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***Committee Of Annuity Insurers***  
***Survey Of Non-Qualified Annuity Owners***  
***January 1993***

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**INTRODUCTION**

In February, 1992, The Gallup Organization surveyed 1,007 owners of non-qualified annuities for the Committee of Annuity Insurers, a diverse group of life insurance companies which sell annuities. Mathew Greenwald & Associates, Inc. consulted with the Committee on this project. The questionnaire was developed by Greenwald & Associates, The Gallup Organization and the Committee of Annuity Insurers.

The principal purpose of the study was to obtain a profile of the demographic characteristics of owners of non-qualified annuities. Questions gathering information on owners' opinions on saving for retirement, the sources of funds they have used to purchase annuities and their reasons for purchasing annuities were also included.

To ensure that only owners of non-qualified annuities were interviewed in this survey, a sample of 22 life insurance companies was selected to provide names of individuals who now own non-qualified annuities (i.e., annuities purchased with after-tax dollars). The companies used specific sampling procedures to ensure that a representative sample of non-

qualified policyholders was identified. The 22 companies are geographically diverse and represent a mix of large and small companies. They also represent a mix of the main systems for distributing annuities.

The people interviewed were selected at random by The Gallup Organization from the files of the 22 companies. Also, The Gallup Organization adjusted the number of people selected for interview from each company to reflect both market share and distribution channel.

It is The Gallup Organization'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 non-qualified annuity owners, with a sampling error of plus or minus 3.2 percent, at the 95% confidence level.

## **SURVEY SUMMARY**

### **Demographic Profile**

- ε Most non-qualified annuity owners have moderate annual household incomes. More than 80% have total household incomes under \$75,000.
- ε The average age of non-qualified annuity owners is 63. They are somewhat more likely to be male than female.
- ε Two-thirds of non-qualified annuity owners are married, while nearly twenty percent are widowed.
- ε More than one-third of non-qualified annuity owners did not attend college. Four in ten hold college degrees.
- ε Nearly half of the owners are retired, while roughly four in ten are employed full-time.

### **Saving for Retirement**

- ε Less than ten percent of non-qualified annuity owners believe that people in the United States save enough money for retirement.

### **Preparing Financially for Retirement**

- ε Most non-qualified annuity owners believe they have done a very good job of saving for retirement. However, many also say they are concerned that inflation may affect their standard of living, that illness or nursing home care might bankrupt them in retirement and that they might run out of money during retirement.

### **Uses of Annuity Savings**

- ε Owners are most likely to say they will use their annuity savings for retirement.

### **Reasons for Purchasing Annuities**

- Many owners say they purchased an annuity to cover unpredictable events such as catastrophic illness or the need for nursing home care.

### Attributes of Annuities

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

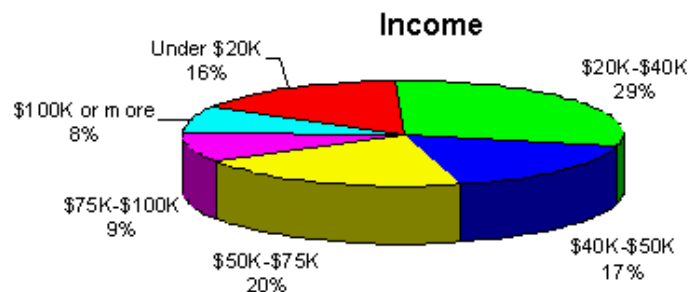
## PROFILE OF NON-QUALIFIED ANNUITY OWNERS

### Typical Non-Qualified Annuity Owner

The typical non-qualified annuity owner is: male, 64 to 71 years old, married, a high school graduate, and has a moderate annual household income.

