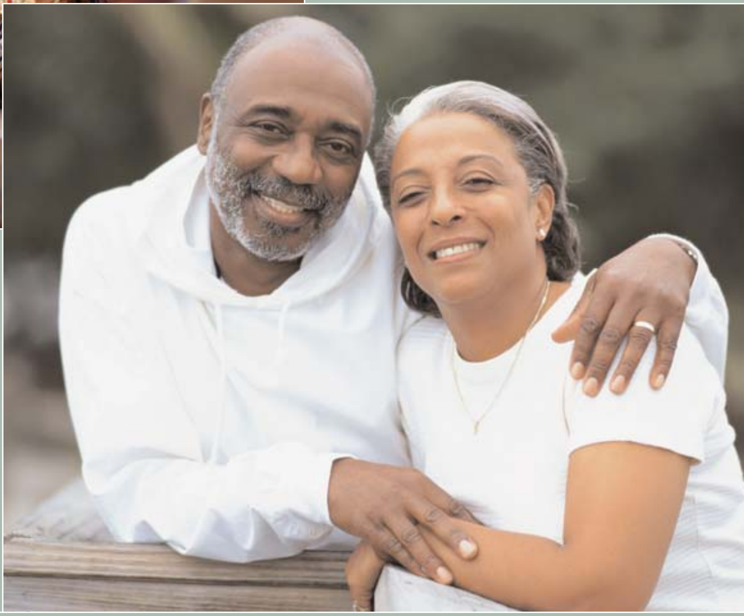
2005 Survey of Owners of Non-Qualified Annuity Contracts



Conducted by

The Gallup Organization

and

Mathew Greenwald & Associates

for

The Committee of Annuity Insurers

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

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Introduction

Between November 2004 and January 2005, The Gallup Organization ("Gallup") surveyed 1,022 owners of non-qualified annuity contracts for the Committee of Annuity Insurers, a diverse group of life insurance companies that issue annuity contracts and that represent more than half of the annuity business in the United States. The results of the Survey of Owners of Non-Qualified Annuity Contracts (the "2005 Survey") are presented in this report. Mathew Greenwald & Associates, Inc. ("Greenwald & Associates") consulted with the Committee of Annuity Insurers on this project, including the analysis of results presented in this report.

This Survey has been conducted by Gallup in eight previous years:

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

Where appropriate, this report compares the findings from prior Surveys to the findings of the 2005 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) were interviewed in this Survey, 31 life insurance companies that are 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 31 companies are geographically diverse, represent a mix of large and small companies, and account for more than six million non-qualified annuity contracts currently in force. They also utilize a mix of the main distribution channels for marketing and selling their non-qualified annuity products.

Gallup selected the individuals who were interviewed at random from the samples provided by the 31 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 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.

2005 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 from the 2001 Survey include an increased proportion of women who own non-qualified annuities, an increased proportion of owners who hold fixed (as opposed to variable) annuities, and an increased concern among owners regarding the risks that health and long-term care costs pose to their retirement security. In addition, the 2005 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 purchased their first annuity before age 65 (83%). The average age at which owners purchased their first annuity was 50. The proportion of fixed annuity owners who were under 50 when they bought their first annuity has increased from 28% in 2001 to 39% in 2005.
- *Retention of First Annuity.* Almost all non-qualified annuity owners (88%) still own the first annuity they purchased.
- *Current Age.* The average age of non-qualified annuity owners is 66.
- *Gender.* Non-qualified annuity owners are more likely to be female than male (56% vs. 44%). For women, this represents an increase of 8 percentage points from 2001.
- *Employment Status.* Fifty-eight percent of non-qualified annuity owners are retired, whereas 35% are employed either full-time or part-time.
- *Household Income.* Non-qualified annuity owners have moderate incomes. Two-thirds (66%) have annual household incomes below $75,000, while one-third have annual household incomes below $40,000 (an increase of eight percentage points from 2001). Only 18% have annual household incomes of $100,000 or more.

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 (87%).
- *Some Specific Concerns.* Despite their general optimism, there are several areas of concern to non-qualified annuity owners when it comes to their retirement. One of the key concerns is that the costs of a catastrophic illness or nursing home care might bankrupt them in retirement.

Uses of Annuity Savings

- *Retirement.* Retirement income remains a key use that owners intend to make of their non-qualified annuities. Almost eight in ten (78%) owners say that they intend to use their annuities in this manner.
- *Other uses.* 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%). Seven in ten owners (70%) purchased an annuity to cover the potential expense of unpredictable events such as a catastrophic illness or the need for nursing home care.

Taxation

- *Tax Deferral as Incentive to Save.* 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 (91%), and that annuities are an effective way to save for retirement (90%).
- *Treatment of Distributions as Incentive to Save.* Over nine in ten owners (92%) 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 (an increase of four percentage points since the 2001 Survey).

Sources of Retirement Income

- *Expectations Differ by Employment Status.* Retired owners generally view Social Security and money their employers put into a retirement plan for them as more important sources of income in retirement than owners who have not yet retired, with 58% and 47% of retired owners, respectively, citing these as major sources of expected retirement income, compared to 34% and 43% of non-retired owners. In contrast, those who are not yet retired generally view themselves as more responsible for their own retirement security, and thus are more likely to cite their own personal savings such as annuities and other investments (39% non-retired vs. 26% retired) or money they put into a retirement plan at work (41% non-retired vs. 21% retired) as major sources of expected retirement income.

Standard of Living in Retirement

- *General Confidence.* Six in ten owners report that they are “not too” or “not at all concerned” about having to cut back on their standard of living in retirement (59%). Only one in eight says they are “very” concerned about having to cut back (12%).
- *Planning for Life Expectancies.* The majority of owners believe that they will need to cut back on their standard of living if they were to live to age 92 (66%). This includes 24% who say that they would need to cut back a lot and 42% who

say they would need to cut back a little. One-third think that they would be able to maintain their current standard of living to that age (32%).

Inaccurate Perceptions of Life Expectancy

- Half of owners underestimate their life expectancy, including 30% who do so by at least 5 years. Younger owners (those under age 64) are more likely than older owners to underestimate their life expectancy.

CHAPTER 1:
Profile of Non-Qualified Annuity Owners

A Snapshot of the Typical Non-Qualified Annuity Owner

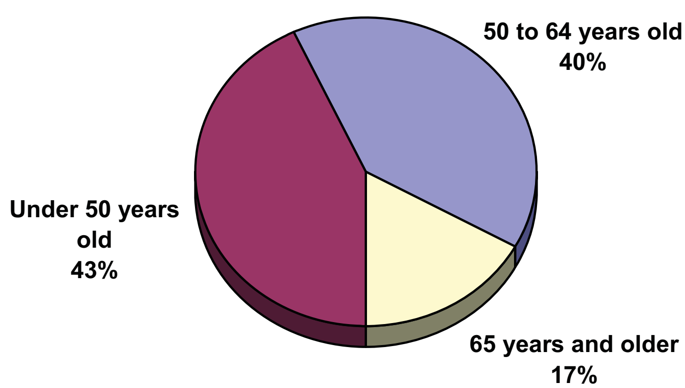
The typical owner of a non-qualified annuity has at least some college education and a moderate family income. In this regard, most owners, whether retired or working, have annual household incomes of less than $75,000. The average age at which owners purchased their first non-qualified annuity is 50, and the average current age of owners is 66. Owners are more likely to be retired than employed and are more likely to be female than male. They come from a broad background of occupational fields, and are equally likely to own a variable annuity as they are to own a fixed annuity. The details on the 2005 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 50. Over two-fifths (43%) made their first purchase when they were younger than 50. A similar share (40%) purchased their first annuity between the ages of 50 and 64. Only 17% purchased their first annuity at the age of 65 or older. (See Figure 1)

Figure 1: Age at which First Annuity was Purchased

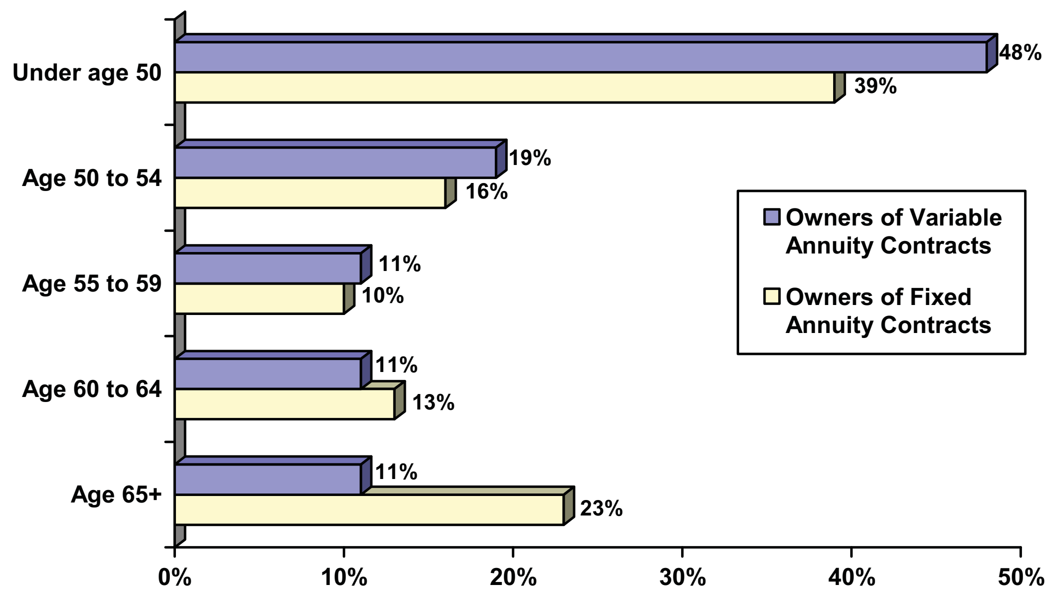


Retention of First Annuity Purchased. Nearly all respondents (or their spouses) still own the first annuity that they purchased (88%), which indicates that only a relatively small proportion of owners have surrendered their annuities or exchanged them for new ones. In this regard, only 10% of non-qualified annuity owners say that they do not still own their first annuity, while a few do not know if they still own it (2%).

