contracts as offering a variety of important financial protections.

Statements most frequently agreed with (either "completely" or "somewhat") by annuity owners include: annuities are an effective way to save for retirement (86%) and annuities are a good way to ensure their surviving spouse has a continuing income (86%). Over four-fifths of owners also agree that the investment and insurance guarantees available in annuities are very important benefits (85%) and annuities are a good source of emergency funds in old age (82%).

Approximately four in five owners also believe that annuities are an effective way of ensuring that money is available to pay for a catastrophic illness or nursing home care (80%), annuities are secure and safe (79%), annuities are an important source of retirement security (79%), and owning an annuity makes them feel more secure in times of financial uncertainty (79%).

Three-quarters of annuity owners agree that annuities offer a good rate of return (76%), annuities can help protect them against losing money they invest (76%), and annuities will prevent them from being a financial burden on their children in their later years (74%). (See Table 4, page 28)

When compared to prior years, there has been minor slippage in the strength of these beliefs in 2009. However, despite the financial turmoil and market volatility, belief in annuities being safe and secure, offering a good return and an effective way to save for retirement remains quite high.

Product Type. Owners of fixed annuity contracts are more likely than variable annuity owners to agree that annuities offer a good return (80% vs. 73%), owning an annuity makes them feel more secure in times of financial uncertainty (83% vs. 75%), and annuities can help protect them against losing the money they invest (80% vs. 74%). Variable annuity owners are more likely to agree that being able to invest in the stock market through annuities and still get guaranteed income for life adds to the financial security of retirees (77%, compared to 64% of fixed annuity owners).

Annuity Value. Owners with annuities valued at $100,000 or more are more likely to agree that annuities are an important source of their retirement security (87%, compared to 69% of those with annuities valued below $100,000), annuities can help protect against losing the money they invest (85% vs. 70%), annuities offer a good return (81% vs. 71%), their annuity will prevent them from being a financial burden on their children (85% vs. 61%), and annuities are a good way to ensure their spouse has a continuing income if they predecease them (93% vs. 76%).

Table 4:
Agreement with Various Statements about Annuities

	Agree Completely/Somewhat			
	1992	2001	2005	2009
	(in percent)			
Keeping the tax advantage of annuities is a good way of encouraging long-term savings.	96	90	91	88
Annuities are an effective way to save for retirement.	95	91	90	86
Annuities are a good way to ensure their surviving spouse has a continuing income.	NA	91	88	86
The investment and insurance guarantees available in annuities are a very important benefit of the product.	NA	NA	NA	85
Annuities are a good source of emergency funds in old age.	89	85	86	82
Annuities have attractive tax treatment.	92	84	85	80
Annuities are an effective way of assuring money is available to pay for a catastrophic illness or nursing home care.	NA	83	81	80
Annuities are secure and safe.	85	89	86	79
Annuities are an important source of retirement security.	87	79	79	79
Owning an annuity makes them feel more secure in times of financial uncertainty, such as during declines in the stock market.	NA	NA	NA	79
Annuities offer a good return.	90	83	80	76
Annuities can help protect them against losing the money they invest.	NA	NA	NA	76
Annuities will prevent them from being a financial burden on their children in their later years.	80	81	79	74
Being able to invest in the stock market through annuities and still get guaranteed income for life adds to the financial security of retirees.	NA	NA	NA	71

Savings of Non-Qualified Annuity Owners

Perception of Retirement Preparedness as a Society

Nine in ten non-qualified annuity owners (89%) believe that people in the United States do not save enough money for retirement. This represents an increase of eight percentage points since 2001.

Relevance of Age. Age plays a role in whether non-qualified annuity owners believe that people in the United States save enough for retirement. Specifically, 94% of annuity owners under the age of 72 believe that people are not saving enough, compared to only 84% of those age 72 or older.