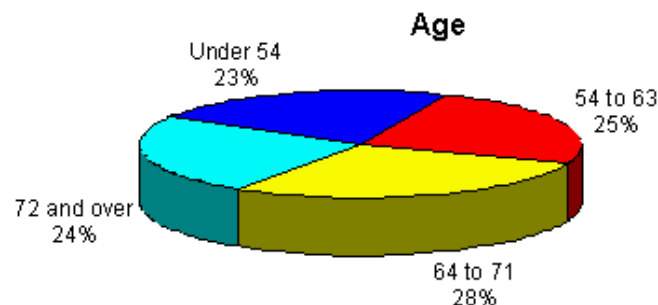
### Income

Over 80% of non-qualified annuity owners have annual household incomes under \$75,000. Nearly half have household incomes below \$40,000 (45%), while 16% have household incomes under \$20,000. Only eight percent of non-qualified annuity owners have annual household incomes of \$100,000 or more.



### Age

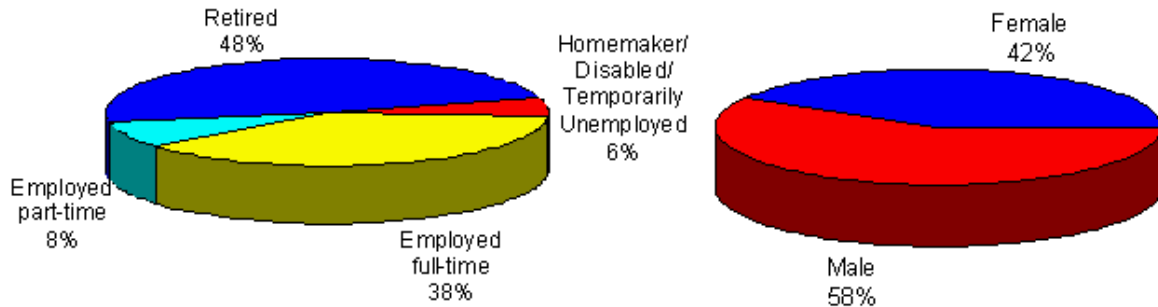
The average current age of non-qualified annuity owners is 63. Roughly one-quarter of non-qualified annuity owners are under 54 (23%), between 54 and 63 (25%), between 64 and 71 (29%), or 72 and over (24%).



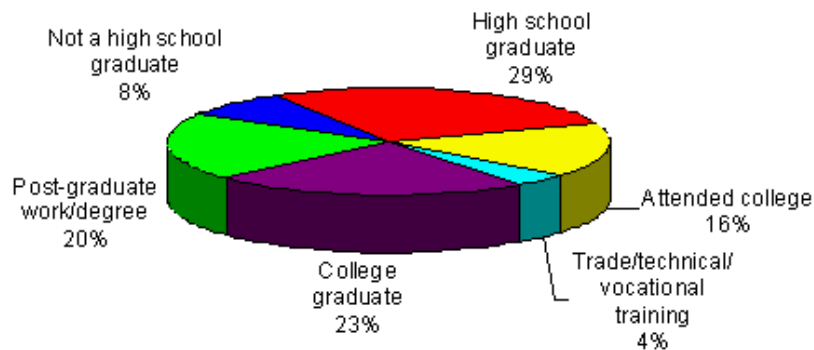
### Other Demographic Characteristics

Nearly half of non-qualified annuity owners are retired (48%). Non-qualified annuity owners are somewhat more likely to be male than female (58% compared to 42%). Two in three owners are married (66%). Nearly one owner in five is widowed (18%), while 10% are single. Few owners are divorced (5%).

### Other Demographic Characteristics



Non-qualified annuity owners have diverse educational backgrounds. More than one-third did not attend college (36%).



## SURVEY FINDINGS

### Saving for Retirement

Only eight percent of non-qualified annuity owners believe that people in the United States save enough money for retirement. Those who are age 64 or older are somewhat more likely than those in other age groups to believe that people save enough for their later years (13%).

### Preparing Financially for Retirement

While non-qualified annuity owners are confident that they have done a good job of preparing financially for retirement, many still have concerns about inflation, running out of money during retirement and being able to cover the costs of major illness. As shown in Table 1, more than eight in ten non-qualified annuity owners feel the statement "you have done a very good job of saving for retirement" describes them "very" well or "somewhat" well (84%). However, nearly that many also feel the statement "you are concerned that inflation will reduce your standard of living in retirement" describes them "very" well or "somewhat" well (78%).

