



Demographics of a Typical Owner

10

Background of the Gallup Organization Survey

Who owns non-qualified annuity contracts, i.e., annuity contracts purchased with after-tax dollars outside of tax-qualified retirement plans? Why did they buy their annuities? And how do these individuals intend to use their annuity savings? In an effort to find the answers to these and other questions, the Committee of Annuity Insurers has commissioned Gallup surveys ten times since 1992. These surveys, developed by the Committee of Annuity Insurers, The Gallup Organization, and Mathew Greenwald & Associates, Inc., ask owners of non-qualified annuities for demographic data and their opinions on issues such as saving for retirement and purchasing annuities. As demonstrated in previous years and again in 2009, most owners of non-qualified annuities are middle-class individuals who feel confident about their retirement planning.

According to the 2009 survey, the typical owner is an older, retired woman. She has at least some college education and a moderate annual family income between \$50,000 and \$75,000. She recently celebrated her 72nd birthday, and she still owns the same annuity contract that she purchased 20 years ago.

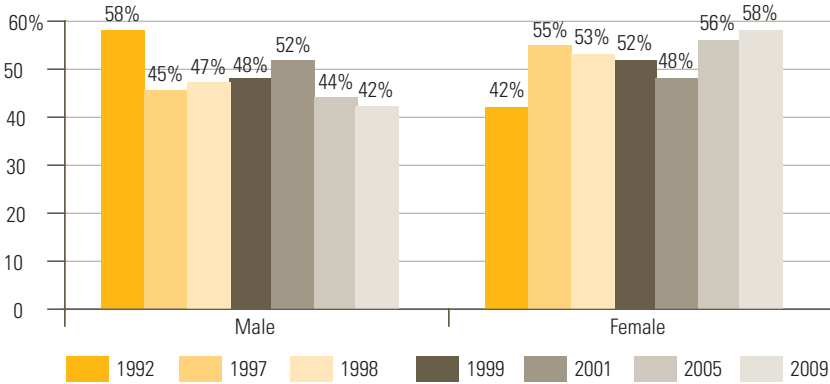
Forty percent of owners of non-qualified annuity contracts reported that the current value of all of the non-qualified contracts that they or their spouse own is less than \$100,000. Forty-three percent of owners reported values of \$100,000 or more (The remainder did not respond).

Who Owns Non-Qualified Annuities?

Gender

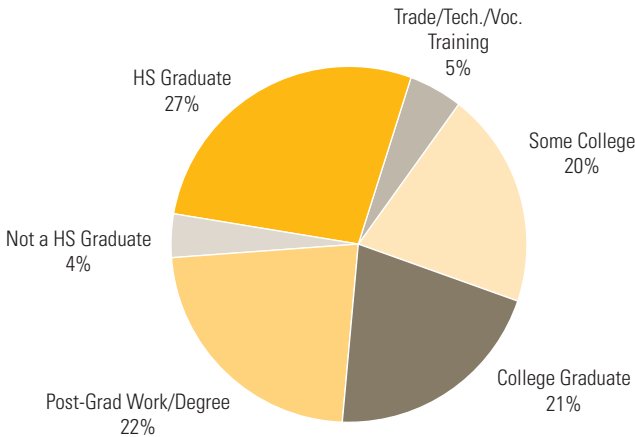
Owners of non-qualified annuity contracts are slightly more likely to be female than male: 58% are female, while 42% are male (See Figure 10-1).

Figure 10-1 Gender



As shown in Figure 10-2, owners of non-qualified annuities have diverse educational backgrounds. More than half (56%) are not college graduates. Over one-fifth (21%) have graduated from college with no post-graduate work, while another 22% have done post-graduate work or have received post-graduate degrees. Overall, 96% of owners of non-qualified annuity contracts have at least a high school education.

