

♦ [home](#) *the committee of annuity insurers* [site map](#) ♦



Committee Of Annuity Insurers

Survey Of Non-Qualified Annuity Owners

January 1995

©The Gallup Organization

TABLE OF CONTENTS

[INTRODUCTION](#)

[1994 SURVEY SUMMARY](#)

[PROFILE OF NON-QUALIFIED ANNUITY OWNERS](#)

[SURVEY FINDINGS](#)

[Saving For Retirement](#)

[Preparing Financially For Retirement](#)

[Uses Of Annuity Savings](#)

[Reasons For Purchasing Annuities](#)

[Sources Of Funds For Annuities](#)

[Attributes Of Annuities](#)

INTRODUCTION

In December 1994 and January 1995, The Gallup Organization surveyed 1,016 owners of non-qualified annuities for the Committee of Annuity Insurers, a diverse group of life insurance companies which sell annuities. The results of the survey are presented in this report (the "1994 Survey"). Mathew Greenwald & Associates, Inc. consulted with the Committee on this project. This

is the third time this survey has been conducted. In February 1992, 1,007 non-qualified annuity owners were interviewed by Gallup (the "1992 Survey") and in October 1993, 1,155 non-qualified annuity owners were interviewed by Gallup (the "1993 Survey"). Findings from the three surveys are compared in this report where applicable.

The principal purpose of the surveys was to obtain a profile of the demographic characteristics of owners of non-qualified annuities. Questions on owners' opinions on saving for retirement, sources of funds for purchasing annuities and reasons for purchasing annuities were also included. The questionnaires used in the all three surveys were developed by Greenwald & Associates, The Gallup Organization, and the Committee of Annuity Insurers. This year's survey contains many of the same questions asked in the 1992 and 1993 Surveys.

To ensure that only owners of non-qualified annuities were interviewed in this survey, 28 life insurance companies provided the names of individuals who currently own non-qualified annuities (i.e., annuities purchased with after-tax dollars). The companies used specific sampling procedures, developed by The Gallup Organization and Greenwald & Associates, to ensure that a representative sample of non-qualified policyholders was identified. The 28 companies are geographically diverse, represent a mix of large and small companies, and account for over X.X million currently in force non-qualified annuities. 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 28 companies. 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 three percent, at the 95% confidence level.

1994 SURVEY SUMMARY

Demographic Profile

- ⌘ Most non-qualified annuity owners have moderate annual household incomes. More than 80% have total annual household incomes under \$75,000.

- ε The average age of non-qualified annuity owners is 64. They are evenly divided between males and females.
- ε Slightly more than half of the owners are retired, while one-third are employed full-time.
- ε More than one-third of non-qualified annuity owners did not attend college. Two in five are college graduates.
- ε Two-thirds of non-qualified annuity owners are married, while two in ten are widowed.

Saving For Retirement

- ε Only nine percent of non-qualified annuity owners believe that people in the United States save enough money for retirement. Eighty-three percent believe that the government should give tax incentives to encourage people to save.

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 are concerned that they might run out of money during retirement, that inflation may affect their standard of living, and that the costs of catastrophic illness or nursing home care might bankrupt them.

Reasons For Purchasing An Annuity

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

Uses Of Annuity Savings

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

Attributes Of Annuities

- ε 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

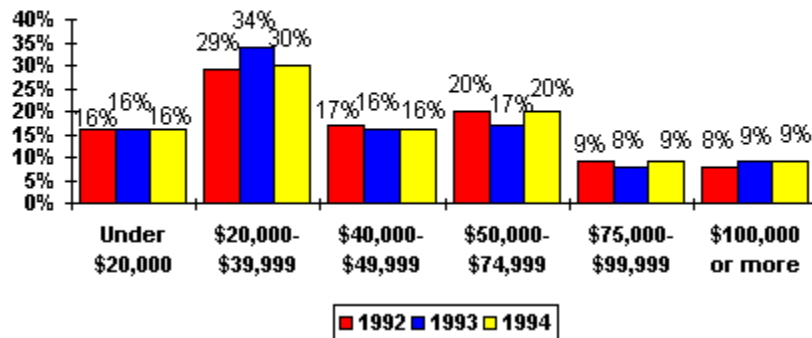
Typical Non-Qualified Annuity Owner

The typical non-qualified annuity owner is a high school graduate, has a moderate annual household income, and is as likely to be male as female. The average age of non-qualified annuity owners is 64.

