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Committee Of Annuity Insurers

Survey Of Owners Of Non-Qualified Annuity Contracts, August 1997

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Introduction

In February 1997, The Gallup Organization ("Gallup") surveyed 1,361 owners of non-qualified annuity contracts for the Committee of Annuity

Insurers, a diverse group of life insurance companies that issue annuity contracts. The results of the 1997 Survey Of Owners Of Non-Qualified Annuity Contracts (the "1997 Survey") are presented in this report. Mathew Greenwald & Associates, Inc. ("Greenwald & Associates") consulted with the Committee of Annuity Insurers on this project. This is the fifth time that this Survey has been conducted. In February 1992, October 1993, December 1994, and December 1995, over 1,000 owners of non-qualified annuity contracts were interviewed by Gallup. Findings from the five 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 annuity contracts. Questions on owners' opinions on saving for retirement, sources of funds for purchasing annuity contracts, and reasons for purchasing annuities also were included. The questionnaires used in all five Surveys were developed by Greenwald & Associates, Gallup, and the Committee of Annuity Insurers. The 1997 Survey contains many of the same questions asked in previous Surveys.

To ensure that only owners of non-qualified annuity contracts were interviewed in this Survey, 33 life insurance companies provided the names of individuals who currently own non-qualified annuity contracts (*i.e.*, annuity contracts purchased with after-tax dollars). The companies used specific sampling procedures developed by Gallup and Greenwald & Associates to ensure that a representative sample of owners of non-qualified annuity contracts was identified. The 33 companies are geographically diverse, represent a mix of large and small companies, and account for nearly five million non-qualified annuity contracts currently in force. They also represent a mix of the main systems for distributing annuities.

The people interviewed were selected at random by Gallup from the files of the 33 companies. It is Gallup's view (based on the sampling procedures used and other research that Gallup has conducted in this area) that the results of this Survey represent the characteristics of owners of non-qualified annuity contracts, with a sampling error of plus or minus 3 percentage points, at the 95 percent confidence level.

1997 Survey Summary

Overall, there is little change in the results of the 1997 Survey compared with the results of the previous Surveys. The 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

previous Surveys. As expected, the findings of 1997 Survey are little different from the results of the 1995 Survey.

Demographic Profile

- ⌘ Most owners of non-qualified annuity contracts have moderate annual household incomes. More than 80 percent have total annual household incomes under \$75,000.
- ⌘ The average age of owners of non-qualified annuity contracts is 66. There are slightly more female (55%) than male (45%) owners of non-qualified annuity contracts.
- ⌘ Almost 60 percent of owners of non-qualified annuity contracts are retired, while 25 percent are employed full-time.
- ⌘ Almost one-third of owners of non-qualified annuity contracts did not attend college. Two in five are college graduates.
- ⌘ Nearly six in ten owners of non-qualified annuity contracts are married, while 28 percent are widowed.
- ⌘ Half (51%) of owners of non-qualified annuity contracts are currently vested or eligible to receive a pension from their current or former employers.

Saving For Retirement

- ⌘ Eight in ten (82%) owners of non-qualified annuity contracts believe that people in the United States do not save enough money for retirement. Seventy-eight percent believe that the government should give tax incentives to encourage people to save.

Preparing Financially For Retirement

- ⌘ Nine out of ten owners of non-qualified annuity contracts believe that they have done a very good job of saving for retirement. However, many express concern that the costs of a catastrophic illness or nursing home care might bankrupt them (54%), that they might run out of money during retirement (42%), or that their spouse may not have enough savings to make ends meet if the owner predeceases the spouse.

Uses Of Annuity Savings

- ⌘ Owners of non-qualified annuity contracts are most likely to say that

they will use their annuity savings for retirement (85%), to give them financial resources so that they will not be a financial burden to their children in their later years (84%), and to have as part of an estate that will be passed on to children or grandchildren, if they do not need it (82%).

- ε Three quarters of owners of non-qualified annuity contracts purchased an annuity to cover the expense of unpredictable events such as a catastrophic illness or the need for nursing home care.

Attributes Of Annuity Contracts

- ε Nearly all owners of non-qualified annuity contracts agree that keeping the current tax treatment of annuities is a good way to encourage long-term savings (93%) and that annuities are an effective way to save for retirement (93%).