Relevance of Education. Education factors into when annuity owners purchase their first annuity. Over half of college graduates (55%) purchased their first annuity when they were under the age of 50, while only one-third of those who did not graduate from college (31%) did the same.

Relevance of Product Type. First-time purchasers of variable annuities tend to be slightly younger than first-time purchasers of fixed annuities, with average ages of 48 and 52, respectively. As shown in Figure 2, nearly half of variable annuity owners (48%) were under age 50 when they purchased their first contracts, which is consistent with the 2001 Survey's findings. Also consistent with those findings, only 11% of variable annuity owners were older than 65 when they purchased their first annuity, compared to 23% of fixed annuity owners who were older than 65 at the time of their first purchase. The 2005 Survey shows some movement towards younger purchasers of fixed annuities, with the proportion of fixed annuity owners who were younger than 50 when they bought their first annuity increasing from 28% in 2001 to 39% in 2005.

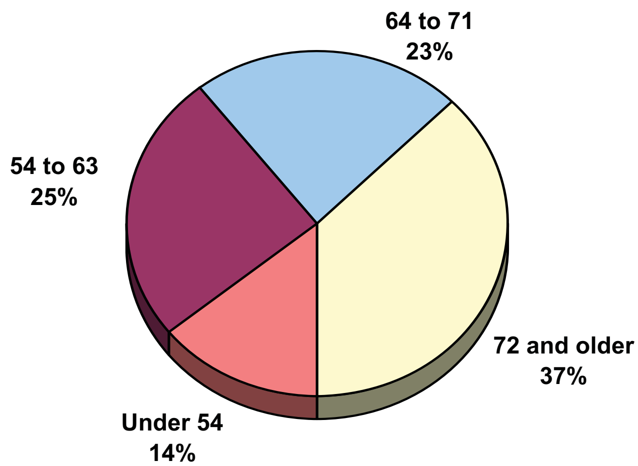
Figure 2: Age at which First Annuity was Purchased (by Type of Annuity)



Average Current Age of Owners

The average current age (as opposed to the average age at first purchase) of non-qualified annuity owners is 66. Over one-third are age 72 and older (37%), while one-quarter are between the ages of 54 and 63 (25%) or the ages of 64 and 71 (23%). Only 14% are under age 54, which represents the lowest proportion of this age group in the Survey's history. (See Figure 3, next page) Overall, the average age of non-qualified annuity owners has remained relatively constant over the years, ranging from 63 to 66 years of age for the 9 years in which the Survey has been conducted.

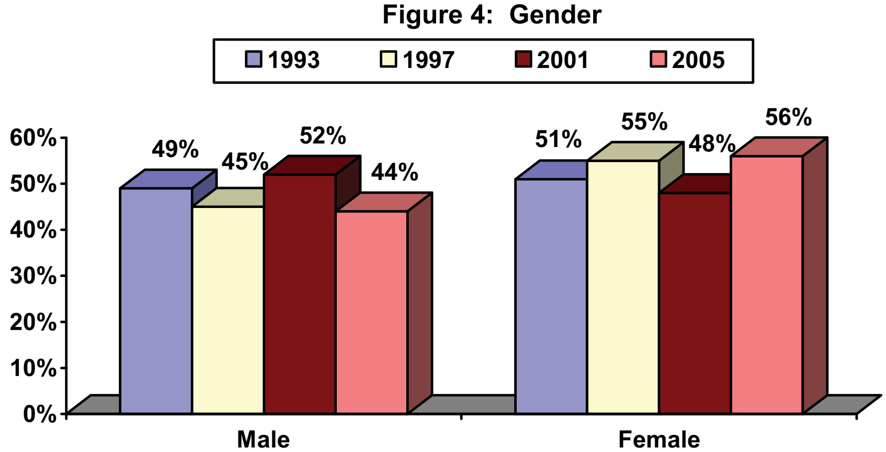
Figure 3: Current Age



Gender of Owners

Non-qualified annuity owners are more likely to be female (56%) than male (44%). For women, this represents an increase of 8 percentage points from 2001. Over the years in which the Survey has been conducted, the difference between male and female ownership has varied somewhat, with males outnumbering females in certain years. (See Figure 4)

Figure 4: Gender

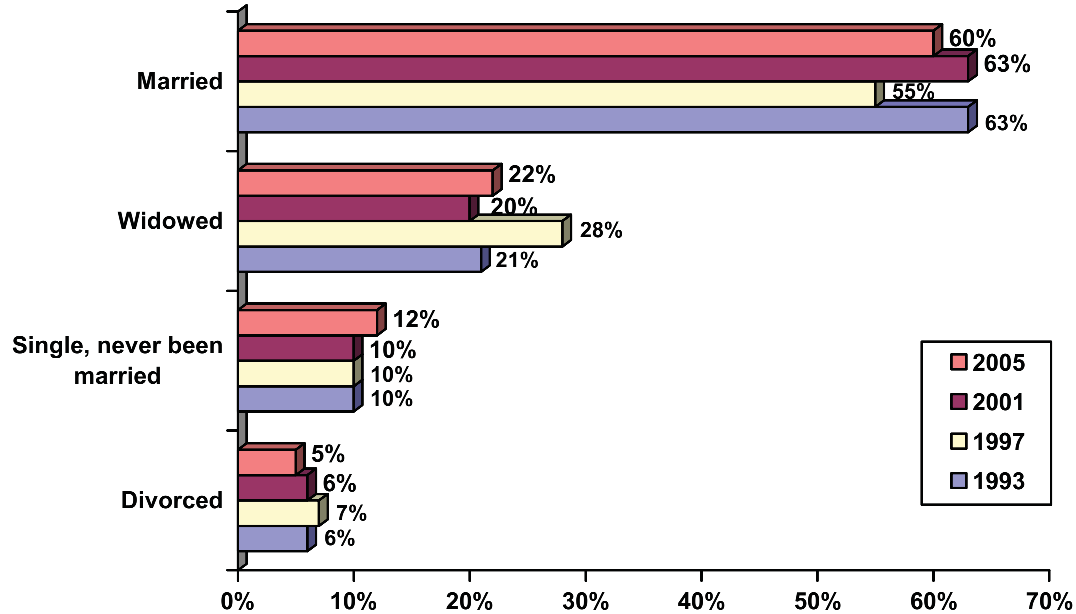


Marital Status and Education of Non-Qualified Annuity Owners

Marital Status

The majority of non-qualified annuity owners are married (60%). Twenty-two percent of owners are widowed, 12% have never been married, and 5% are divorced. These proportions are similar to those of prior Survey years. (See Figure 5, next page)

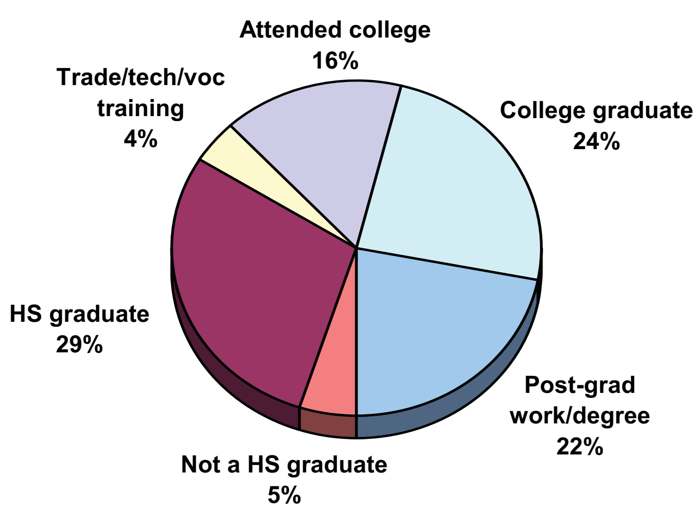
Figure 5: Marital Status



Education

Non-qualified annuity owners have diverse educational backgrounds. Just over half (54%) are not college graduates, including one-third (34%) who have no education beyond high school. However, almost half (46%) have graduated from college, including 22% who have done post-graduate work or received post-graduate degrees. (See Figure 6)