Figure 10-2 Level of Education



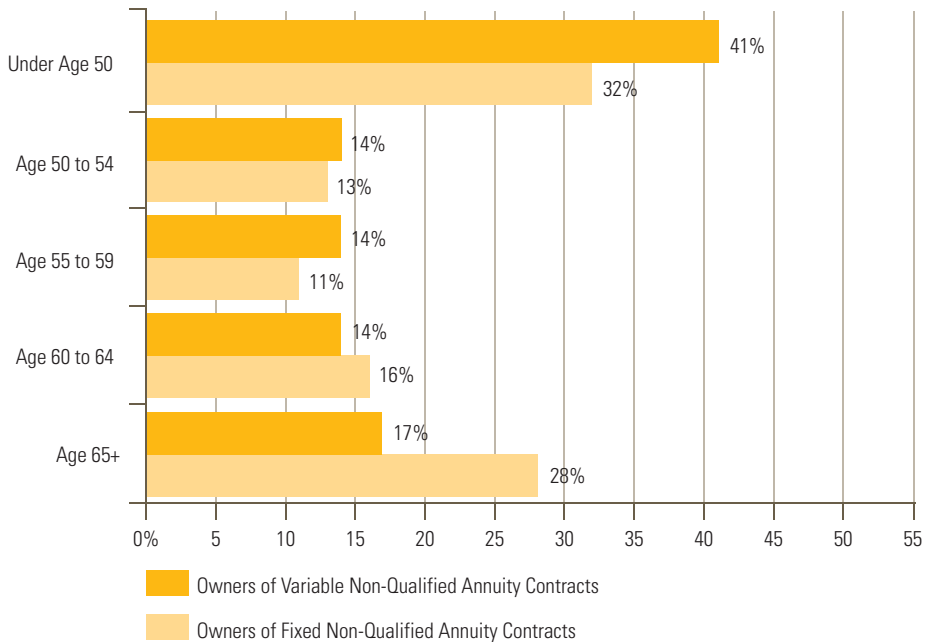
Age

Overall, the average age of owners of non-qualified annuity contracts is 70. Nearly half of owners of non-qualified annuity contracts (46%) are age 72 and older. Only 8% of owners are under age 54, which represents the lowest proportion for this age group in the survey's history.

Demonstrating the nature of annuities as retirement savings vehicles, 79% of owners of all non-qualified annuity contracts purchased their first annuity when they were under 65 years of age. Thirty-seven percent were under 50 years of age, while only 22% were age 65 and older. The average age at which owners purchased their first annuity is 52. Nearly all (93%) report that they still own the first annuity that they purchased.

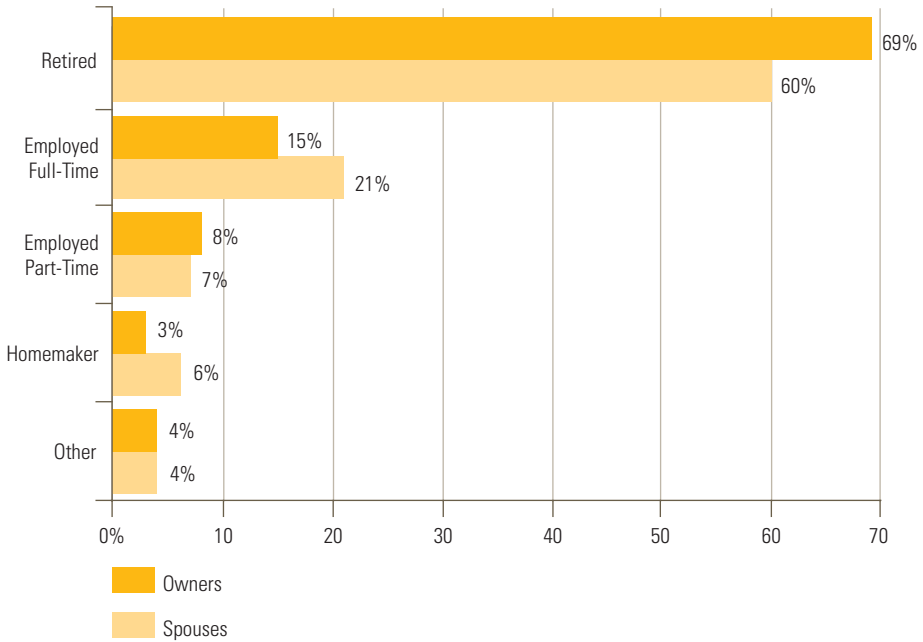
As shown in Figure 10-3, owners of variable annuity contracts tended to purchase their first annuity contracts at a younger age than owners of fixed annuity contracts. Forty-one percent of owners of variable annuity contracts were under age 50 when they purchased their first annuity contract. Thirty-two percent of owners of fixed annuity contracts were under age 50.