Profile Of Owners Of Non-Qualified Annuity Contracts

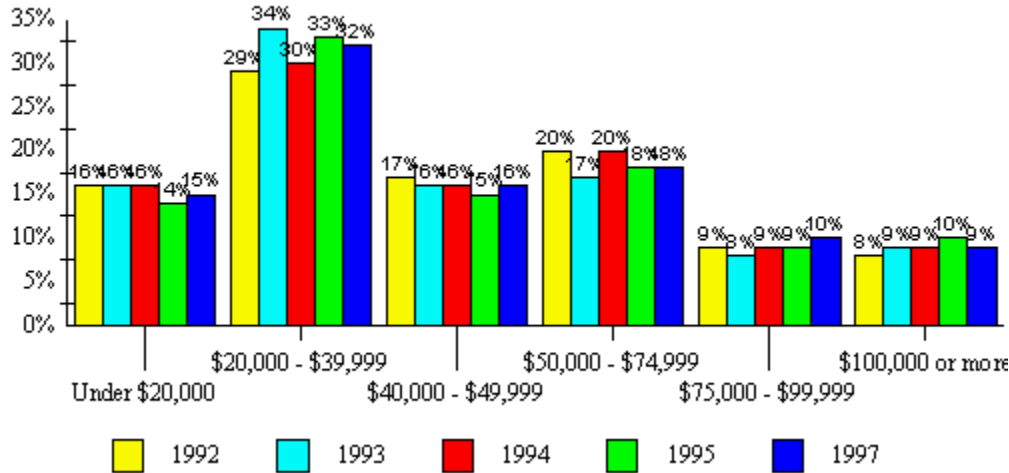
Typical Owner Of Non-Qualified Annuity Contract

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

Income

Over 80 percent of owners of non-qualified annuity contracts have household incomes under \$75,000. Nearly two-thirds have annual household incomes below \$50,000 (63%). Almost half have household incomes below \$40,000 (47%) and 15 percent have annual household incomes of less than \$20,000. Just 9 percent have annual household incomes of \$100,000 or more. As shown in Figure 1, these findings are consistent with the findings of previous Surveys.

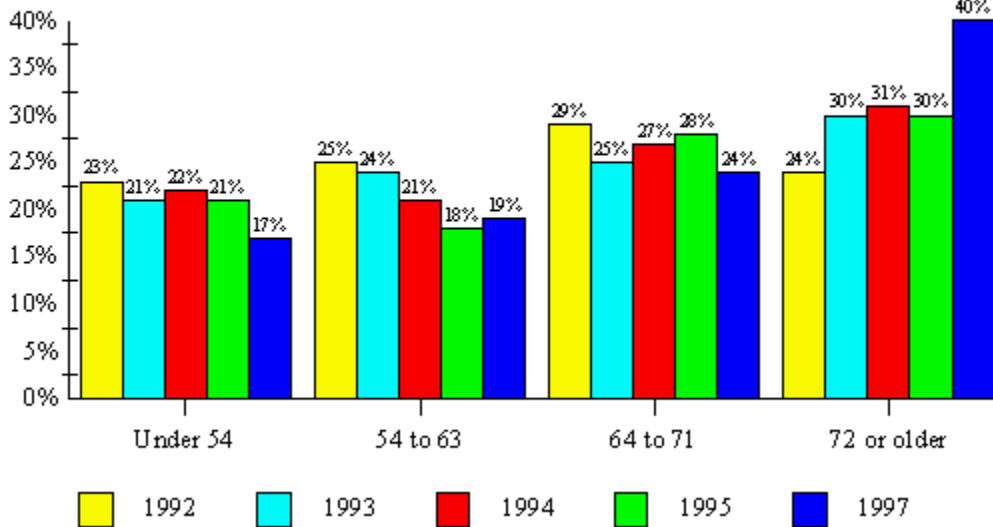
Figure 1: Annual Household Income



Age

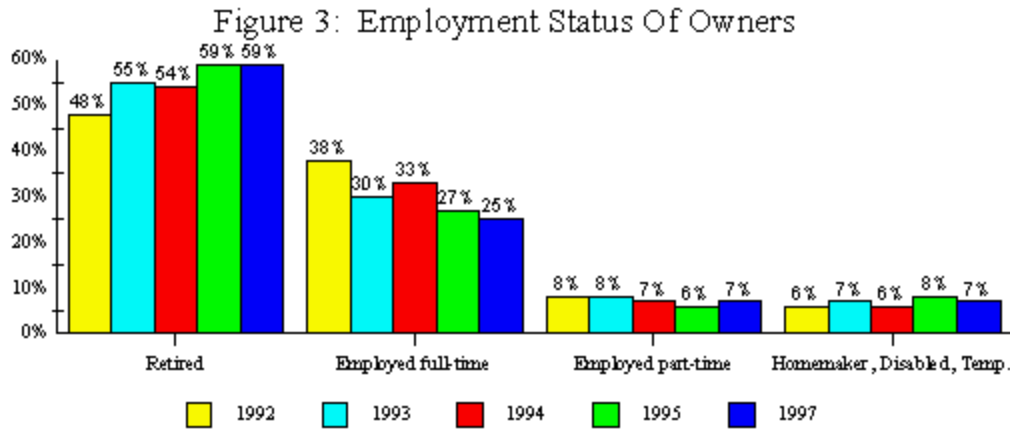
The average age of owners of non-qualified annuity contracts is 66. Four in ten owners of non-qualified annuity contracts are age 72 or older (40%). This represents an increase in owners in that age bracket compared with previous Surveys. Approximately one in five owners of non-qualified annuity contracts is under age 54 (17%), between age 54 and age 63 (19%), or between age 64 and age 71 (24%).