Figure 6: Level of Education



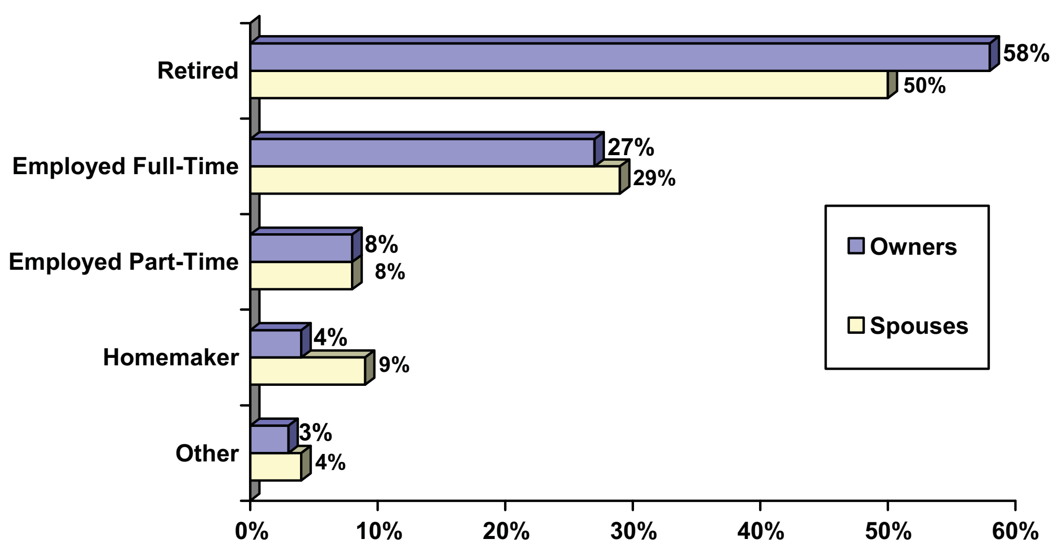
Employment and Income

Employment Status

Employment Status of Owners. The majority of owners (58%) are retired. Just over one-third (35%) are employed, including 27% who are employed full-time. (See Figure 7) These demographic features have remained relatively stable over the years in which the Survey has been conducted, with retirees comprising the largest percentage of owners in each year. In this regard, the largest proportion of retired owners has been 59% (in 1995 and 1997) and the lowest has been 48% (in 1992).

Employment Status of Spouses. Similar proportions and stability have been demonstrated with regard to the employment status of the spouses of non-qualified annuity owners. In the 2005 Survey, half of spouses (50%) are retired, while three in ten (29%) are employed full-time and less than one in ten (8%) are employed part-time. (See Figure 7)

Figure 7: Employment Status of Owners and Spouses

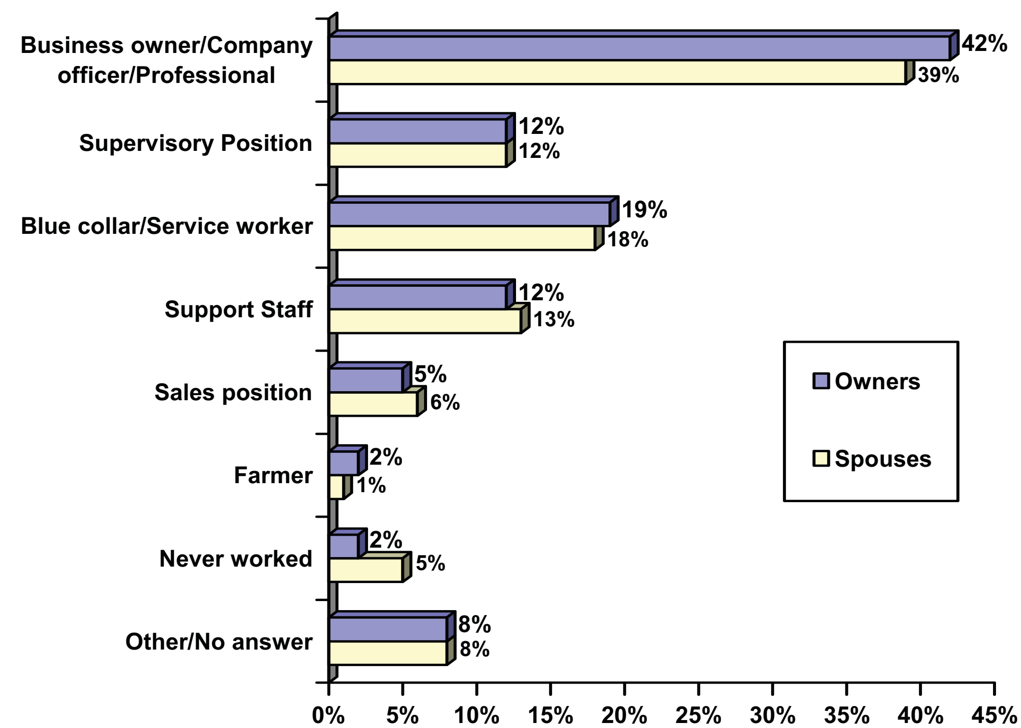


Occupation

Occupation of Owners. Four in ten non-qualified annuity owners (42%) identify their occupation (or former occupation, if retired) as being business owners, company officers, or other types of professionals, such as doctors, lawyers, or teachers. Two in ten (19%) are/were blue-collar workers or service workers, such as cashiers or members of cleaning crews. Twelve percent hold/held a supervisory position, such as factory foremen or office managers. Another 12% report their current or former occupation as support staff, such as secretaries. (See Figure 8, next page)

Occupation of Spouses. When asked to identify their spouses' occupation, four in ten non-qualified annuity owners (39%) described them as business owners, company officers, or other types of professionals. Two in ten (18%) say their spouses are/were blue-collar workers or service workers, while just over one in ten reports that they are/were support staff (13%) or supervisors (12%). (See Figure 8)

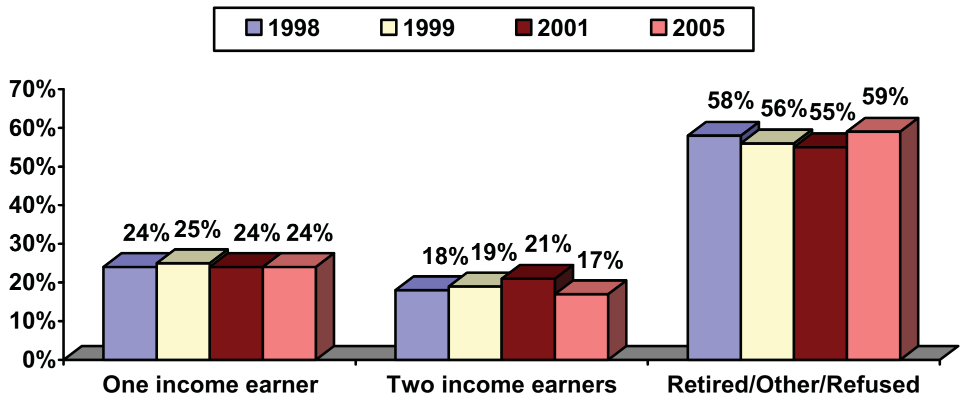
Figure 8: Occupation of Owners and Spouses



Income

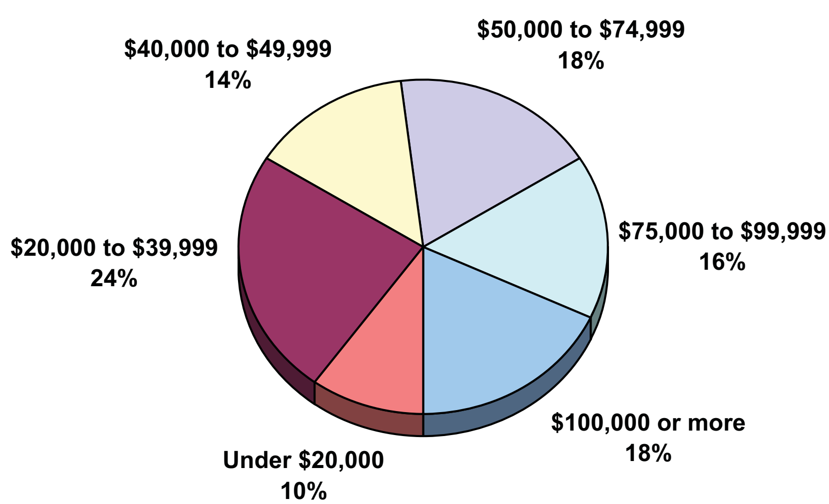
Number of Household Income Earners. Consistent with previous Survey results, one-quarter of non-qualified annuity owners (24%) have only one income earner (defined as those who work full- or part-time) in their household. However, the share of respondents who report that they have a two-income household has decreased from 21% in 2001 to 17% in 2005. Overall, the 2005 results are consistent with Surveys conducted prior to 2001. (See Figure 9, next page)