Figure 10-3 Age at Which First Annuity Was Purchased by Type of Annuity



A majority of owners of non-qualified annuity contracts and their spouses are retired (nearly seven in ten owners and more than half their spouses). Twenty-three percent of owners and 28% of their spouses are still employed either full time or part time. (See Figure 10-4.)

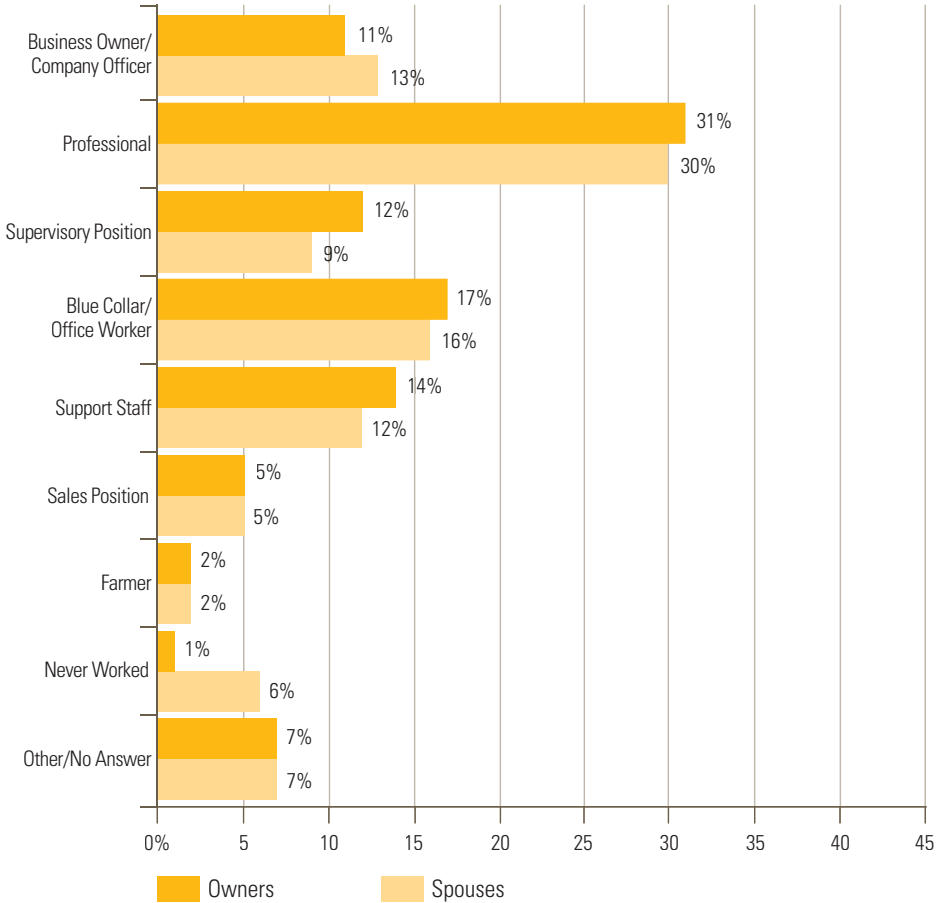
Figure 10-4 *Employment Status of Owners and Their Spouses*



Annuity contract owners come from a variety of professions. More than two in five owners of non-qualified annuities (42%) identify their occupation (or former occupation, if retired) as being a business owner, officer of a company, or some type of professional, such as a doctor, lawyer or teacher. Seventeen percent are (or were) blue collar or service workers and 12% work (or worked) in supervisory positions. The occupations of the spouses of annuity owners follow similar patterns.

Figure 10-5 shows the occupations (or former occupations, if retired) of owners of non-qualified annuities and their spouses.