Income

Over 80% of non-qualified annuity owners have household incomes under \$75,000. Nearly two-thirds have annual household incomes below \$50,000 (62%). Close to half have household incomes below \$40,000 (46%) and 16% have annual household incomes of less than \$20,000. Just nine percent have annual household incomes of \$100,000 or more. As shown in Figure 1, these findings are consistent with the findings of the 1992 and 1993 Surveys.

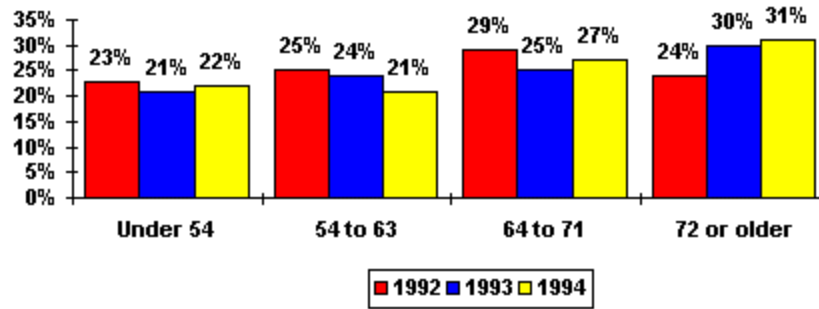
Figure 1: Annual Household Income



Age

The average age of non-qualified annuity owners is 64. Approximately one-quarter are under age 54 (22%), between 54 and 63 (21%), 64 to 71 (27%), or 72 or older (31%).

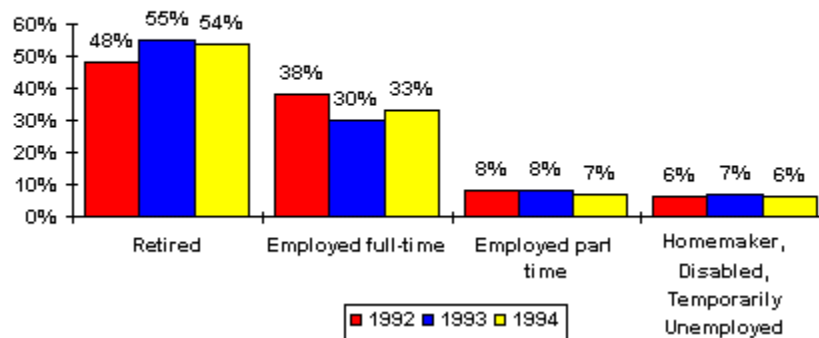
Figure 2: Age



Employment Status

Slightly more than half of non-qualified annuity owners are retired (54%)--similar to the 1993 Survey (55%) and up from 48% in the 1992 Survey. One-third are employed full-time (33%), while another seven percent are employed part-time.

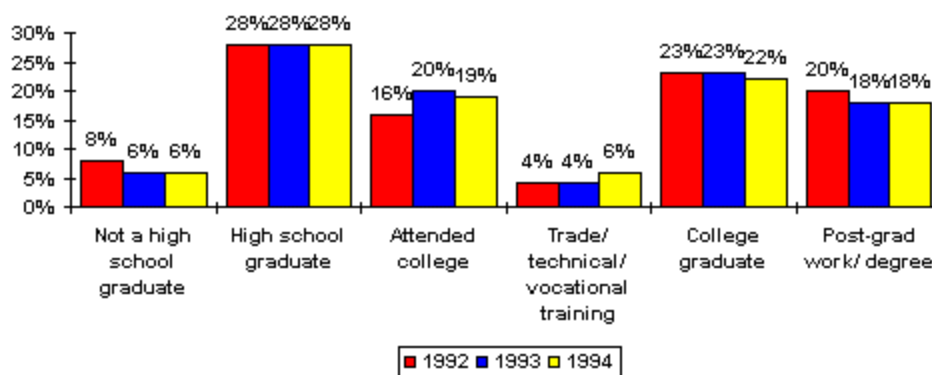
Figure 3: Employment Status



Education

Non-qualified annuity owners have diverse educational backgrounds. Three in five are not college graduates. These findings are similar to the findings of the 1992 Survey and the 1993 Survey.