Figure 9: Number of Income Earners in Household



Annual Household Income. Two-thirds of non-qualified annuity owners (66%) have annual household incomes under $75,000. Nearly half (48%) have household incomes below $50,000, and one-third (34%) have household incomes below $40,000 (an increase of eight percentage points from the 2001 Survey). Only 18% of non-qualified annuity owners have annual household incomes of $100,000 or more. (See Figure 10)

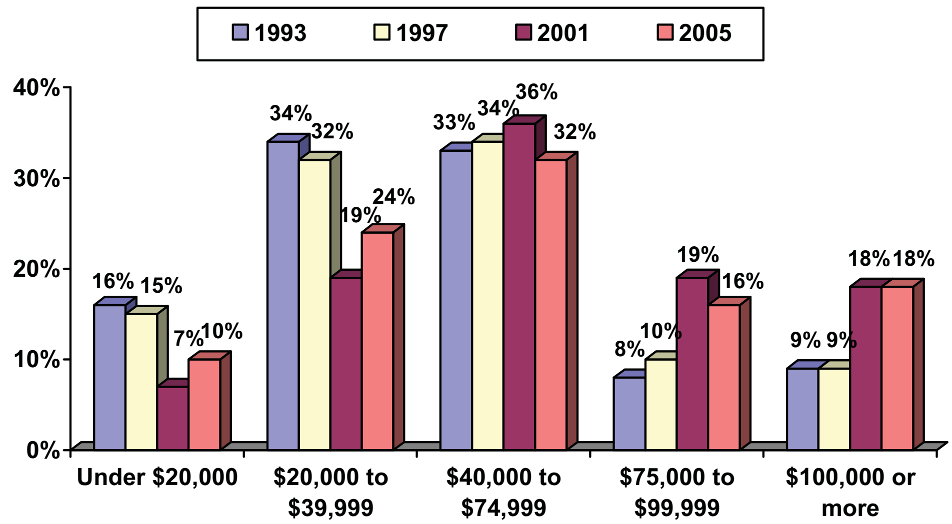
Figure 10: Annual Household Income



Consistency of Annual Income Findings. In all nine years of the Survey, the findings have shown 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, next page)

Relevance of Employment Status. As would be expected, annual household income figures differ depending upon whether non-qualified annuity owners are currently retired or still in the workforce. However, nearly half of employed owners (49%) still have annual household incomes below $75,000, while over three-quarters (78%) of retired owners have household incomes below that level.

Figure 11: Income Trend



CHAPTER 2:

Characteristics of Non-Qualified Annuities

Type of Annuity – Fixed or Variable

The type of annuities held by non-qualified annuity owners is evenly split between fixed (51%) and variable (49%). While the 2001 Survey showed a trend toward increased ownership of variable annuities, results from the 2005 Survey indicate that the trend has reversed. (See Table 1) The proportion of variable annuity owners has increased since the Survey was first conducted, as fewer than three in ten owners (28%) held variable contracts in 1992.

Table 1:
Annuity Type (percent by year)

	1998	1999	2001	2005
Fixed Annuities	46	49	35	51
Variable Annuities	54	51	65	49

Relevance of Household Income. Annuity owners with lower household incomes are more likely to own fixed annuities. Fifty-five percent of those with incomes below $75,000 own a fixed annuity, compared to 43% of those with incomes of $75,000 or higher. Only 26% of those with incomes under $20,000 own a variable annuity.

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

Relevance of Age. Owners under the age of 64 are more likely to own variable annuities (56% vs. 46%). This is consistent with recent Surveys (2001: under age 64 56% vs. age 64+ 46%. 1999: under age 64 63% vs. age 64+ 42%. 1998: under age 64 68% vs. age 64+ 43%).

Average Annuity Values

Over two-fifths of non-qualified annuity owners have annuities valued at less than $100,000 (43%), including one in ten who have annuities worth less than $25,000 (11%). Four in ten owners have annuities worth $100,000 or more (40%), including 17% who own annuities valued at $200,000 or more.

Sources of Funds for Annuity Purchases

Owners of non-qualified annuity contracts use a variety of sources to fund the purchase of annuities and a number of individual owners combine monies from multiple sources in one annuity contract. The majority of non-qualified annuity owners (58%) say that they used existing savings to purchase their annuities, and half say that they used their current income (50%). Thirty percent report that they used investment proceeds to fund the purchase, while 26% used inheritance income. Other “one-time” events that owners used to fund the purchase of their annuities are the sale of a home, farm, or business (14%); a death benefit from a life insurance policy (14%); a gift from a relative (13%); or a bonus from an employer (9%). (See Table 2. Note that the percentages in the table do not add to 100% because respondents could give multiple answers to the question.)

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

	1998	1999	2001	2005
Existing savings	65	64	55	58
Their or their spouse’s current income	53	53	53	50
Proceeds from another investment	34	29	35	30
An inheritance	20	24	21	26
Sale of family home, farm, or business	15	14	13	14
Death benefit from a life insurance policy	15	14	13	14
Gift from a relative	11	14	11	13
A bonus from their employer	12	12	10	9

Consistency of Survey Findings. Overall, the sources used to fund the purchases of annuities have remained consistent over the years in which the Survey has been conducted, with the exception of existing savings and inheritances. Since 1998, the proportion of annuity owners reporting that they have used existing savings to purchase their annuity has decreased from 65% to 58%. The proportion of those who used inheritance money, however, has increased since 1998, from 20% to 26%. (See Table 2)

Relevance of Age and Marital Status. Age and marital status play a role in determining sources of annuity premiums for many non-qualified annuity owners. Younger owners are more likely to have used money from a bonus from their employers (21% under age 54 vs. 8% ages 54 and older), their or their spouses’ current income (68% vs. 48%), or a gift from a relative (23%

vs. 12%). Those who are married are more likely to have used proceeds from another investment (33% married vs. 25% non-married). Not surprisingly, those who are not married are more likely to have used a death benefit from a life insurance policy (19% vs. 10%).

CHAPTER 3:

Uses of Non-Qualified Annuities

Actual Uses of Annuity Savings

Incidence and Type of Annuity Distributions

Three in ten non-qualified annuity owners (29%) have withdrawn or received money in one form or another from an annuity that they (or their spouse) still own. The average age at which these owners first withdrew or received money from their annuities was 64. Overall, close to two-thirds of non-qualified annuity owners (64%) 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 (22%) currently are receiving distributions from their annuity contracts on a regular or periodic basis, e.g., they receive a check every month.

Ad Hoc Withdrawals. Fourteen 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. Sixteen percent of non-qualified annuity owners have withdrawn money from their annuities in the past *and* currently are receiving a regular periodic payout.

Relevance of Demographic Characteristics to Distributions

Employment Status. As would be expected, those who are retired are more likely to have received one or more distributions from their annuities in one form or another (46% vs. 19% who are not retired). Likewise, working owners are more likely than retired owners to have never received any distributions from their annuities (44% vs. 18%).

Marital Status. Those who have not withdrawn money from an annuity and are not receiving a regular periodic payout are more likely to be married (65%) than those who are currently receiving distributions from their annuities on a regular or periodic basis (52%).

Age. Those who have not withdrawn money from an annuity and are not receiving a regular periodic payout are more likely to be under the age of 64 (48% vs. 21%). Eighty-five percent of those who are currently receiving distributions from their annuities on a regular or periodic basis are 65 or older.

Household Income. Of those who have received one or more distributions from their annuities in one form or another, 73% have annual household incomes below $75,000 and 27% have annual household incomes above that level. Of those who have neither withdrawn any amount from their annuities and are not receiving a regular payout, 59% have annual household incomes below $75,000 and 41% have annual household incomes above that level.