More than two in three owners feel the statement "you are concerned that a catastrophic illness or the need for nursing home care might bankrupt you during your retirement" describes them "very" well or "somewhat" well (66%). About half of non-qualified annuity owners say the statement "you are concerned that you might run out of money during retirement" describes them "very" well or "somewhat" well (52%).

**Table 1:**

**Agreement with Various Statements about Preparedness for Retirement**

	<b>Percentages</b>
They have done a very good job of saving for retirement	84
They are concerned that inflation will reduce their standard of living in retirement	78
They are concerned that catastrophic illness or the need for nursing home care might bankrupt them during their retirement	66
They are concerned that they might run out of money during their retirement	52

**Uses of Annuity Savings**

Non-qualified annuity owners were asked about the amount of savings they have accumulated in their annuities and the intended uses of those savings. Nearly half of the owners say the current value of all of the annuities that they or their spouse own is between \$25,000 and \$100,000 (44%). One-quarter say the value is under \$25,000 (24%), while a similar number say it is over \$100,000 (20%).

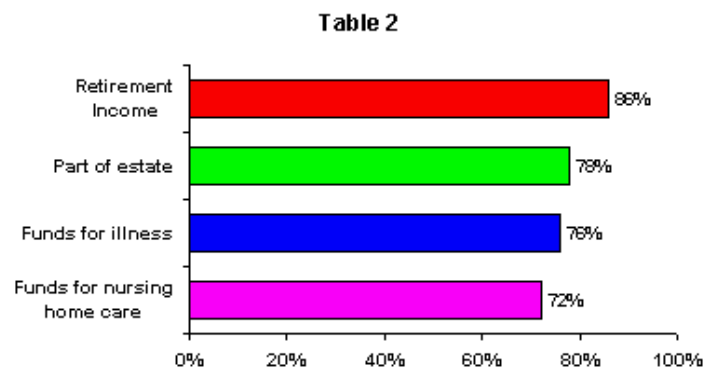
In an open-ended question, non-qualified annuity owners were asked to name the primary uses they intend to make of their annuity savings. Of the many uses given, owners are most likely to say they intend to use the savings for retirement (40%) and/or for living expenses (28%). (Of course, for non-qualified annuity owners who are retired, living expenses equate to retirement expenses.)

Non-qualified annuity owners were also asked in a closed-ended question if they intended to use their annuity savings in any of six specific ways. As shown in Table 2, nearly nine in ten plan on using annuity savings for retirement. The other leading uses are as part of an estate for their children or grandchildren, as an emergency fund in the event of catastrophic illness and in case they need nursing home care. Clearly, older people are concerned about unpredictable events which can have severely adverse financial consequences, such as catastrophic illness and the need for nursing home care. One of the ways they deal with these possibilities is saving through annuities, which build in value until needed. The fact

that a high proportion believe that some of their non-qualified annuity savings will be part of their estate is, no doubt, a reflection of the fact that the event they fear may not occur and some of their savings would be left for their heirs.

Age and household income tend to affect the ways in which non-qualified annuity owners intend to use their annuity savings. For example, as age increases, the proportion of owners who intend to use annuity savings in case of catastrophic illness increases.

**Table 2:  
Intended Uses of Annuity Savings**



### Reasons for Purchasing Annuities

The fact that earnings on annuity savings are not taxed until the savings are used is a strong motivation to purchase a non-qualified annuity. More than three-fourths of non-qualified annuity owners say this was a "very" important reason they purchased a non-qualified annuity (77%). Also, as shown in Table 3, large proportions say that "very" important reasons for purchasing an annuity were because it is a safe purchase (68%) and because it has a good rate of return (60%).

Roughly half of non-qualified annuity owners cite the following reasons as being "very" important in their decision to purchase an annuity: a guaranteed income (49%), an easy way to save (46%), and a source of funds for emergencies (46%). Four in ten owners say that having a choice of methods of receiving payments from their annuity savings was "very" important (39%).