Figure 10-5 Occupation of Owners and Spouses

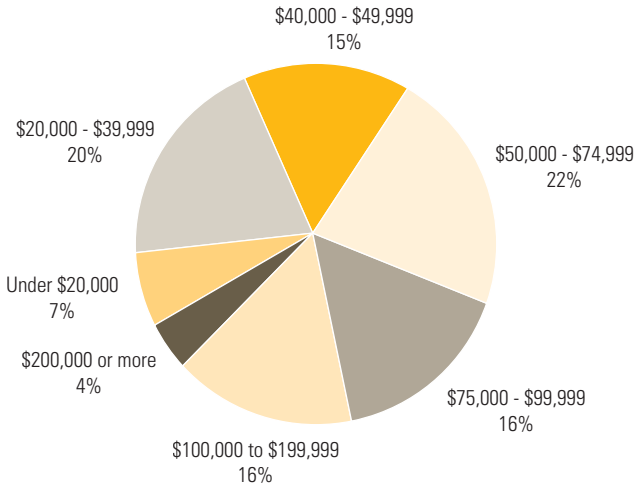


Income

Owners of non-qualified annuity contracts are predominantly middle class. In the 2009 survey, and in each of the previous surveys, the majority of owners of non-qualified annuity contracts had total annual household incomes between \$20,000

and \$74,999. Eight out of 10 owners in the 2009 survey (80%) have annual household incomes under \$100,000. Nearly two in three (64%) have annual household incomes under \$75,000. Only two in 50 (4%) have annual household incomes of \$200,000 or more. (See Figure 10-6.)

Figure 10-6 Annual Household Income



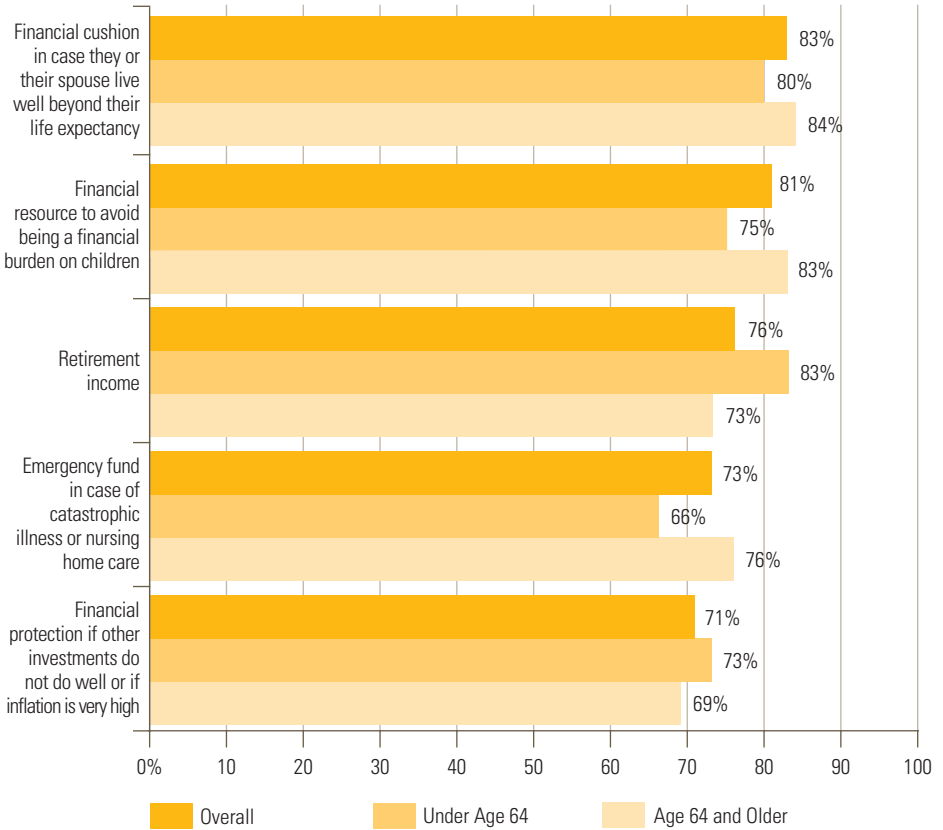
What Do Owners of Non-Qualified Annuities Think About Savings?

Clearly, Americans are getting the message that they are responsible for their own retirement, and annuities are an ideal means of guaranteeing that they will not outlive their resources in retirement. Owners of non-qualified annuities generally feel that they have done a very good job in saving for their own retirement (91% feel this way). Highlighting the inherent uncertainty of retirement, however, a significant number of them are concerned that the costs of a catastrophic illness or nursing home care might bankrupt them (50%) or that they will run out of money in retirement (45%).