Intended Future Uses of Annuity Savings

Intended Uses Identified from List of Possible Uses

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

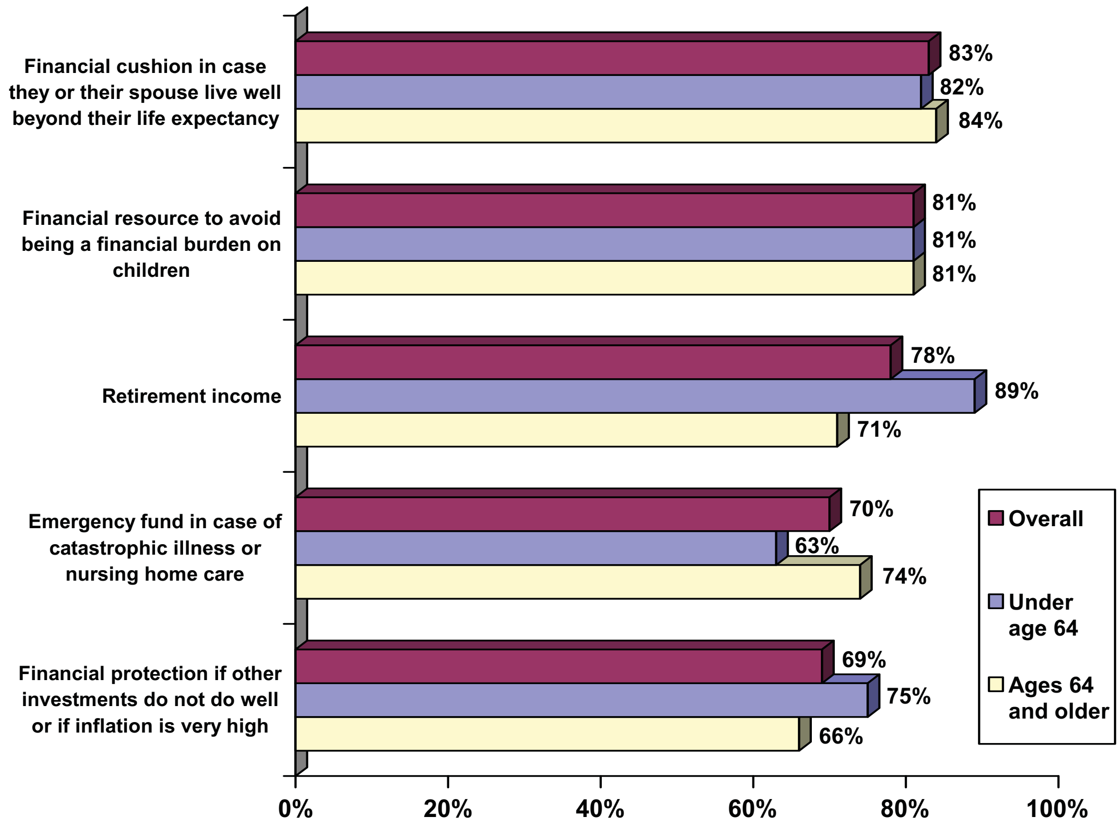
In this regard, as shown in Figure 12 (next page), approximately eight in ten owners state that they plan to use their annuity savings for retirement income (78%), to avoid being a financial burden on their children (81%), and to have as a financial cushion in case they or their spouse live well beyond their life expectancy (83%). 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 (70%), or as financial protection in case other investments do not do well or if inflation is very high (69%).

Relevance of 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 (74%, compared to 63% of those under age 64). (See "Concerns Over Health and Long-Term Care Costs," page 30) Younger owners are more likely to say that they intend to use their annuity savings for retirement income (89%, compared to 71% of those ages 64 and older), and as financial protection in case other investments do not do well (75%, compared to 66% of older owners). (See Figure 12, next page)

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 eventually make of their annuity savings. Retirement income is the most-cited use, with more than one in three (37%) respondents specifically identifying this as the primary intended use of their annuity. Overall, 65% 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 future old age, and to pay bills).

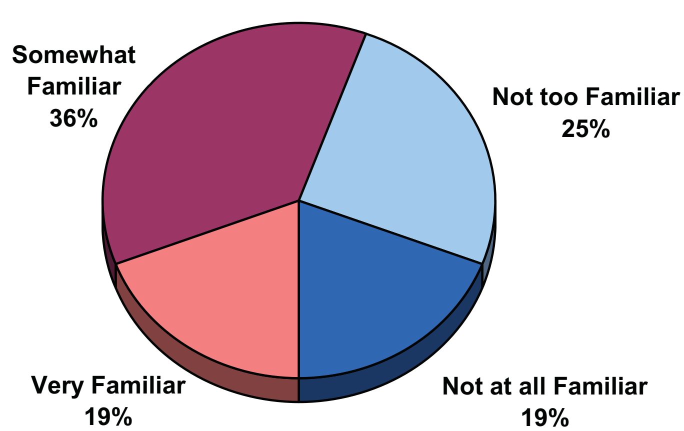
Figure 12: Intended Uses of Annuity Savings by Age



Familiarity with Lifetime Payout Options

Over half of non-qualified annuity owners say that they are at least somewhat familiar with life annuities (55%), with 19% saying that they are "very familiar" with this form of annuity payout. One in four owners says that they are not too familiar with life annuities (25%), while one in five states that they are not at all familiar (19%) with them. (See Figure 13)

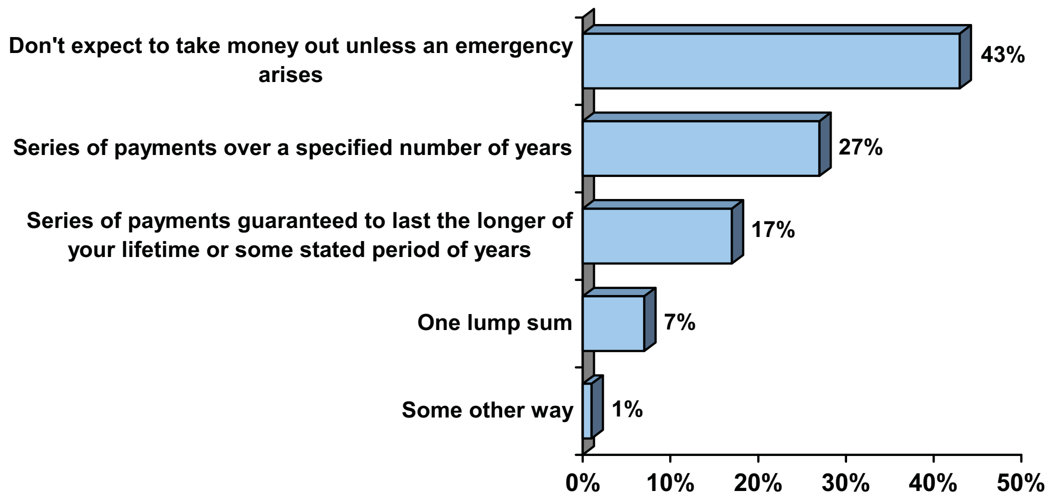
Figure 13: Familiarity with Life Annuities



Expected Form of Future Distributions

When asked how they expect to withdraw most of their money from their annuity, over four in ten annuity owners say that they do not plan on taking the money out unless an emergency arises (43%). One in four expects to withdraw money in a series of payments over a specified number of years (27%). Seventeen 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. Seven percent of owners say that they will withdraw their money in one lump sum. (See Figure 14)

Figure 14: Expected Annuity Payout Method



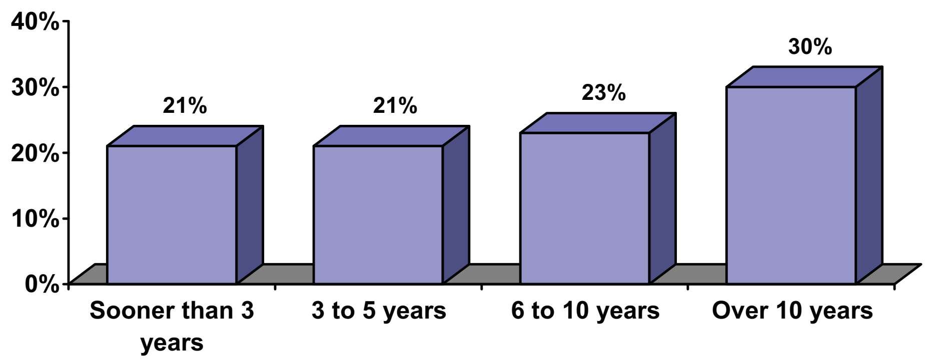
Relevance of Age. Owners who are under the age of 72 are more likely than older owners to say that they plan on taking money out of their annuity either through a series of payments over a specified number of years (33% under age 72 vs. 18% ages 72 and older), or through a series of payments guaranteed to last at least their lifetime (22% vs. 10%).

Relevance of Education. Owners with more 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 (7% with a high school education or less; 12% with some college; 17% with a college degree; 21% with a post-graduate degree).

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 the longer of their lifetime or some stated period of years, 30% expect to begin receiving those payments more than ten years from now. Just under one-quarter plan to begin receiving payments in the next six to ten years (23%), in the next three to five years (21%), or sooner than three years from now (21%). (See Figure 15)

Figure 15: Expected Timeframe for Beginning of Annuity Payments



CHAPTER 4:

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 such savings are used continues to be a strong motivation for purchasing non-qualified annuities. Seventy-seven 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 (88%). (See Table 3, next page)

Almost nine in ten non-qualified annuity owners (85%) agree "completely" or "somewhat" that annuities "have attractive tax treatment," and more than nine in ten (91%) agree that "keeping the tax advantage of annuities is a good way of encouraging long-term savings." (See Table 4, page 27)

Relevance of Demographics. Although a strong majority of each demographic group identified below agrees with the statement that "annuities have attractive tax treatment," there are some differences regarding the extent of agreement with this statement among the following demographic lines:

- *Education.* Those with at least some college education are more likely to agree than those with a high school degree or less (88% vs. 77%);
- *Employment Status.* Those who are employed full-time are more likely to agree than those who are retired (90% vs. 83%);
- *Age.* Those who are under the age of 64 are more likely to agree than those who are 64 or older (91% vs. 81%);
- *Household Income.* Those with $75,000 or more in annual household income are more likely to agree than those with less income (92% vs. 82%);
- *Marital Status.* Those who are married are more likely to agree than those who are not (88% vs. 81%); and
- *Annuity Values.* Those with annuities worth $100,000 or more are more likely to agree than those with smaller annuity values (92% vs. 82%).

