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The Gallup Organization

PRINCETON, NEW JERSEY

Committee Of Annuity Insurers

Survey Of Non-Qualified Annuity Owners

April 1996

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INTRODUCTION

In December 1995, The Gallup Organization surveyed 1,107 owners of non-qualified annuities for the Committee of Annuity Insurers, a diverse group of life insurance companies that issue annuities. The results of the survey are presented in this report -- the "1995 Survey." Mathew Greenwald & Associates, Inc. consulted with the Committee on this project. This is the fourth time this survey has been conducted. In February 1992, 1,007 non-qualified annuity owners were interviewed by Gallup (the "1992 Survey"), in October 1993, 1,155 non-qualified annuity owners

were interviewed by Gallup (the "1993 Survey"), and in December 1994, 1,016 non-qualified annuity owners were interviewed by Gallup (the "1994 Survey"). Findings from the four 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 all four 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 three previous surveys in order to track trends.

To ensure that only owners of non-qualified annuities were interviewed in this survey, 35 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 35 companies are geographically diverse, represent a mix of large and small companies, and account for over four million non-qualified annuities currently in force. 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 35 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.

1995 SURVEY SUMMARY

Overall, there is little change in the 1995 Survey results compared to the three previous surveys. Non-qualified annuity owners' demographic characteristics, opinions on saving for retirement, sources of funds for purchasing annuities, and reasons for purchasing annuities are nearly identical to those found in the

1994, 1993 and 1992 Surveys.

Demographic Profile

- ε Most non-qualified annuity owners have moderate annual household incomes. More than 80 percent have total annual household incomes under \$75,000.
- ε The average age of non-qualified annuity owners is 64. They are about evenly divided between males (47%) and females (53%).
- ε Almost 60 percent of owners are retired, while 27 percent are employed full-time.
- ε Almost one-third of non-qualified annuity owners did not attend college. Two in five are college graduates.
- ε Over 60 percent of non-qualified annuity owners are married, while 22 percent are widowed.

Saving For Retirement

- ε Only 8 percent of non-qualified annuity owners believe that people in the United States save enough money for retirement. Seventy-nine percent believe that the government should give tax incentives to encourage people to save.

Preparing Financially For Retirement

- ε Almost nine out of ten non-qualified annuity owners believe they have done a very good job of saving for retirement. However, many are concerned that they might run out of money during retirement (53%), that inflation may affect their standard of living (73%), and that the costs of catastrophic illness or nursing home care might bankrupt them (59%).

Reasons For Purchasing An Annuity

- ε Three-quarters of 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 (86%).

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 (92%) and that annuities are an effective way to save for retirement (93%).

PROFILE OF NON-QUALIFIED ANNUITY OWNERS

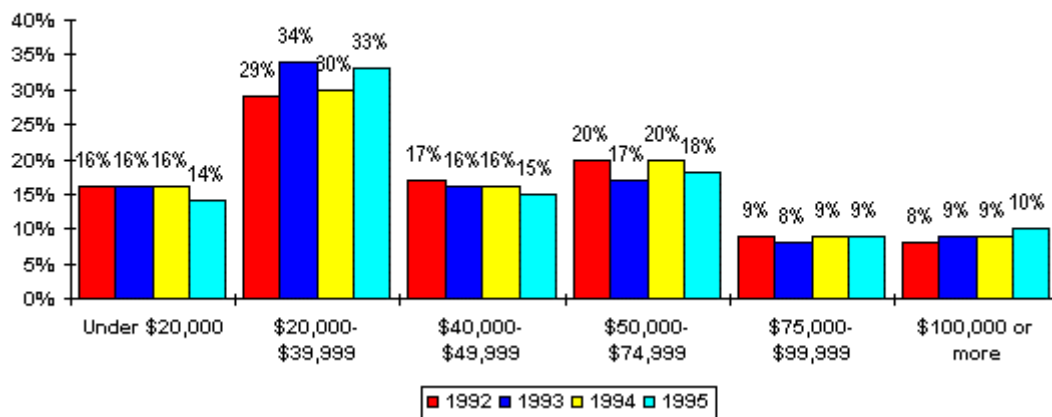
Typical Non-Qualified Annuity Owner

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

Income

Over eighty percent 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 (47%) and 14% have annual household incomes of less than \$20,000. Just ten percent have annual household incomes of \$100,000 or more. As shown in Figure 1, these findings are consistent with the findings of the 1994, 1993, and 1992 Surveys.