One of the ways owners of non-qualified annuities deal with these possibilities is saving through non-qualified deferred annuity contracts, which build in value until needed. Most owners of non-qualified annuities who are age 64 and older (76%) report that one of the reasons they purchased their annuities was to use them as an emergency fund in case of catastrophic illness or nursing home care (66% of owners

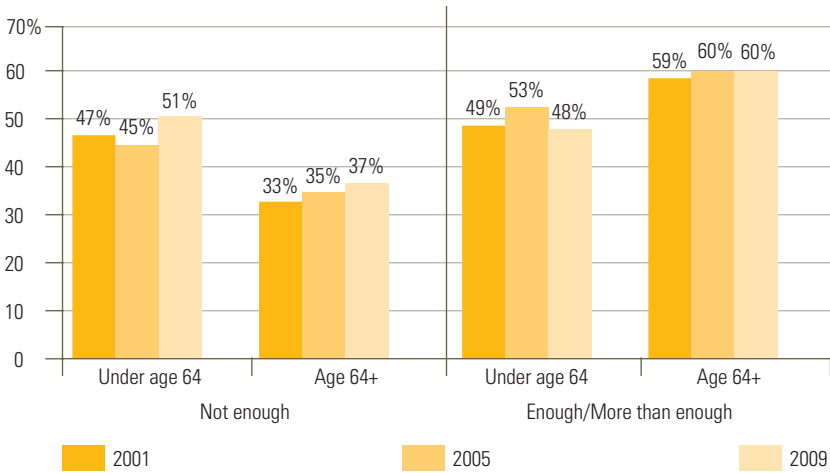
who are under age 64 said the same). Owners also intend to use their non-qualified annuities as financial cushions in case they or their spouse live well beyond their life expectancy (83%) and as resources to avoid being a financial burden on their children (81%). (See Figure 10-7.)

Figure 10-7 *Intended Uses of Annuity Savings by Age*



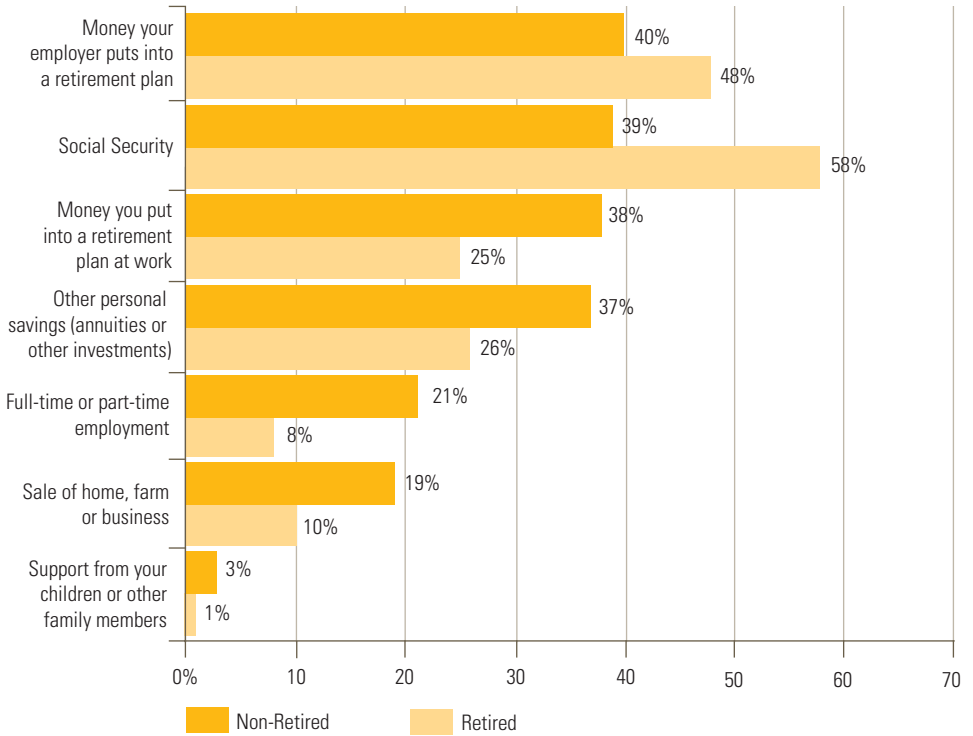
Although many owners of non-qualified annuity contracts believe that the money they will receive from their pensions and other employment-related retirement programs (including Social Security) will be enough to meet their financial needs in retirement (see Figure 10-8), they also recognize the need to save additional amounts for retirement.