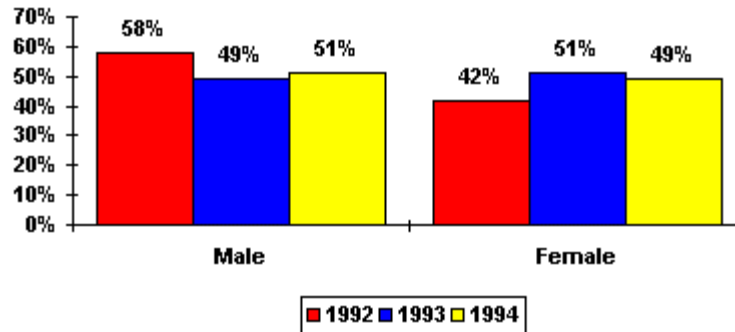
Figure 4: Level of Education



Gender

Non-qualified annuity owners are nearly equally divided between males (51%) and females (49%).

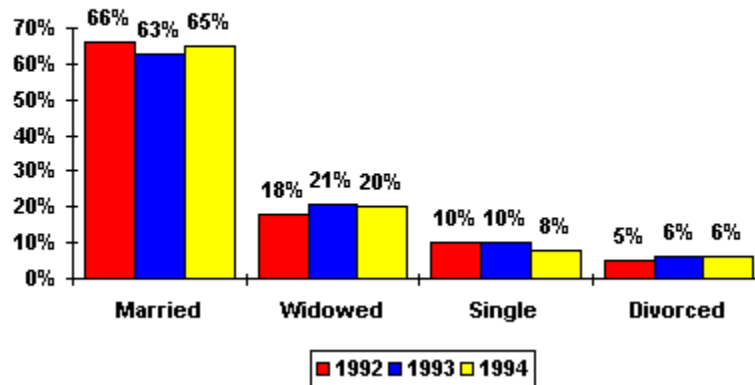
Figure 5: Gender



Marital Status

A large majority of non-qualified annuity owners are married (65%). One owner in five is widowed (20%), while only one in ten (8%) is single.

Figure 6: Marital Status



SURVEY FINDINGS

Saving For Retirement

Only nine percent of non-qualified annuity owners believe that people in the United States save enough money for retirement. This proportion is similar to that found in the 1993 Survey (11%) and the 1992 Survey (8%).

A very large majority of non-qualified annuity owners believe the government should give tax incentives to encourage people to save (83%), a proportion which has increased slightly from the 1993 Survey (79%). Of note, younger respondents are more likely than those who are older to believe the government should give

incentives to encourage people to save.

Preparing Financially For Retirement

While most non-qualified annuity owners are confident that they have done a very good job of preparing financially for retirement, many are concerned about inflation and running out of money during retirement. They are also concerned about their ability to cover the costs of a catastrophic illness or nursing home care. These findings are nearly identical to those found in the 1993 and 1992 Surveys.

As shown in Table 1, 88% of non-qualified annuity owners believe the statement "you have done a very good job of preparing financially for retirement" describes them "very" well or "somewhat" well. 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%).

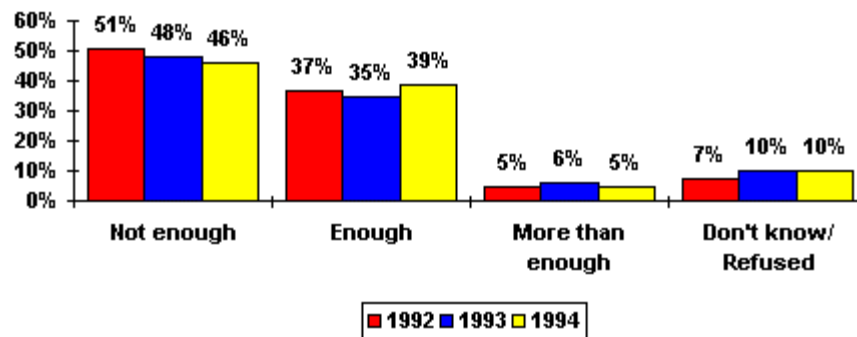
Nearly two-thirds of non-qualified annuity owners express concern about being able to cover the costs of catastrophic illness or the need for nursing home care (62%) and over half (54%) are concerned about running out of money during retirement.