Annuity Owners' Savings in Other Financial Products

Non-qualified annuity owners are likely to own a variety of financial products in addition to their annuities. The majority of respondents report owning individual retirement accounts (71%), mutual funds (60%), certificates of deposit (58%), cash value life insurance (54%), and individual stocks or bonds (52%). (See Figure 17)

Compared to four years ago, owners are more likely to be invested in certificates of deposit (58% vs. 49% in 2005) and less likely to be invested in mutual funds (60% vs. 66% in 2005). This presumably is a result of the recession, as investors leave the stock market and look for safer investments in bad times.

Annuity Product Type. Owners of variable annuities are more likely than owners of fixed annuities to own individual retirement accounts (75% vs. 68%), mutual funds (71% vs. 46%), and individual stocks or bonds (55% vs. 48%). (See Figure 17)

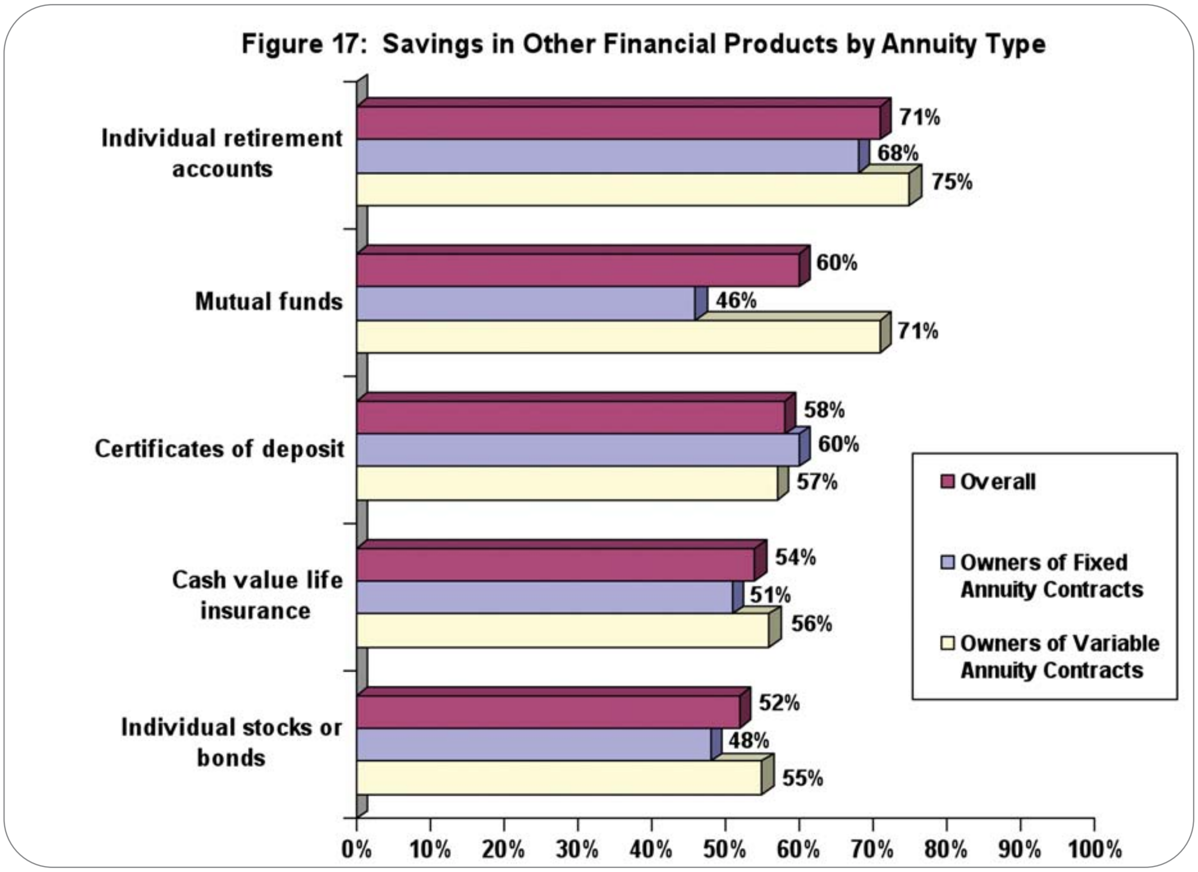
Participation in Employer-Sponsored Retirement Plans

Just 55% of owners of non-qualified annuities have participated in a retirement program offered through an employer at some point during their working careers.