Figure 2: Age

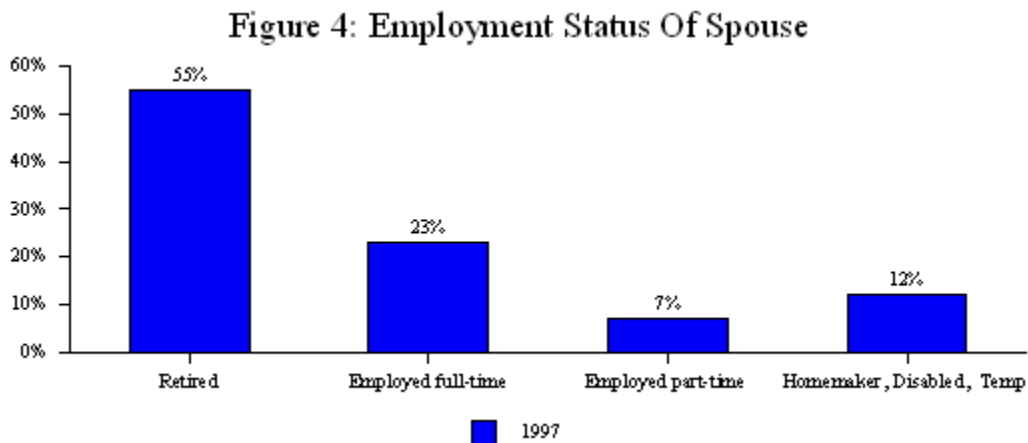


Employment Status

As was true in previous Surveys, many owners of non-qualified annuity contracts are retired (59%). Twenty-five percent are employed full-time while another 7 percent are employed part-time.



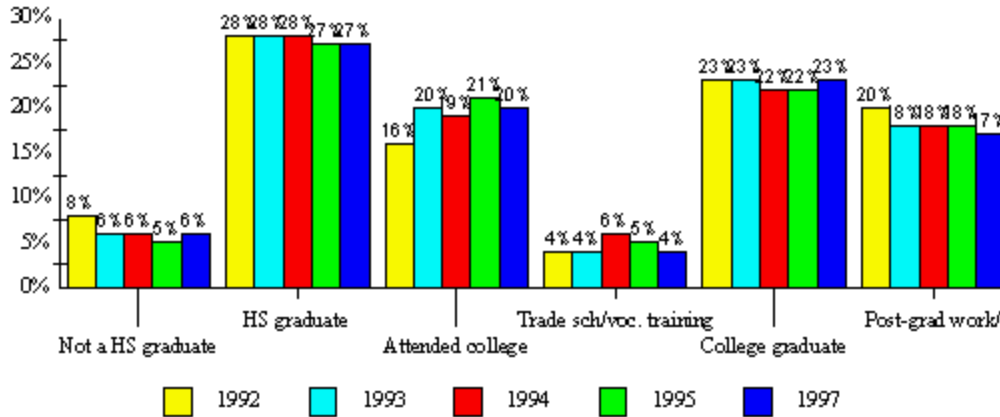
Most of the spouses of owners of non-qualified annuity contracts also are retired (55%). One in five (23%) is employed full-time, while a few (7%) are employed part-time.



Education

Owners of non-qualified annuity contracts have diverse educational backgrounds. Three in five owners of non-qualified annuity contracts are not college graduates (57%). These findings are similar to the findings of previous Surveys.