Taxation of Distributions as Incentive for Maintaining Retirement Savings

Over nine in ten non-qualified annuity owners (92%) 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 (an increase of four percentage points since the 2001 Survey). 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 very or somewhat important to why they purchased their contracts. (See Table 3) The most frequently mentioned of these non-tax reasons for purchasing annuities include: annuities are safe purchases (88%), they have a good rate of return (87%), and owners want a long-term savings plan (82%). The proportion of owners citing these as reasons has remained stable since 1998.

Table 3:
Importance of Various Reasons for Buying an Annuity

	Very/Somewhat Important			
	1998	1999	2001	2005
	(in percent)			
Earnings would not be taxed until the funds used.	89	91	89	88
Was a safe purchase.	89	89	88	88
Had a good rate of return.	86	87	87	87
Wanted a long-term savings plan.	79	81	79	82
Could get payments guaranteed to continue for as long as you live.*	71	77	75	74
Easy way to save.	74	76	72	74
Wanted a source of funds that could be used to pay for emergencies, such as catastrophic illness during retirement.	72	73	71	73
Had choices of methods of getting the money.	67	70	68	72
Provides money in case owner or spouse needs to enter a nursing home.	66	65	66	66

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

Viewing Annuities as a Flexible Financial Tool

Consistently with prior Survey results, the 2005 Survey confirms that owners of non-qualified annuities view their contracts as offering a variety of important financial protections.

Nine in ten owners (90%) agree “completely” or “somewhat” that “annuities are an effective way to save for retirement.” Almost as many agree that annuities are a good way to ensure their surviving spouse has a continuing income (88%), annuities are secure and safe (86%), and annuities are a good source of emergency funds in old age (86%).

Eight in ten owners believe that annuities are an effective way of assuring that money is available to pay for a catastrophic illness or nursing home care (81%), offer a good return (80%), will prevent them from being a financial burden on their children in their later years (79%), and are an important source of retirement security (79%). (See Table 4)

Table 4:
Agreement with Various Statements about Annuities

	Agree Completely/Somewhat			
	1998	1999	2001	2005
	(in percent)			
Keeping the tax advantage of annuities is a good way of encouraging long-term savings.	90	94	90	91
Annuities are an effective way to save for retirement.	89	91	91	90
Annuities are a good way to ensure their surviving spouse has a continuing income.	85	90	91	88
Annuities are secure and safe.	87	89	89	86
Annuities are a good source of emergency funds in old age.	85	85	85	86
Annuities have attractive tax treatment.	82	85	84	85
Annuities are an effective way of assuring money is available to pay for a catastrophic illness or nursing home care.	84	85	83	81
Annuities offer a good return.	81	83	83	80
Annuities will prevent them from being a financial burden on their children in their later years.	80	81	81	79
Annuities are an important source of retirement security.	80	81	79	79

Relevance of Product Type. Owners of fixed annuity contracts are more likely to agree that annuities are secure and safe (91% vs. 81% of variable annuity owners).

Chapter 5:

Savings of Non-Qualified Annuity Owners

Perception of Retirement Preparedness as a Society

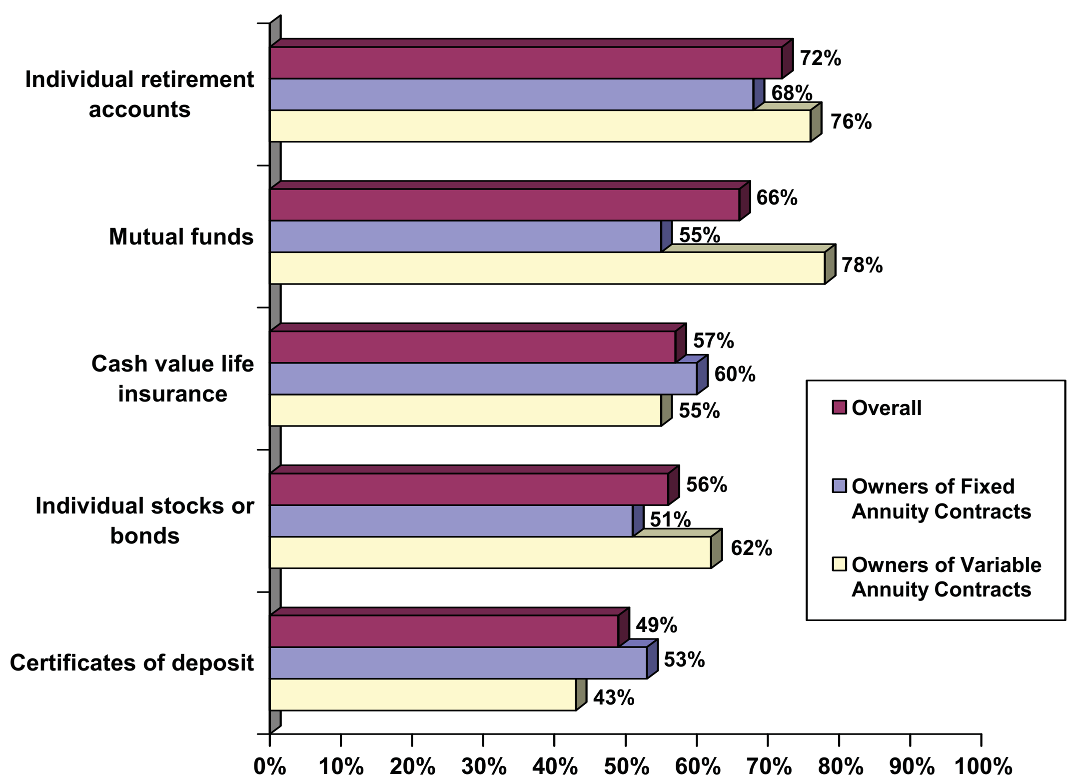
Almost nine in ten non-qualified annuity owners (87%) believe that people in the United States do not save enough money for retirement. This represents an increase of six percentage points from the 2001 Survey.

Relevance of Age. Age plays somewhat of a role in whether non-qualified annuity owners believe that people in the United States save enough for retirement. The younger the owner, the more likely he or she is to believe that Americans do not save enough. Specifically, 94% of owners under age 54, 90% of owners ages 54-63, 86% of owners ages 64-71, and 85% of owners ages 72 and older believe that Americans do not save enough for retirement.

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 (72%), mutual funds (66%), cash value life insurance (57%), and individual stocks or bonds (56%). Half own certificates of deposit (49%). (See Figure 16)

Figure 16: Savings in Other Financial Products by Annuity Type



Relevance of Annuity Product Type. Owners of variable annuities are more likely than owners of fixed annuities to own individual retirement accounts (76% vs. 68%), mutual funds (78% vs. 55%), and individual stocks or bonds (62% vs. 51%). However, owners of fixed annuities are more likely to own certificates of deposit (53% vs. 43%). (See Figure 16, prior page)

Participation in Employer-Sponsored Retirement Plans

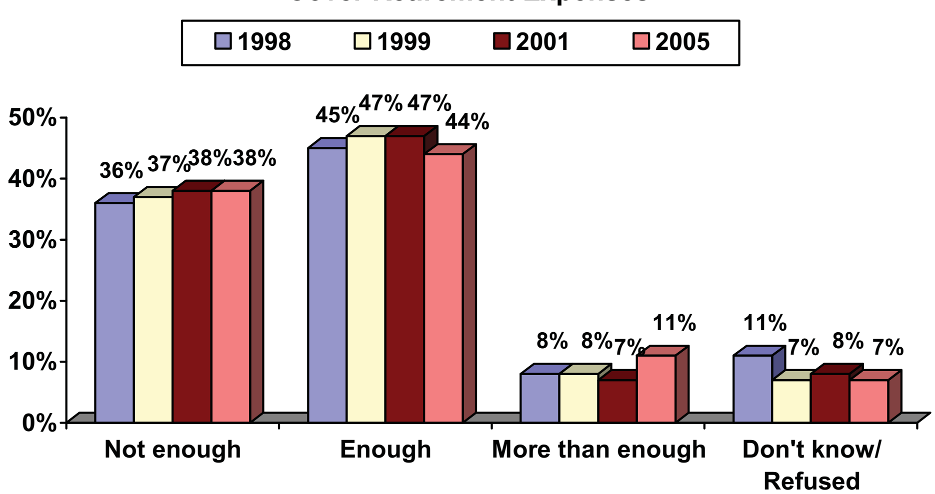
Although 60% of owners of non-qualified annuities have participated in a retirement program offered through an employer at some point during their working careers, 39% have never participated in any employer-sponsored retirement plan.