Confidence and Concerns with Financial Preparedness for Retirement

General Confidence in Retirement Preparedness

Most non-qualified annuity owners are confident about their retirement preparedness: 91% say that the phrase "you have done a very good job of saving for retirement" describes them very or somewhat well (up from 87% in 2005). Their perceptions of whether the money they will receive from pensions and retirement plans, including Social Security, will cover their retirement expenses have remained stable. Nearly four in ten (39%) believe that these funds will not be enough to cover their retirement expenses. Just over half of non-qualified



annuity contract owners (55%) believe that this money will be enough or more than enough. (See Figure 18)

> ***Age.*** Owners who are under age 64 are more concerned than older owners that money from pensions and retirement plans will not be enough to meet their financial needs in retirement (51% vs. 37%). (See Figure 19)

Over half of annuity owners (55%) are concerned they will have to cut back on their standard of living as they get older. This marks an increase from 2005, when only two-fifths expressed concern (40%).

Specifically, almost one in five non-qualified annuity owners are very concerned about having to cut back on their standard of living in retirement (17%); nearly two in five are somewhat concerned about having to cut back (38%). Just over one-quarter are “not too concerned” (27%), while 18% are “not at all concerned.” (See Figure 20)

Owners’ age influences whether they are concerned about cutting back on their standard of living in retirement, with younger owners generally being more concerned. For example, among owners who are younger than age 64, two-thirds (67%) are either very or somewhat concerned that they will have to cut their standard of living as they get older. Among

Figure 18: Whether Money from Pension and Retirement Plans Will Cover Retirement Expenses

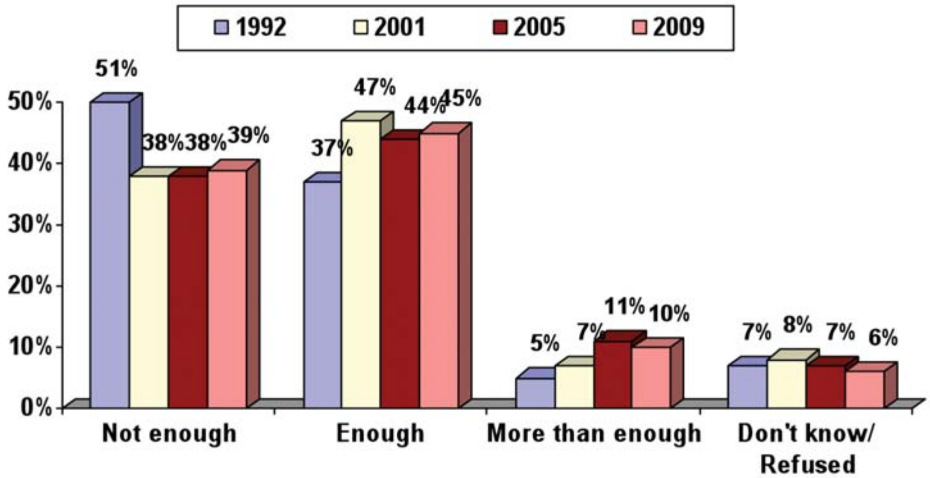
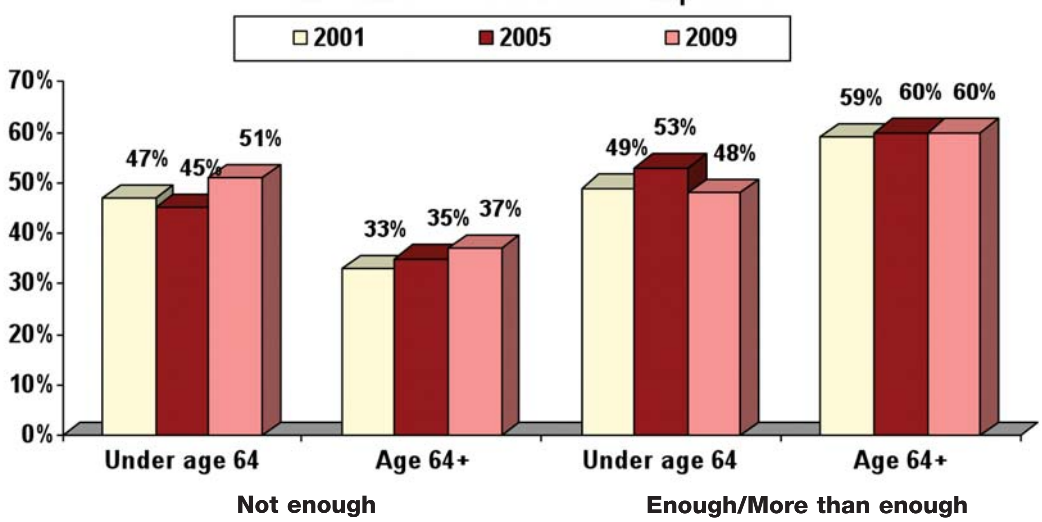