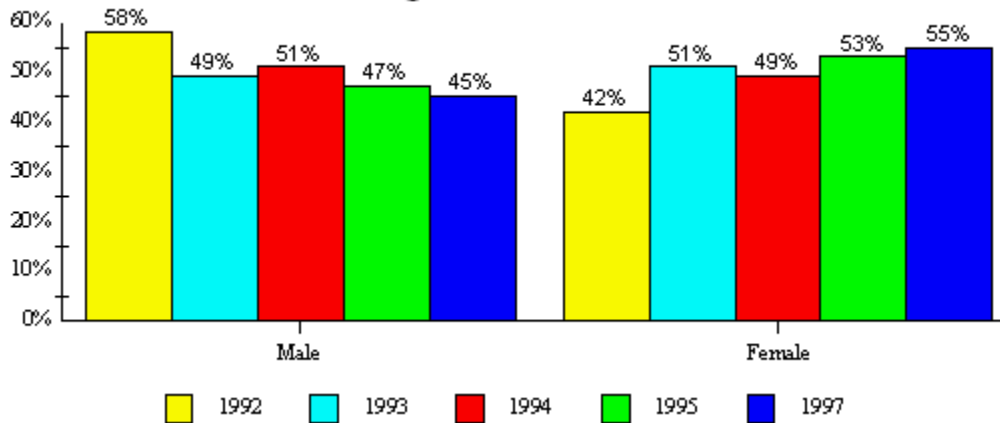
Figure 5: Level Of Education



Gender

Owners of non-qualified annuity contracts are slightly more likely to be female (55%) than male (45%). There has been an increase in the percentage of female owners since 1992.

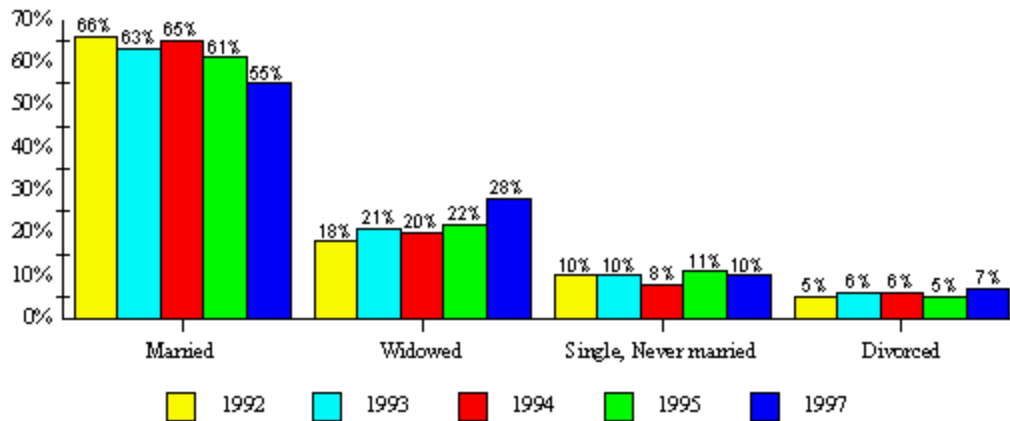
Figure 6: Gender



Marital Status

A majority of owners of non-qualified annuity contracts are married (55%) - - down slightly from previous Surveys. Three in ten owners of non-qualified annuity contracts are widowed (28%) -- up slightly from previous Surveys. Only one in ten owners of non-qualified annuity contracts is single (10%).

Figure 7: Marital Status



Family Situation

One in ten owners of non-qualified annuity contracts has adult children living in their home (11%), while almost two in ten (18%) currently are helping adult children to pay for higher education or a house. While the average age of owners of non-qualified annuity contracts has increased since 1992, almost one in ten owners of non-qualified annuity contracts (7%) has elderly parents that they or their spouse currently are supporting financially or expect to support in the future. As might be expected, most owners of non-qualified annuity contracts who are supporting elderly parents (74%) are under age 64.

Survey Findings

Saving For Retirement

Eight in ten owners of non-qualified annuity contracts (82%) believe that people in the United States do not save enough money for retirement. This proportion is similar to that found in previous Surveys.

A very large majority of owners of non-qualified annuity contracts believe that the government should give tax incentives to encourage people to save (78%). Of note, younger owners of non-qualified annuity contracts (under age 64) are more likely than those who are older to believe that the government should give incentives to encourage people to save.

Eighty-four percent of owners of non-qualified annuity contracts report that

they have saved more money than they would have if the tax advantages of an annuity contract were not available. Ninety-one percent report that they try not to withdraw any money from their annuity contract before they retire because they would have to pay tax on the money withdrawn from an annuity contract. Only 15 percent of owners who are not receiving regular payouts from their annuity contracts report having withdrawn money from their annuity contract. Twenty-three percent of owners of non-qualified annuity contracts currently are receiving regular payouts from their annuity contracts.

Preparing Financially For Retirement

While most owners of non-qualified annuity contracts are confident that they have done a very good job of preparing financially for retirement, many express concern about running out of money during retirement and about their ability to cover the costs of a catastrophic illness or nursing home care. These findings are similar to the findings of previous Surveys.