Household income plays some role in determining the reasons owners have purchased annuities. For example, non-qualified annuity owners with lower incomes are more likely to say they purchased an annuity because it is an easy way to save. Additionally, non-qualified annuity owners who did not attend college are more likely to have purchased annuities because they are an easy way to save, they offer choices of methods of receiving income, and for use in emergencies.

Age is a factor affecting the reasons annuities are purchased. For example, owners who are

age 64 or over are more likely to have purchased annuities because they wanted a source of funds that could be used to pay for emergencies, such as catastrophic illness during retirement.

**Table 3:**  
**Importance of Various Reasons For Buying an Annuity**

	(Percentages)	
	Very Important	Somewhat Important
Earnings would not be taxed until the funds were used	77	18
Was a safe purchase	68	27
Have a good rate of return	60	31
Wanted a long term savings plan	59	26
Could get an income guaranteed for as long as you live	49	25
Easy way to save	46	32
Wanted a source of funds that could be used to pay for emergencies, such as catastrophic illness during retirement	46	25
Have a choice of methods of getting the money	39	30

### **Attributes of Annuities**

Nearly all non-qualified annuity owners agree "completely" or agree "somewhat" that "keeping the tax advantage of annuities is a good way of encouraging long term savings" (96%) and that "annuities are an effective way to save for retirement" (95%).

Very large proportions of non-qualified annuity owners agree "completely" or agree "somewhat" that "annuities have attractive tax treatment" (92%), "annuities are a good source of emergency funds in old age" (89%), "annuities are an important source of retirement security" (87%), "annuities are secure and safe" (85%), and "annuities will prevent them from being a financial burden on their children in their later years" (80%).

**Table 4:**  
**Agreement With Various Statements About Attributes of Annuities**

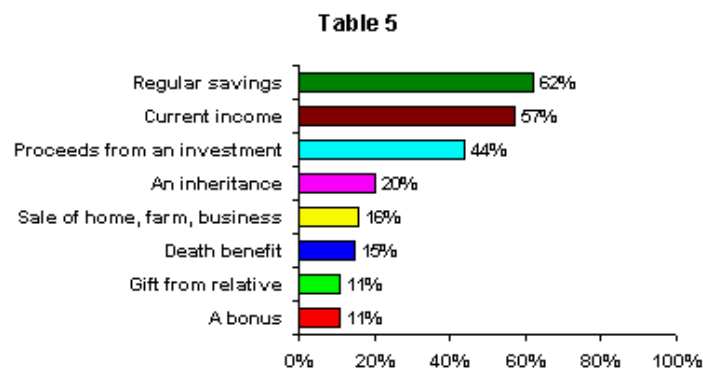
**Percentage**

Keeping the tax advantage of annuities is a good way of encouraging long term savings	96
Annuities are an effective way to save for retirement	95
Annuities have attractive tax treatment	92
Annuities are a good source of emergency funds in old age	89
Annuities are an important source of their retirement security	87
Annuities are secure and safe	85
Annuities will prevent them from being a financial burden on their children in their later years	80

### Sources of Funds for Annuities

The typical non-qualified annuity owner indicates that he or she has used multiple sources of funds for the purchase of their annuity. Many owners buy annuities with the proceeds from "one time" events, such as an inheritance (20%), the sale of a home, farm or business (16%), a death benefit from a life insurance policy (15%), a gift from a relative (11%) or a bonus (11%). Overall, about half of the owners say they have used money from at least one of these "one time" events to buy a non-qualified annuity. As shown in Table 5, many owners also indicate that some of their annuity premiums come from their regular savings (62%), current income (57%), and proceeds from an investment (44%).

**Table 5:**  
**Sources of Funds for Owners' Annuities**



Other characteristics which play a part in determining sources of funds for annuities are age and marital status. As age increases, the proportion of those who have used money from the sale of a family home, farm, or business increases, while the proportion who have used their current income decreases.

Also, owners who are not married are more likely to say they have used money from a death benefit and less likely to say they have used their current income to purchase annuities.

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