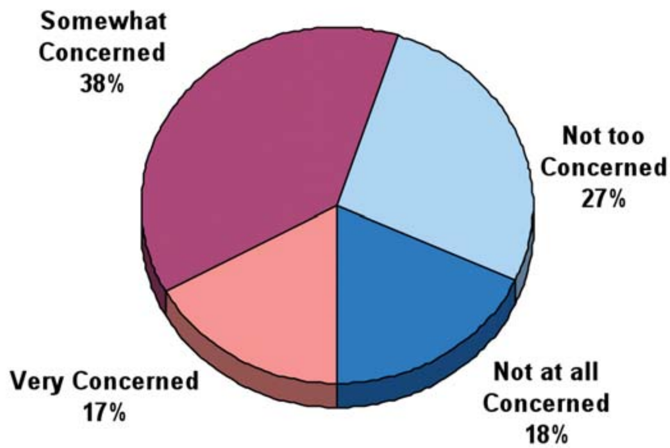
Figure 19: Age and Whether Money from Pension and Retirement Plans Will Cover Retirement Expenses



owners age 64 to 71, just over half (53%) are very or somewhat concerned, while less than half (46%) of owners age 72 or older share the same level of concern.

Taken as a whole, the trends in financial preparedness would seem to somewhat conflict, in that annuity owners generally believe they have done a good job preparing for retirement but also fear they might need to cut back on their standard of living. One potential explanation is that their purchase of annuities – which are less susceptible to economic downturns than some other retirement savings vehicles – have bolstered their confidence that they will have enough income to provide for themselves during retirement, but that they nonetheless expect to reduce their standard of living somewhat, perhaps in part due to general economic conditions.

Figure 20: Concern about Cutting Back on Standard of Living



Concerns over Health and Long-Term Care Costs

Non-qualified annuity owners have considerable concern about the risks that health and long-term care costs pose to their retirement security.