As shown in Table 1, 89 percent of owners of non-qualified annuity contracts believe that the statement "you have done a very good job of preparing financially for retirement" describes them "very" well or "somewhat" well. Nevertheless, more than half of owners of non-qualified annuity contracts (54%) express concern about being able to cover the costs of a catastrophic illness or nursing home care. Four in ten are concerned about running out of money during retirement (42%) -- a high proportion, but less than in previous Surveys -- or that their surviving spouse may not have enough money to make ends meet (38%). About three in ten owners of non-qualified annuity contracts believe that they (or their spouse) are at a high risk of suffering a catastrophic medical condition in old age (31%), or that they (or their spouse) are at a high risk of needing to be confined to a nursing home in old age (24%). Three in ten owners of non-qualified annuity contracts also worry about being able to manage their resources to make ends meet in retirement (31%). This is due, no doubt, to the complexity of dealing with all of the uncertainties of retirement finances, such as the uncertain timing of death.

Table 1: Agreement With Various Statements About Preparedness For Retirement					
	1992	1993	1994	1995	1997
	(Percentages)				

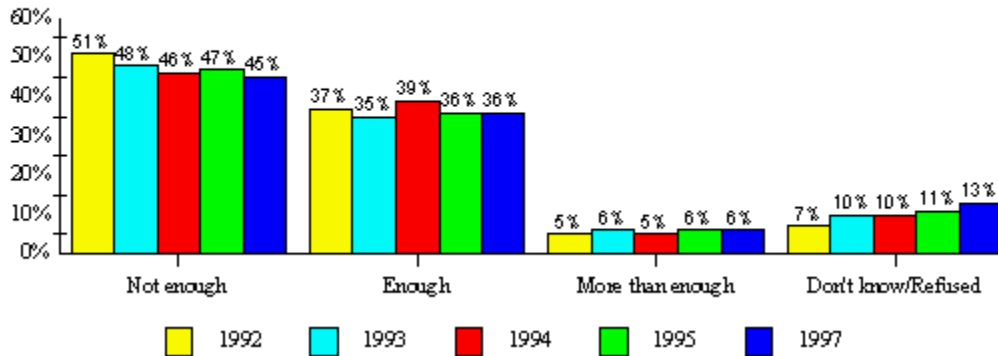
They have done a very good job of saving for retirement.	84	87	88	86	89
They are concerned that a catastrophic illness or nursing home care might bankrupt them during retirement.	66	63	62	59	54
They are concerned that they might run out of money during retirement.	52	53	54	53	42
Upon the death of the owner, the surviving spouse may not have enough savings to make ends meet.	*	*	*	*	38
It will be difficult to manage their money in retirement.	*	*	*	*	31
They (or their spouse) are at a high risk of suffering a catastrophic medical condition in old age.	*	*	*	*	31
They (or their spouse) are at a high risk of needing to be confined to a nursing home in old age.	*	*	*	*	24
* = not asked					

Savings Of Owners Of Non-Qualified Annuity Contracts

Half (51%) of owners of non-qualified annuity contracts are vested or eligible to receive a pension from their current or former employers, and only 43 percent of the pension plans in which owners of non-qualified annuity contracts are vested or from which owners of non-qualified annuity contracts are eligible to receive pensions have a cost-of-living adjustment feature. Half (52%) of owners of non-qualified annuity contracts (or their spouses) who are employed full-time participate in an employer-sponsored pension plan in which the participant selects investment options for the account (like a section 401(k) plan), while 32 percent participate in another type of employer-sponsored pension plan. As shown in Figure 8, nearly half

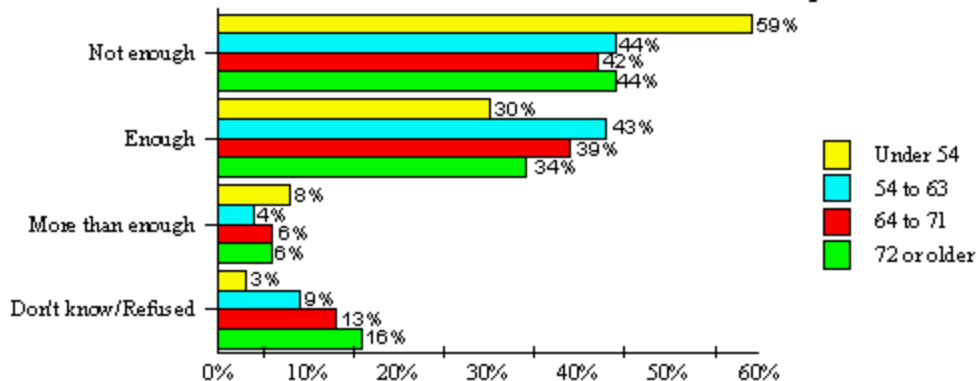
of owners of non-qualified annuity contracts (45%) do not feel that the money they will receive from pensions and other employment-related retirement programs (including Social Security) will be enough to take care of their financial needs in retirement. A little more than one-third of owners of non-qualified annuity contracts believe that it will be enough (36%), while just 6 percent say that it will be more than enough.