Table 1:
Agreement With Various Statements About Preparedness For Retirement

	(Percentages)		
	1992	1993	1994
They have done a very good job of saving for retirement	84	87	88
They are concerned that inflation will reduce their standard of living in retirement	78	79	78
They are concerned that a catastrophic illness or the need for nursing home care might bankrupt them during retirement	66	63	62
They are concerned that they might run out of money during retirement	52	53	54

As shown in Figure 7, nearly half of non-qualified annuity owners (46%) do not feel that the money they will receive from pensions and other employment related retirement programs will be enough to take care of their financial needs in retirement. Four in ten believe it will be enough (39%), while just five percent say it will be more than enough.

Figure 7: Whether Money From Pension and Retirement Plans Will Cover Retirement Expenses



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 these savings. Four in ten non-qualified annuity owners report that the current value of all the annuities that they or their spouse own is between \$25,000 and \$100,000 (40%). One-fifth say the value is under \$25,000 (21%), while a similar number say it is over \$100,000 (23%). These percentages are nearly the same as those found in the 1992 and 1993 Surveys.

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 income (56%) and/or to pay for daily living expenses (8%). (Of course, for non-qualified annuity owners who are retired, living expenses are retirement expenses.)

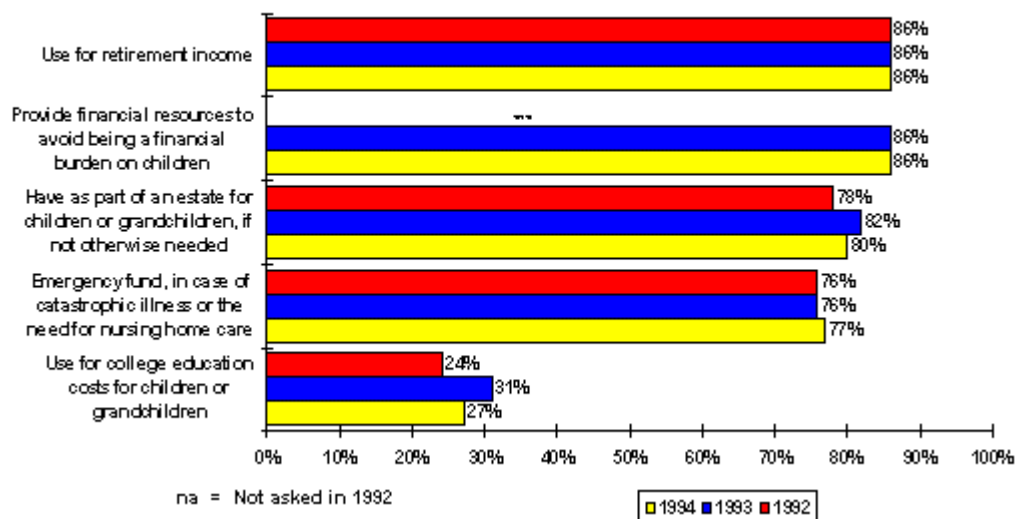
Non-qualified annuity owners were also asked in a separate question if they intended to use their annuity savings in any of five specific ways. As shown in Figure 8, nearly nine in ten plan on using annuity savings for either of two aspects of retirement: for retirement income (86%) or to avoid being a financial burden on

their children (86%). The other leading uses of annuity savings identified were to have as part of an estate to be passed on to children or grandchildren (80%) or to have as an emergency fund, in case of catastrophic illness or the need for nursing home care (77%).

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 annuity savings will be left for their heirs.

Age is a factor in some of the ways in which owners intend to use their annuity savings. For example, older respondents are more likely to indicate that they will use their savings in case of catastrophic illness and to have as part of an estate to pass on to children or grandchildren and less likely to indicate that they will use it for retirement income.