Confidence and Concerns with Financial Preparedness for Retirement

General Confidence in Retirement Preparedness

Most non-qualified annuity owners are confident that they have done a very good job of preparing financially for retirement (87%). Their perceptions of whether the money they will receive from pensions and retirement plans, including Social Security, will cover retirement expenses have remained stable. Just over half of non-qualified annuity contract owners (55%) believe that this money will be enough or more than enough to cover retirement expenses. Nearly four in ten (38%) believe that these funds will not be enough. (See Figure 17)

Figure 17: Whether Money from Pension and Retirement Plans Will Cover Retirement Expenses



Relevance of Age. Retired non-qualified annuity owners are more likely than those who are employed full time to feel that they have done/are doing a very good job of saving for retirement (90% retired vs. 83% employees).

Concerns over Health and Long-Term Care Costs

Non-qualified annuity owners are becoming more concerned with the risks that health and long-term care costs pose to their retirement security.

Almost three in ten owners (28%) believe that they (or their spouse) are at a high risk of needing to be confined to a nursing home in old age, an increase of four percentage points since the 2001 Survey. Similarly, over a third of owners (37%) believe that they or their spouse are at high risk of suffering a catastrophic medical condition in old age, an increase of seven percentage points since the 2001 Survey. In addition, nearly half (49%) express concern that a catastrophic illness or the need for nursing home care will bankrupt them in retirement. (See Table 5, next page)

One of the ways that respondents deal with these possibilities is saving through their non-qualified deferred annuity contracts, which build in value until needed. As indicated above, eight in ten owners (81%) believe that annuities are an effective way of assuring that money is available to pay for a catastrophic illness or nursing home care. Consistent with this, strong majorities of non-qualified annuity owners cite the desire for a source of funds to pay for emergencies such as catastrophic illness during retirement (73%) or to pay for nursing home costs (66%) as an important reason why they purchase their annuities. (See Table 3, page 26)

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 (31% vs. 22%). Similarly, those who are 64 and older are more likely than those who are younger to say that they intend to use their annuity savings to pay for emergencies such as catastrophic illness during retirement or to pay for nursing home costs (74% vs. 63%).

Other Concerns

More than four in ten non-qualified annuity owners (43%) are concerned about running out of money during retirement. Also, almost four in ten owners (38%) are concerned that, if they were to die, their surviving spouse would not have enough to make ends meet. Almost half (46%) are concerned with the difficulty of figuring out how to reach their desired standard of living in retirement. (See Table 5, next page)

Table 5:
Agreement with Statements about Preparedness for Retirement

	Statement describes respondent Very/Somewhat Well			
	1998	1999	2001	2005
	(in percent)			
They have done a very good job of saving for retirement.	90	89	88	87
They are concerned that a catastrophic illness or nursing home care might bankrupt them during retirement.	48	51	47	49
It will be difficult to figure out how to reach their desired standard of living in retirement. [Prior to 2001: "maintain their current standard of living"]	43	47	40	46
They are concerned that they might run out of money during retirement.	42	40	36	43
Upon the death of the owner, the surviving spouse may not have enough savings to make ends meet.	35	30	33	38
They (or their spouse) are at a high risk of suffering a catastrophic medical condition in old age.	32	37	30	37
They (or their spouse) are at a high risk of needing to be confined to a nursing home in old age.	24	30	24	28

Relevance of Employment Status. Retired owners are less likely than non-retired owners to be concerned about running out of money in retirement (36% vs. 56%).

Relevance of Age. Consistent with previous years, 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 (45% vs. 35%). (See Figure 18, next page)

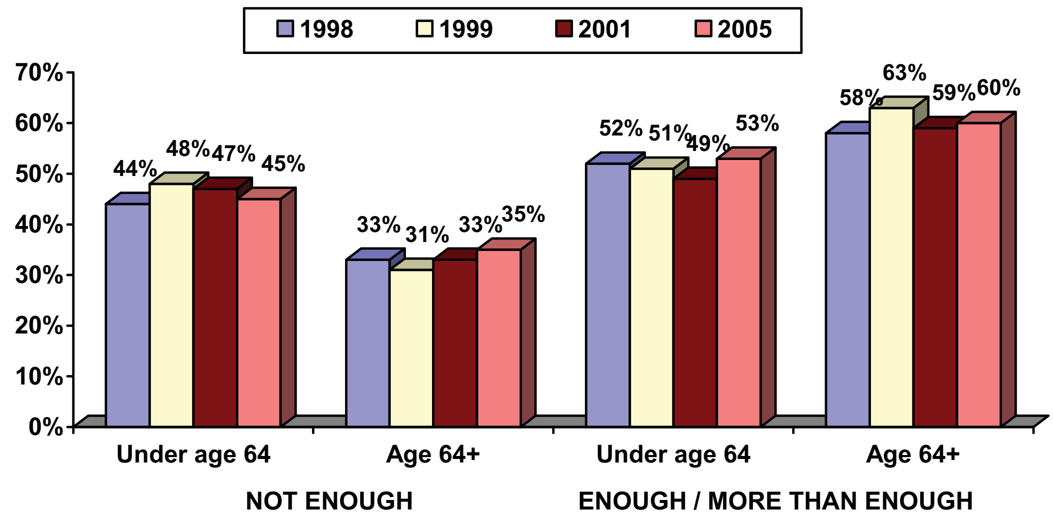
Sources of Income in Retirement

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

"Major" Sources of Retirement Income

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 cite Social Security as a major source of expected retirement income, compared to only 34% of non-retirees. In addition, 47% of retired owners cite money their employer put into a retirement plan as a major source of retirement income, compared to 43% of non-retirees.

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



In contrast, those 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. Accordingly, they are less optimistic than retirees that Social Security and money their employers put into a retirement plan on their behalf will constitute a major source of their retirement income.

In this regard, current workers are more likely than retirees to cite money they put into a retirement plan for themselves as opposed to employer money (41% vs. 21%) or other personal savings (39% 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. 10%), or from the sale of their home, farm, or business (18% vs. 11%). (See Figure 19, next page)

"Largest" Source of Retirement Income

When asked about the current or expected *largest* source of income in retirement, there are differences between what retirees are getting and what workers expect. Of those annuity owners who are not yet retired, only 18% believe that Social Security will be their largest source of income in retirement, compared to 34% of owners who are already retired. Retired annuity owners are also more likely than non-retired owners to view money their employer put into a retirement plan as the largest source of income in retirement (33% retired vs. 23% non-retired). (See Figure 20, next page)

Figure 19: Major Sources of Retirement Income

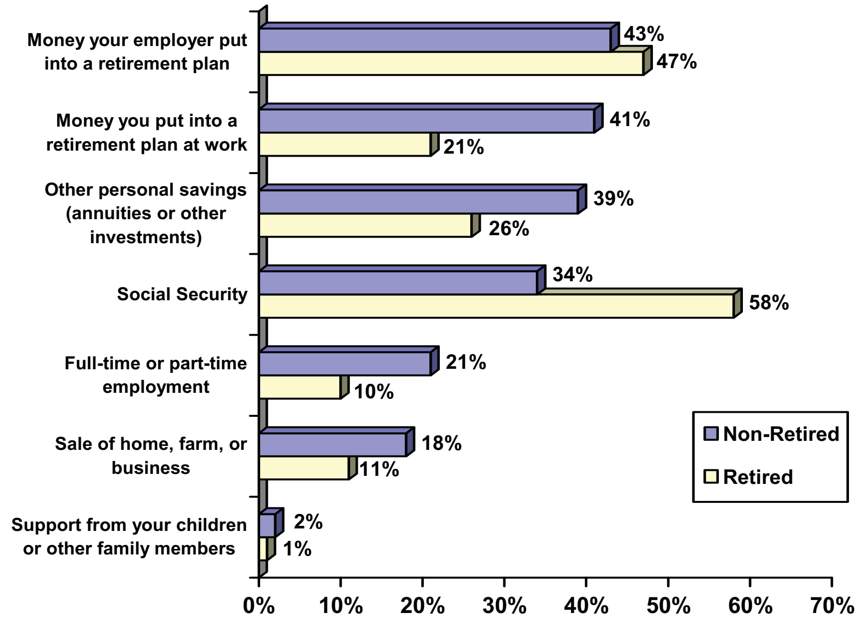
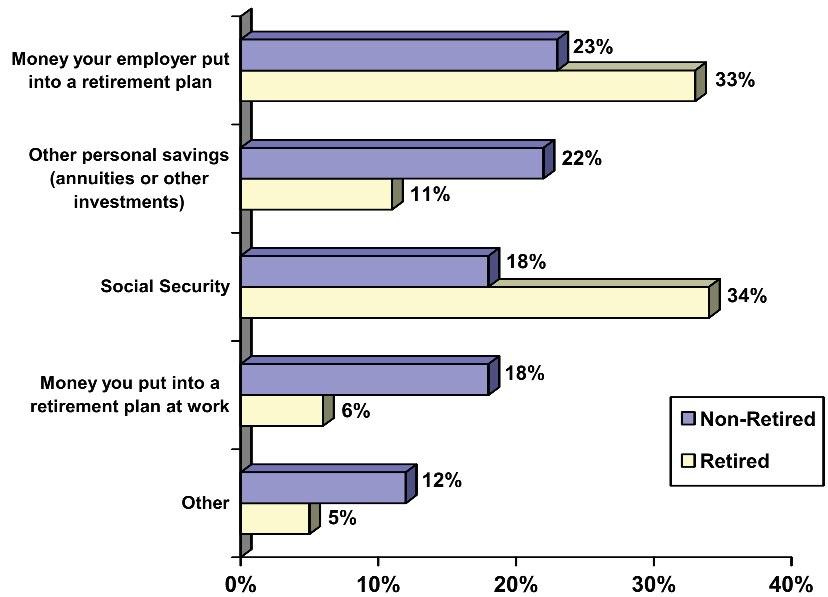