Figure 8: Whether Money From Pension and Retirement Plans Will Cover Retirement Expenses



Owners of non-qualified annuity contracts who are under age 54 appear more concerned that money from pension and retirement plans (including Social Security) will not be enough to take care of all of their financial needs in retirement. Six in ten owners of non-qualified annuity contracts who are under age 54 do not believe that money from pension and retirement plans will be enough (59%). (See Figure 9.)

Figure 9: Age and Whether Money From Pension and Retirement Plans Will Cover Retirement Expenses



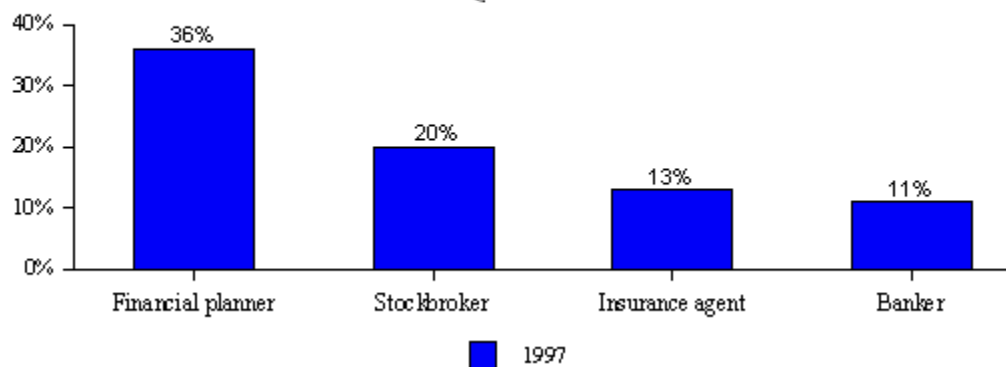
Approximately four in ten owners of non-qualified annuity contracts report that the current value of all of the non-qualified annuity contracts that they or their spouse own is between \$25,000 and \$100,000 (38%). Fifteen percent of owners of non-qualified annuity contracts say that the value is

under \$25,000, while three in ten say that it is over \$100,000 (28%). These percentages are nearly the same as those found in previous Surveys.

Three in ten owners of non-qualified annuity contracts say that they plan to make additional contributions to an annuity contract that they currently own (27%). One in ten owners of non-qualified annuity contracts plans to purchase another annuity contract in the near future (13%).

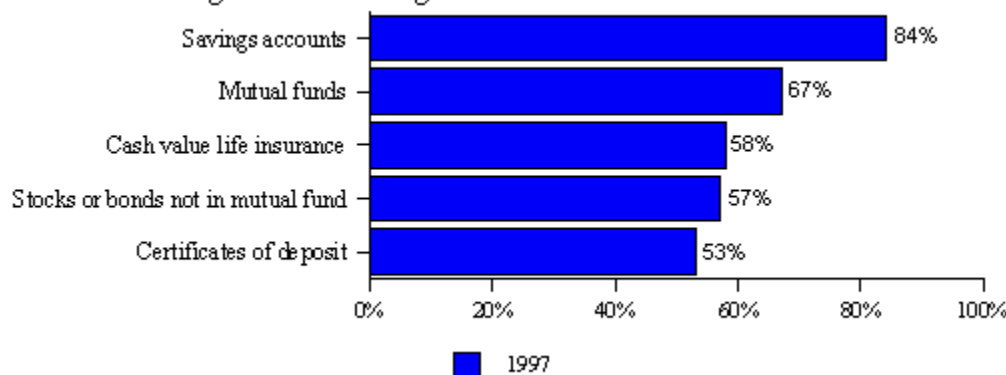
In an open-ended question, owners of non-qualified annuity contracts reported that they talked to a variety of different people when making the decision to purchase an annuity contract.

**Figure 10: Sources Of Information
About Non-Qualified Annuities**



Owners of non-qualified annuity contracts also save in a number of other financial products.