Half of annuity owners express concern that a catastrophic illness or the need for nursing home care will bankrupt them in retirement (50%). Nearly two-fifths of owners believe that they or their spouse are at high risk of suffering a catastrophic medical condition in old age (38%). Almost three in ten owners say that they (or their spouse) are at a high risk of needing to be confined to a nursing home in old age (29%). (See Table 5)

One of the ways that respondents deal with these possibilities is saving through their non-qualified deferred annuity contracts. As indicated above, eight in ten owners (80%) believe that annuities are an effective way of ensuring that money is available to pay for a catastrophic illness or nursing home care. (See Table 4) Consistent with this, strong majorities of non-qualified annuity owners cite the desire for a source of funds to pay for emergencies such as a catastrophic illness during retirement (72%) or to pay for nursing home costs (65%) as an important reason why they purchase their annuities. (See Table 3)

The concerns over health and long-term care costs are even more prevalent for older and retired non-qualified annuity owners. Retired owners are more likely than non-retired owners to believe that they are at high risk of needing to be confined to a nursing home in old age (33% vs. 17%). Similarly, those who are 64 or older are more likely than those who are younger to cite as an important reason for purchasing an annuity that annuities provide money in case they (or their spouse) needs to enter a nursing home (67% vs. 58%).

Other Concerns

More than four in ten non-qualified annuity owners are concerned about running out of money during retirement (45%); a similar proportion are concerned with the difficulty of figuring out how to reach their desired standard of living in retirement (43%). One-third believe that, if they were to die, their surviving spouse may not have enough money to make ends meet (32%). (See Table 5)

Table 5:
Agreement with Statements about Preparedness for Retirement

	Statement Describes Respondent Very/Somewhat Well			
	1992	2001	2005	2009
	(in percent)			
They have done a very good job of saving for retirement.	84	88	87	91
They are concerned that a catastrophic illness or nursing home care might bankrupt them during retirement.	66	47	49	50
They are concerned that they might run out of money during retirement.	52	36	43	45
It will be difficult to figure out how to reach their desired standard of living in retirement.	NA	40	46	43
They (or their spouse) are at a high risk of suffering a catastrophic medical condition in old age.	NA	30	37	38
Upon the death of the owner, the surviving spouse may not have enough savings to make ends meet.	NA	33	38	32
They (or their spouse) are at a high risk of needing to be confined to a nursing home in old age.	NA	24	28	29

Household Income. As would be expected, owners with lower household incomes are generally more concerned about their financial future than owners with higher household incomes. Specifically, owners with household incomes below $75,000 are more concerned about running out of money during retirement (54%, compared to 33% of owners with higher household incomes), the difficulty of reaching their desired standard of living in retirement (49% vs. 37%), their spouse not having enough money to make ends meet if they predecease them (49% vs. 17%), and the high risk of needing to be confined to a nursing home in old age (31% vs. 21%).