Figure 1: Annual Household Income



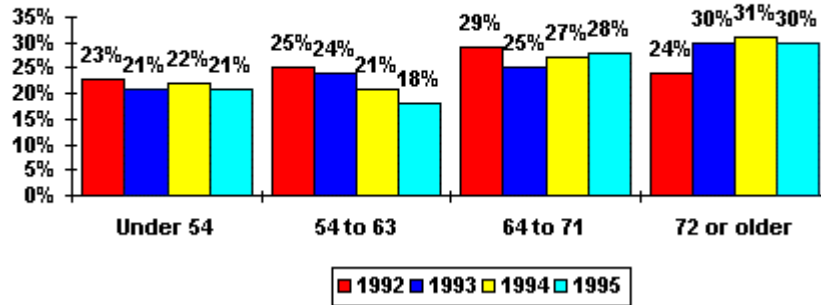
Age

The average age of non-qualified annuity owners is 64.

Approximately one-quarter are under age 54 (21%), between 54

and 63 (18%), 64 to 71 (28%), or 72 or older (30%).

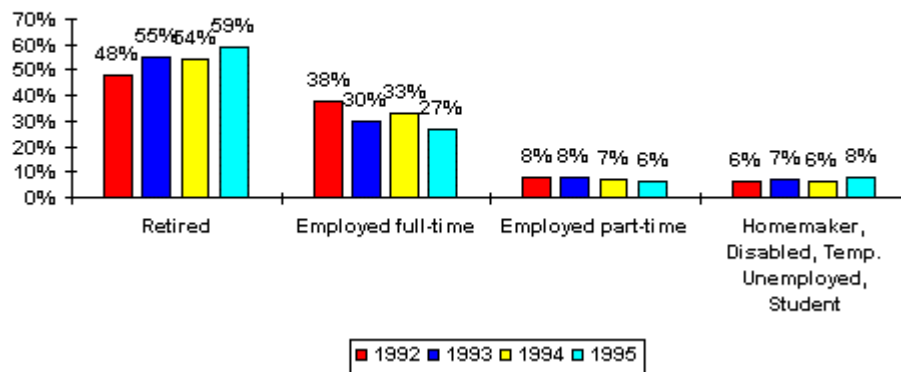
Figure 2: Age



Employment Status

Many non-qualified annuity owners are retired (59%) -- up from the 1994 Survey (54%), the 1993 Survey (55%) and the 1992 Survey (48%). Twenty-seven percent are employed full-time while another six percent are employed part-time.

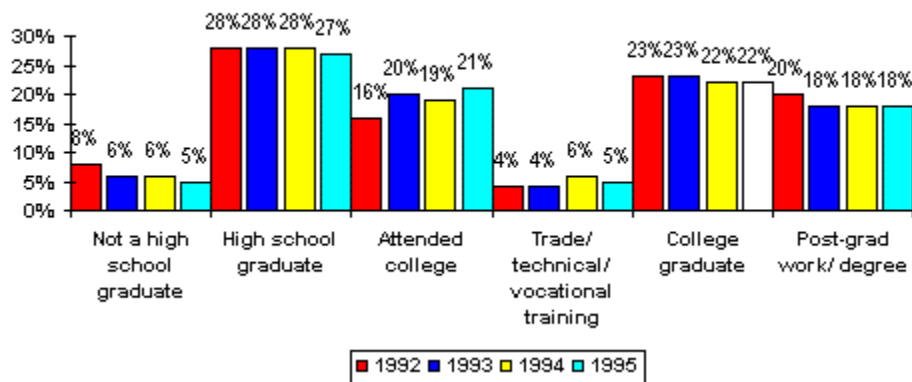
Figure 3: Employment Status



Education

Non-qualified annuity owners have diverse educational backgrounds. Three in five are not college graduates (59%). These findings are similar to those from previous surveys.