Figure 8: 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 for purchasing a non-qualified annuity. Three-fourths of non-qualified annuity owners say this was a "very" important reason they purchased a non-qualified annuity (74%). As shown in Table 2, large proportions also indicate that "very" important reasons for purchasing an

annuity were that it is a safe purchase (63%) and that it has a good rate of return (58%). Nearly that many say a "very" important reason for purchasing a non-qualified annuity was that they wanted a long term savings plan (57%).

Roughly half of non-qualified annuity owners report the following reasons as being "very" important in their decision to purchase an annuity: a guaranteed income (49%), a source of funds for emergencies (46%), and an easy way to save (44%). Seven in ten owners say that having a choice of methods of receiving payments from their annuity savings was "very" or "somewhat" important (69%).

Household income also 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, they had a choice of methods of getting the money, or it was a safe purchase. 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.

Table 2:

Importance Of Various Reasons For Buying An Annuity
(Percentages)

	1992	1993	1994	1992	1993	1994
Earnings would not be taxed until the funds were used	77	75	74	18	18	18
Was a safe purchase	68	65	63	27	27	30
Have a good rate of return	60	60	58	31	30	33
Wanted a long term savings plan	59	57	57	26	26	27
Could get an income guaranteed for as long as you live	49	49	49	25	27	25
Wanted a source of funds that could be used for emergencies, such as	46	46	46	25	28	29

catastrophic illness during
retirement

Easy way to save	46	44	44	32	31	34
Have a choice of methods of getting the money	39	37	36	30	31	33

Sources Of Funds For Annuities

A typical non-qualified annuity owner uses more than one source of funds for the purchase of his or her annuity. Many owners buy annuities with the proceeds from "one time" events, such as an inheritance (22%), the sale of a home, farm or business (16%), a death benefit from a life insurance policy (12%), a bonus (11%), or a gift from a relative (9%). 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 3, many owners also indicate that some of their annuity premiums come from their regular savings (66%), current income (57%), and proceeds from an investment (38%).

The sources of funds owners use to purchase annuities are virtually unchanged from the 1992 and 1993 surveys.

Age and marital status play a role in determining sources of funds for many annuity owners. Older respondents are more likely to have used money from the sale of a family home, farm, or business, or from proceeds from another investment, and less likely to have used money from current income or a bonus. Those not married are more likely to have used money from a death benefit and less likely to say they have used their current income to purchase annuities.

Table 3:

Sources of Funds for Owners' Annuities

	(Percentages)		
	1992	1993	1994
Regular savings	62	66	66
Current income	57	55	57
Proceeds from an investment	44	35	38
An inheritance	20	23	22

Sale of a family home, farm or business	16	14	16
Death benefit from a life insurance policy	15	15	12
A bonus	11	12	11
Gift from a relative	11	11	9

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" (95%) and that "annuities are an effective way to save for retirement" (94%). (See Table 4.)

Very large proportions of non-qualified annuity owners agree "completely" or agree "somewhat" that annuities "are a good source of emergency funds in old age" (88%), "have attractive tax treatment" (87%), "are secure and safe" (86%), "offer a good return" (86%), "are an important source of retirement security" (85%), and "will prevent them from being a financial burden on their children in their later years" (81%).

Table 4:
Agreement With Various Statements About Attributes Of Annuities

	(Percentages)		
	1992	1993	1994
Keeping the tax advantage of annuities is a good way of encouraging long term savings	96	95	95
Annuities are an effective way to save for retirement	59	95	94
Annuities have attractive tax treatment	92	89	87
Annuities offer a good return	90	87	86
Annuities are a good source of	89	85	88

emergency funds in old age			
Annuities are an important source of retirement security	87	83	85
Annuities are secure and safe	85	88	86
Annuities will prevent them from becoming a financial burden on their children in their later years	80	78	81

© The Gallup Organization

[Home](#)
[Site Map](#) | [About the Committee](#)
[News Releases](#) | [Surveys](#) | [What's New](#) | [Library](#) | [Members](#) |
[Feedback](#) | [Links](#)
[Members Area](#)

CAI@davis-harman.com