Figure 11: Savings In Other Financial Products



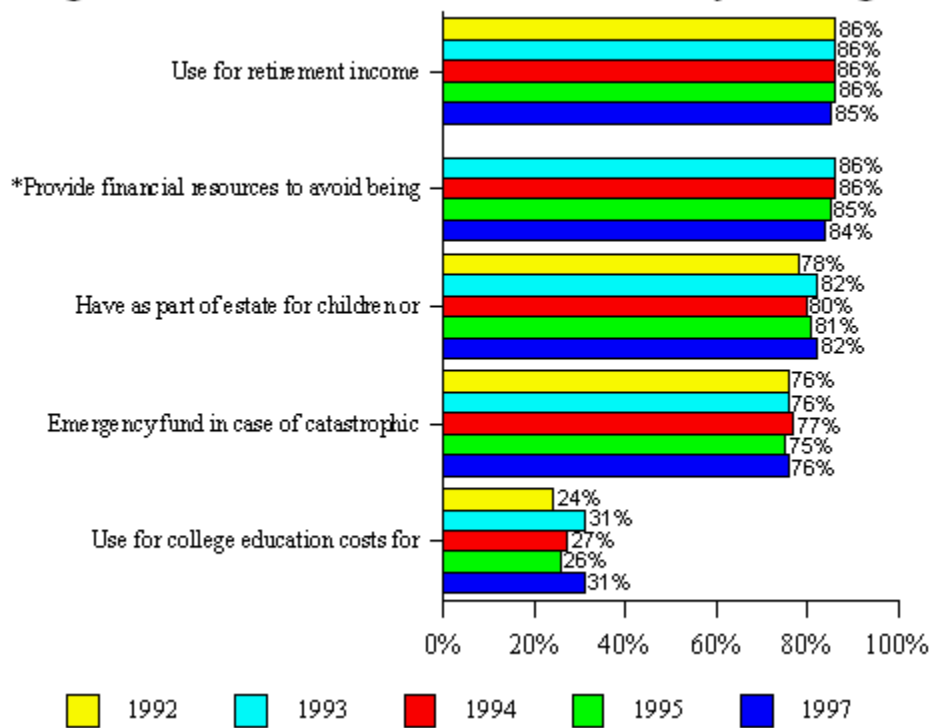
Uses Of Annuity Savings

In an open-ended question, owners of non-qualified annuity contracts were

asked to name the primary uses that they intend to make of their annuity savings. Of the many uses given, owners of non-qualified annuity contracts are most likely to say that they intend to use the savings for retirement income (52%), followed by to pay for daily living expenses (11%) and/or for an inheritance for their children if not otherwise needed (11%). (Of course, for owners of non-qualified annuity contracts who already are retired, daily living expenses are retirement expenses.)

Owners of non-qualified annuity contracts were asked in a separate question if they intended to use their annuity savings in any of five specific ways. As shown in Figure 12, eight in ten owners of non-qualified annuity contracts stated that they plan on using their annuity savings for the following aspects of retirement: for retirement income (85%), to avoid being a financial burden on their children (84%), or to have as part of an estate to be passed on to children or grandchildren, if not otherwise needed (82%). Another leading use of annuity savings identified is as an emergency fund, in case of a catastrophic illness or the need for nursing home care (76%).

Figure 12: Intended Uses Of Annuity Savings



Older people appear to be concerned about unpredictable events that can have severely adverse financial consequences, such as a catastrophic illness or the need for nursing home care. One of the ways that they deal with these possibilities is saving through non-qualified annuity contracts, which build in value until needed. The fact that a high proportion believe that some of

their non-qualified annuity savings may be part of their estates is, no doubt, a reflection of the fact that if the event they fear does not occur, then some of their annuity savings will be left for their heirs.

Age influences how owners of non-qualified annuity contracts intend to use their annuity savings. For example, older owners of non-qualified annuity contracts (those age 72 and older) are more likely to indicate that they will use their savings in case of a catastrophic illness.

Reasons For Purchasing Annuities

In an open-ended question regarding their reasons for purchasing an annuity contract, a plurality of owners of non-qualified annuity contracts (26%) reported that they purchased their annuity contracts to provide retirement income. Just 14 percent reported that tax savings had been their motivation. Nevertheless, the fact that earnings on annuity savings are not taxed until the savings are used is a strong motivation for purchasing a non-qualified annuity. When asked whether any of a list of specific reasons for purchasing an annuity contract were true for them, close to three-fourths of owners of non-qualified annuity contracts say that the tax treatment of annuity contracts was a "very" important reason that they purchased a non-qualified annuity (73%). As shown in Table 2, large numbers also indicate that "very" important reasons for purchasing an annuity were that it is a safe purchase (61%) and that it has a good rate of return (55%). The levels of importance that owners of non-qualified annuity contracts place on the various reasons for buying an annuity contract are very similar to those found in previous Surveys.

Approximately half of owners of non-qualified annuity contracts report the following as "very" important reasons for purchasing a non-qualified annuity: they wanted a long-term savings plan (51%), they could get income guaranteed for life (49%), and they wanted a source of funds for emergencies (49%). Slightly fewer report that it provides money in case they or their spouse need to enter a nursing home (42%), that it was an easy way to save (41%), and that they have a choice of methods of receiving payments from their annuity savings (39%). Three in ten owners of non-qualified annuity contracts say that having a choice of methods of receiving payments from their annuity savings was "somewhat" important (32%).