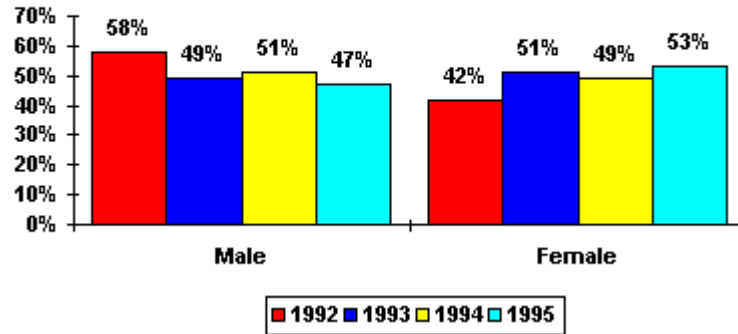
Figure 4: Level of Education



Gender

Non-qualified annuity owners are nearly equally divided between males (47%) and females (53%).

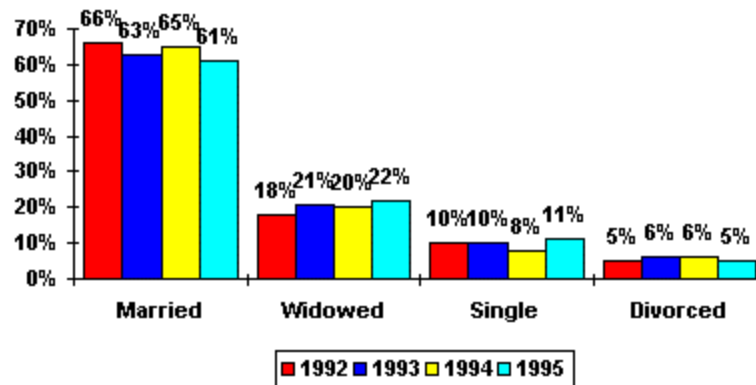
Figure 5: Gender



Marital Status

A majority of non-qualified annuity owners are married (61%). One owner in five is widowed (22%), while only one in ten is single (11%).

Figure 6: Marital Status



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. This proportion is similar to that found in the 1994 Survey (9%), 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 (79%), a proportion which decreased slightly from the 1994 Survey (83%) but is identical to the 1993 Survey (79%). Of note, younger respondents (those age 63 and younger) 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 consistent with those in the 1994, 1993 and 1992 Surveys.

As shown in Table 1, 86% 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, 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 (73%).

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 (59%) and over half (53%) are concerned about running out of money during retirement.

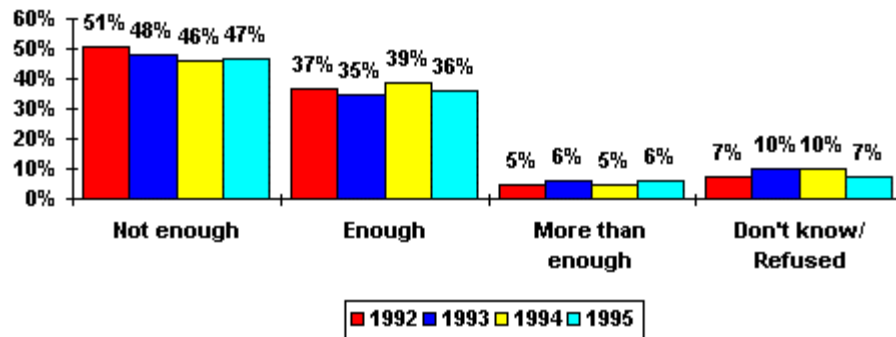
Table 1:
Agreement With Various Statements About Preparedness For Retirement