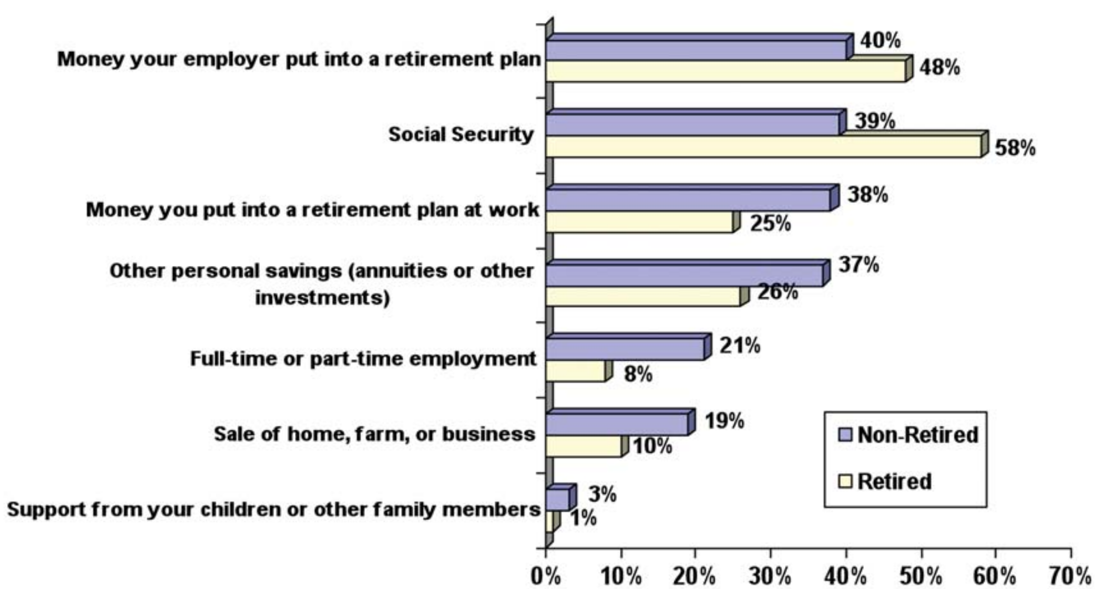
Sources of Income in Retirement

Current workers and retirees have different expectations regarding their sources of income in retirement.

Retirees generally view Social Security and money their employers put into a retirement plan for them as their major sources of income in retirement. In this regard, 58% of retired owners consider Social Security a major source of expected retirement income, compared to only 39% of non-retirees. In addition, 48% of retired owners cite money their employer put into a retirement plan as a major source of retirement income, compared to 40% of non-retirees.

In contrast, owners who are not retired generally view themselves as more responsible for their own retirement security and believe that savings they have accumulated on their own will be more important to their retirement preparedness. In this regard, current workers are more likely than retirees to cite money they put into a retirement plan for themselves (38% vs. 25%) or other personal savings (37% vs. 26%) as a major source of income in retirement. Similarly, those who are not yet retired are more likely to expect that a sizeable portion of their retirement income will come from continued employment (21% vs. 8%), or from the sale of their home, farm, or business (19% vs. 10%). (See Figure 21)

Figure 21: Major Sources of Retirement Income



A VOICE FOR SOUND RETIREMENT SECURITY POLICIES…

The Committee of Annuity Insurers, based in Washington, DC, was established in 1982 to address Federal legislative and regulatory issues relevant to the annuity industry and to participate in the development of Federal tax and securities policies regarding annuities. The Committee is comprised of 30 of the largest and most prominent issuers of annuity contracts. The member companies of the Committee represent over half of the annuity business in the United States.

AEGON Group of Companies, Cedar Rapids, IA
AIG American General, Wilmington, DE
Allstate Financial, Northbrook, IL
AmerUs Annuity Group Co., Topeka, KS
AXA Equitable Life Insurance Company, New York, NY
Commonwealth Annuity and Life Insurance Co.
(a Goldman Sachs Company), Southborough, MA
Conseco, Inc., Carmel, IN
Fidelity Investments Life Insurance Company, Boston, MA
Genworth Financial, Richmond, VA
Great American Life Insurance Co., Cincinnati, OH
Guardian Insurance & Annuity Co., Inc, New York, NY
Hartford Life Insurance Company, Hartford, CT
ING North America Insurance Corporation, Atlanta, GA
Jackson National Life Insurance Company, Lansing, MI
John Hancock Life Insurance Company, Boston, MA
Life Insurance Company of the Southwest, Dallas, TX
Lincoln Financial Group, Fort Wayne, IN
MassMutual Financial Group, Springfield, Massachusetts
Metropolitan Life Insurance Company, New York, NY
Nationwide Life Insurance Companies, Columbus, OH
New York Life Insurance Company, New York, NY
Northwestern Mutual Life Insurance Company, Milwaukee, WI
Ohio National Financial Services, Cincinnati, OH
Pacific Life Insurance Company, Newport Beach, CA
Protective Life Insurance Company, Birmingham, AL
Prudential Insurance Company of America, Newark, NJ
RiverSource Life Insurance Company (an
Ameriprise Financial Company), Minneapolis, MN
Sun Life of Canada, Wellesley Hills, MA
Symetra Financial, Bellevue, WA
USAA Life Insurance Company, San Antonio, TX

The Committee of Annuity Insurers
The Willard Office Building
1455 Pennsylvania Avenue, NW
Suite 1200
Washington, DC 20004
www.annuity-insurers.org