Of note, household income also plays some role in determining the reasons that owners of non-qualified annuity contracts have purchased annuities. For example, owners of non-qualified annuity contracts with household incomes of less than \$75,000 are more likely to say that they purchased an annuity

contract because they had a choice of methods of getting the money and it was a safe purchase. Additionally, owners of non-qualified annuity contracts who did not attend college are more likely to have purchased annuity contracts because they are an easy way to save, and they offer choices of methods of receiving income. These findings are consistent with the findings of previous Surveys.

Table 2: Importance Of Various Reasons For Buying An Annuity										
	Very Important					Somewhat Important				
	1992	1993	1994	1995	1997	1992	1993	1994	1995	1997
(Percentages)										
Earnings would not be taxed until the funds were used.	77	75	74	72	73	18	18	18	20	17
Was a safe purchase.	68	65	63	64	61	27	27	30	28	29
Had a good rate of return.	60	60	58	57	55	31	30	33	32	31
Wanted a long-term savings plan.	59	57	57	52	51	26	26	27	29	27
Could get an income guaranteed for life.	49	49	49	51	49	25	27	25	25	24
Wanted a source of funds that could be used to pay for emergencies, such as catastrophic illness										

during retirement.	46	46	46	47	49	25	28	29	27	29
Easy way to save.	46	44	44	44	41	32	31	34	32	35
Have a choice of methods of getting the money.	39	37	36	39	39	30	31	33	30	32
It provides money in case owner or spouse needs to enter a nursing home.	*	*	*	*	42	*	*	*	*	30
* = not asked										

Sources Of Funds For Annuities

Owners of non-qualified annuity contracts use more than one source of funds for the purchase of their annuities. Many owners of non-qualified annuity contracts buy annuity contracts with the proceeds from "one-time" events such as an inheritance (24%), the sale of a home, farm, or business (18%), a death benefit from a life insurance policy (14%), a gift from a relative (14%), or a bonus (12%). Overall, about half of owners of non-qualified annuity contracts (51%) say that they have used money from at least one of these one-time events to buy a non-qualified annuity. As shown in Table 3, many owners of non-qualified annuity contracts also indicate that some of their annuity premiums have come from their regular savings (65%), current income (53%), and proceeds from an investment (31%). The sources of funds that owners of non-qualified annuity contracts use to purchase annuities are, for the most part, unchanged over the five year period covered by the Surveys.

Age and marital status play a role in determining sources of funds for many owners of non-qualified annuity contracts. Owners of non-qualified annuity contracts who are age 64 and over 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 that they have used an inheritance or the proceeds from an investment to purchase annuities.

Table 3: Sources Of Funds For Owners' Annuities					
	1992	1993	1994	1995	1997
(Percentages)					
Regular savings	62	66	66	62	65
Current income	57	55	57	51	53
Proceeds from an investment	44	35	38	35	31
An inheritance	20	23	22	22	24
Sale of family home, farm, or business	16	14	16	16	18
Death benefit from a life insurance policy	15	15	12	14	14
Gift from a relative	11	11	9	10	14
A bonus	11	12	11	11	12

Attributes Of Annuities

Nearly all owners of non-qualified annuity contracts agree "completely" or "somewhat" that "keeping the tax advantage of annuities is a good way of encouraging long-term savings" (93%), that "annuities are an effective way to save for retirement" (93%), that "annuities are secure and safe" (90%), and that "annuities are a good way to ensure your [surviving] spouse has a continuing income" (90%). (See Table 4.)

Very large proportions of owners of non-qualified annuity contracts agree "completely" or "somewhat" that annuities "have attractive tax treatment" (88%), "are an effective way of assuring money is available to pay for a catastrophic illness or nursing home care" (86%), "are a good source of emergency funds in old age" (85%), "offer a good return" (85%), "will prevent them from being a financial burden on their children in their

later years" (83%), and "are an important source of retirement security" (81%).

Table 4: Agreement With Various Statements About Attributes Of Annuities					
	1992	1993	1994	1995	1997
(Percentages)					
Keeping the tax advantage of annuities is a good way of encouraging long-term savings.	96	95	95	92	93
Annuities are an effective way to save for retirement.	95	95	94	93	93
Annuities are secure and safe.	85	88	86	87	90
Annuities are a good way to ensure their surviving spouse has a continuing income.	*	*	*	*	90
Annuities have attractive tax treatment.	92	89	87	84	88
Annuities are an effective way of assuring money is available to pay for a catastrophic illness or nursing home care.	*	*	*	*	86
Annuities offer a good return.	90	87	86	87	85
Annuities are a good source of emergency funds in old age.	89	85	88	87	85
Annuities will prevent them from becoming a financial burden on their children in their later years.	80	78	81	80	83
Annuities are an important source of retirement security.	87	83	85	84	81
* = not asked					

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