Figure 20: Largest Source of Retirement Income



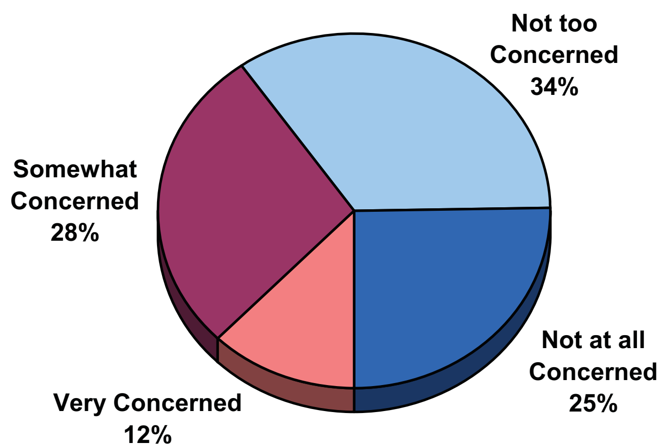
Four in ten non-retired annuity owners expect money that they have personally saved, either through a retirement plan at work (18%) or through other personal savings (22%), will be their largest source of income in retirement. Only 17% of retired annuity owners say that either of these types of personal savings represent their largest source of income.

Perceptions of Life Expectancy and the Need to Lower Living Standards

Concerns over Reduced Standard of Living Generally

Over half of non-qualified annuity owners (59%) express little, if any, concern about having to cut back on their standard of living as they get older. Specifically, 25% say that they are "not at all" concerned, while another 34% say that they are "not too" concerned. One-quarter are "somewhat" concerned about having to cut back (28%), while only one in eight is "very" concerned (12%). (See Figure 21)

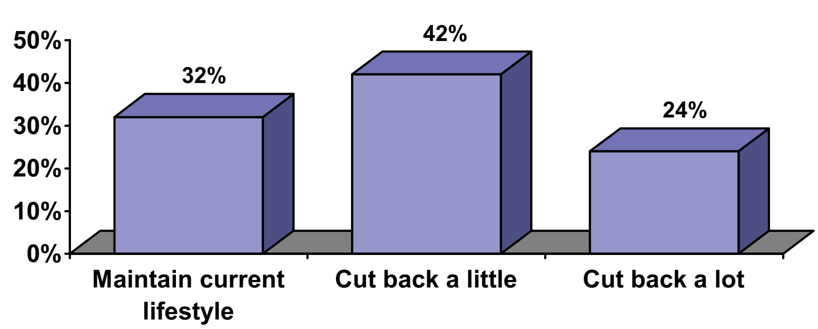
Figure 21: Concern about Cutting Back on Standard of Living



Concerns over Reduced Standard of Living if Live Longer than Anticipated

Today, a 65-year-old has a 25% chance of living to age 92. Among owners who say that they do not expect to live past the age of 91, a majority say that they would need to cut back on their standard of living if they were to live beyond that age. This includes 24% who say they would need to cut back a lot and 42% who say they would need to cut back a little. One-third believe that they would be able to maintain their current lifestyle should they live to that age (32%). (See Figure 22)

Figure 22: Lifestyle in Retirement

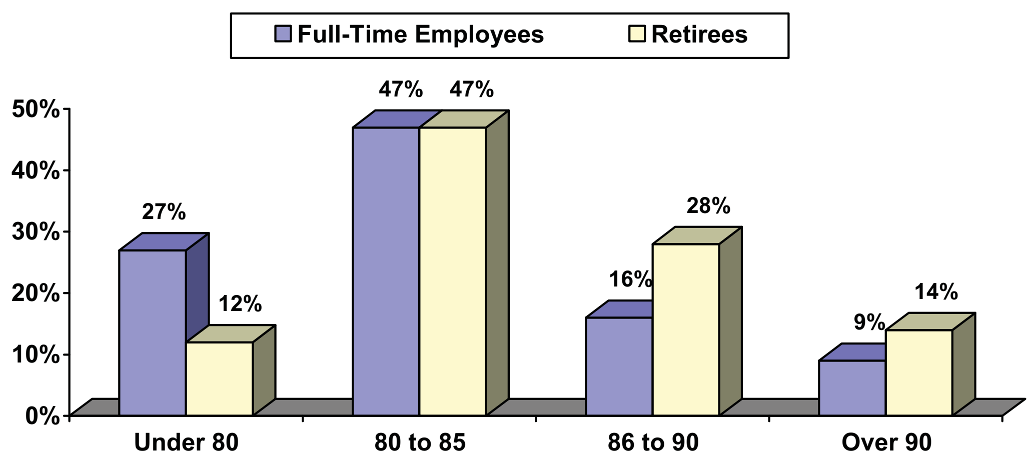


Anticipated Life Expectancy

Nearly two-thirds of non-qualified annuity owners (64%) do not expect to live beyond age 85, including 47% who say that they expect to live somewhere between the ages of 80 and 85. Almost one-quarter (23%) expect to live between 86 and 90 years, while one in eight (13%) expects to live beyond age 90.

Relevance of Employment Status. As shown in Figure 23, almost half of full-time employees (47%) and retirees (47%) expect to live between the ages of 80 and 85. Retirees are more likely to anticipate life expectancy greater than 85 years of age (42%, compared to 25% of full-time employees).

Figure 23: Life Expectancy



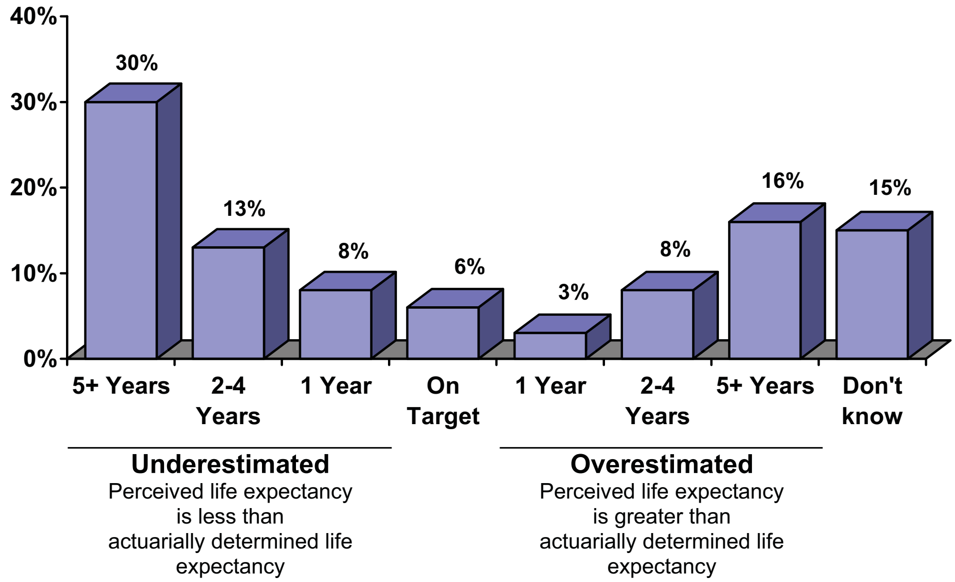
Perceived Life Expectancy Compared to Actuarially Anticipated Life Expectancy

When perceived life expectancy is compared to life expectancy figures from actuarially determined mortality tables, half (51%) of non-qualified annuity owners underestimate their life expectancy, including 30% who do so by at least five years. Approximately one-quarter (27%) overestimate their life expectancy. (See Figure 24, next page)

Relevance of Age and Employment Status. Younger annuity owners are more likely to underestimate their life expectancy by five years or more than older annuity owners (39% for those under age 64 vs. 27% for those ages 64 and older). Interestingly, among older owners (those ages 64 and older), those who are employed are more likely to overestimate their life expectancy by two years or more than those who are retired (37% vs. 23%). Overall, workers of all ages are more likely than retirees to overestimate their life expectancy by two years or more (30% vs. 22%).

Relevance of Gender. While females have a longer life expectancy, they are more likely to underestimate their life expectancy by five years or more than males (36% vs. 23%).

Figure 24: Perceived versus Actuarially Determined Life Expectancy



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.

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Fidelity Investments Life Insurance Company, Boston, MA
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