	(Percentages)			
	1992	1993	1994	1995
They have done a very good job of saving for retirement	84	87	88	86
They are concerned that inflation will reduce their standard of living in retirement	78	79	78	73
They are concerned that a catastrophic illness or the need for nursing home care might bankrupt them during retirement	66	63	62	59
They are concerned that they might	52	53	54	53

run out of money during retirement

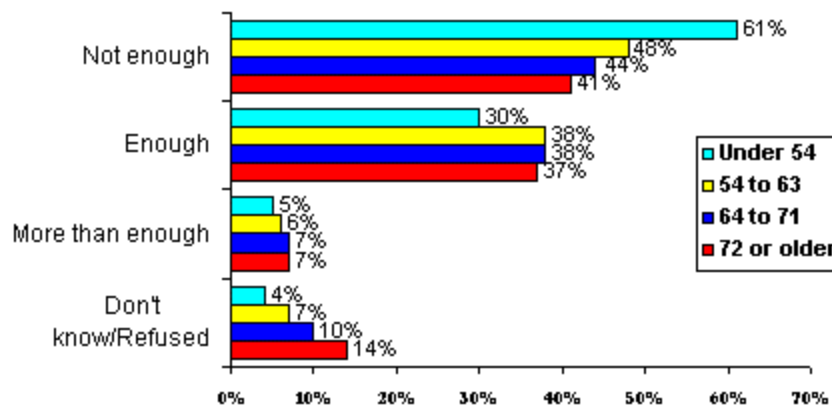
As shown in Figure 7, nearly half of non-qualified annuity owners (47%) do not feel that the money they will receive from pensions and other employment related retirement programs will be enough to take care of their financial needs in retirement. A little more than one-third believe it will be enough (36%), while just six percent say it will be more than enough.

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



Younger non-qualified annuity holders (those age 53 and younger) appear particularly concerned that money from pension and retirement plans will not be enough to take care of all of their financial needs in retirement. (See Figure 7a)

Figure 7a: Age and Whether Money From Pension Retirement Plans Will Cover Retirement Expenses (1995 Survey)



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. Approximately 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 (39%). One-fifth say the value is under \$25,000 (20%), while one-quarter say it is over \$100,000 (26%). These percentages are nearly the same as those found in the 1994, 1993 and 1992 Surveys.

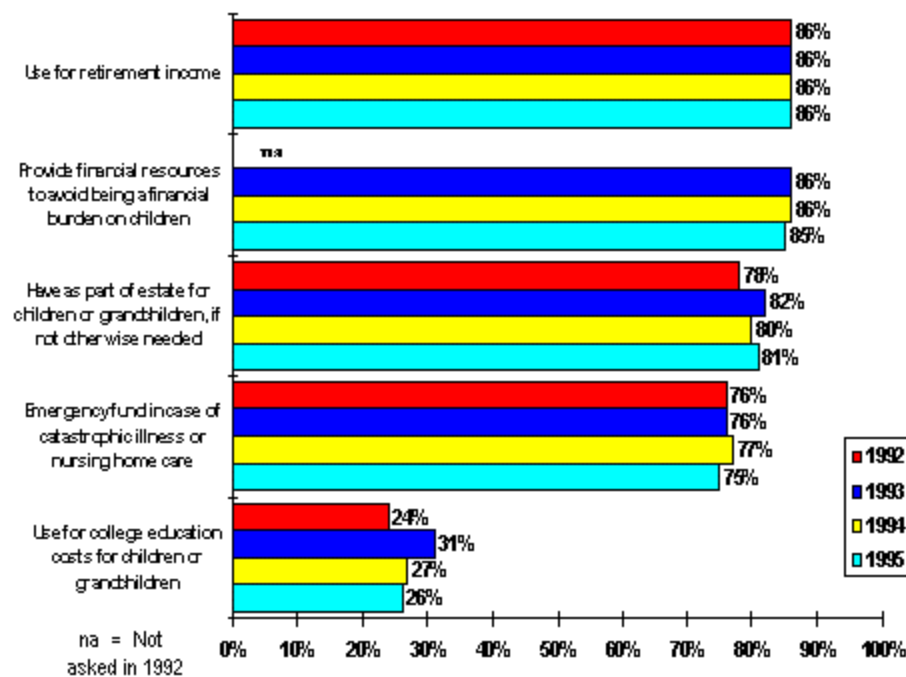
In an open-ended question, non-qualified annuity owners were asked to name the primary uses they intend to make of their annuity savings. Of the many uses given, owners are most likely to say they intend to use the savings for retirement income (53%) and/or to pay for daily living expenses (15%). (Of 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 stated that they 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 (85%). The other leading uses of annuity savings identified were: to have as part of an estate to be passed on to children or grandchildren, if not otherwise needed (81%), or to have as an emergency fund, in case of catastrophic illness or the need for nursing home care (75%).

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 influences how owners intend to use their annuity savings. For example, older respondents (those age 54 and older) are more likely to indicate that they will use their savings in case of catastrophic illness.

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. Close to three-fourths of non-qualified annuity owners say this was a "very" important reason they purchased a non-qualified annuity (72%). As shown in Table 2, large numbers also indicate that "very" important reasons for purchasing an annuity were that it is a safe purchase (64%) and that it has a good rate of return (57%).

Approximately half of non-qualified annuity owners report the following as "very" important reasons for purchasing a non-qualified annuity: they wanted a long term savings plan (52%), they could get a guaranteed income (51%), they wanted a source of funds for emergencies (47%), and it was 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%).

The level of importance owners place on the various reasons for buying an annuity is very similar to that found in the 1994, 1993, and 1992 Surveys.

Of note, household income also plays some role in determining the reasons owners have purchased annuities. For example, non-

qualified annuity owners with household incomes less than \$75,000 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, and 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. These findings are consistent with 1994 Survey findings.

Table 2:**Importance of Various Reasons for Buying an Annuity**

(Percentages)

	Very Important				Somewhat Important			
	1992	1993	1994	1995	1992	1993	1994	1995
Earnings would not be taxed until the funds were used	77	75	74	72	18	18	18	20
Was a safe purchase	68	65	63	64	27	27	30	28
Has a good rate of return	60	60	58	57	31	30	33	32
Wanted a long term savings plan	59	57	57	52	26	26	27	29
Could get an income guaranteed for as long as you live	49	49	49	51	25	27	25	25
Wanted a source of funds that could be used to pay for emergencies, such as catastrophic illness during retirement	46	46	46	47	25	28	29	27
Easy way to save	46	44	44	44	32	31	34	32
Have a choice of methods of getting	39	37	36	39	30	31	33	30

the money

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 (14%), a bonus (11%), or a gift from a relative (10%). 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 (62%), current income (51%), and proceeds from an investment (35%). The sources of funds owners use to purchase annuities are basically unchanged over the four year period covered by the 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	1995
Regular Savings	62	66	66	62
Current Income	57	55	57	51
Proceeds from an investment	44	35	38	35
An inheritance	20	23	22	22
Sale of family home, farm, or business	16	14	16	16
Death benefit from a life insurance policy	15	15	12	14

A bonus	11	12	11	11
Gift from a relative	11	11	9	10

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" (92%) and that "annuities are an effective way to save for retirement" (93%). (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" (87%), "are secure and safe" (87%), "offer a good return" (87%), "have attractive tax treatment" (84%), "are an important source of retirement security" (84%), and "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

	(Percentages)			
	1992	1993	1994	1995
Keeping the tax advantage of annuities is a good way of encouraging long term savings.	96	95	95	92
Annuities are an effective way to save for retirement.	95	95	94	93
Annuities have attractive tax treatment.	92	89	87	84
Annuities offer a good return.	90	87	86	87
Annuities are a good source of emergency funds in old age.	89	85	88	87
Annuities are an important				

source of retirement security.	87	83	85	84
Annuities are secure and safe.	85	88	86	87
Annuities will prevent them from becoming a financial burden on their children in their later years.	80	78	81	80

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