Figure 10-8 *Age and Whether Money From Pensions and Retirement Plans Will Cover Retirement Expenses*



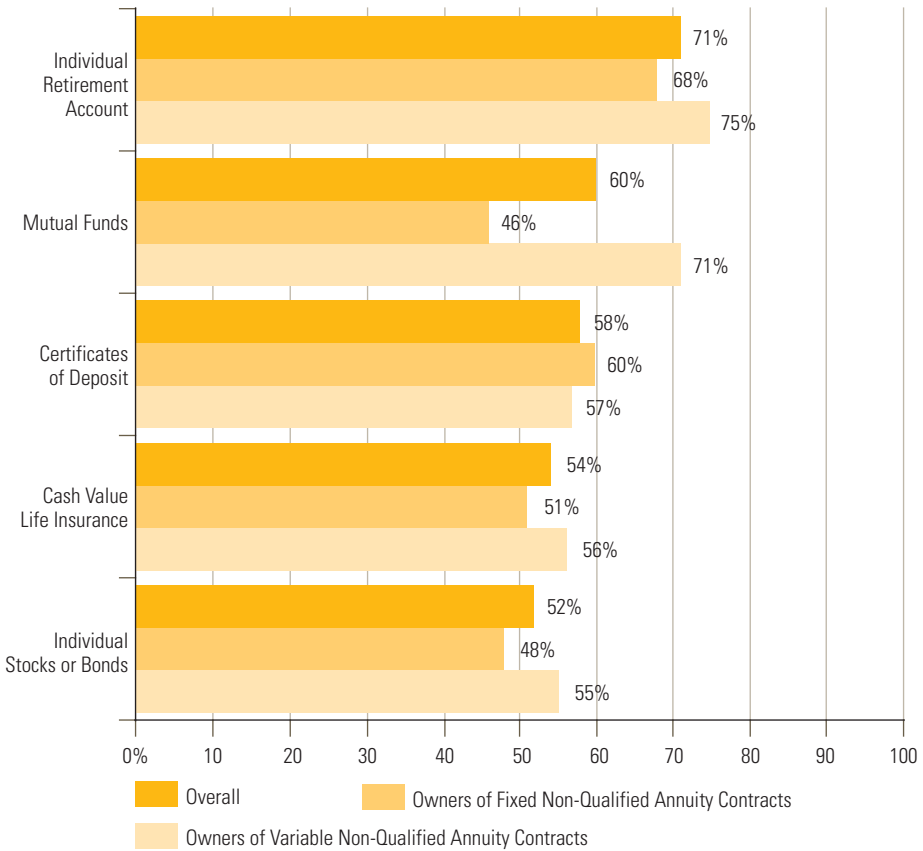
Compared to non-qualified annuity owners who are still working, more retired owners view Social Security (58% vs. 39%) and money their employers put into a retirement plan for them (48% vs. 40%) as their major sources of income in retirement. In contrast, owners who are not retired generally view themselves 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. In this regard, current workers are more likely than retirees to cite money they put into a retirement plan for themselves (38% vs. 25%) or other personal savings (37% vs. 26%) as a major source of income in retirement (See Figure 10-9).

Figure 10-9 Largest Source of Retirement Income



Aside from their non-qualified annuities, owners save in a number of other financial products (See Figure 10-10).

Figure 10-10 Savings in Other Financial Products by Type of Annuity



How Do People Buy Annuities?

The 2009 survey found that owners of non-qualified annuity contracts have used a variety of sources to fund their annuity purchases. The majority of non-qualified annuity owners (57%) say that they used existing savings to purchase their annuities. Nearly half (45%) say that they used their or their spouse's current income. Three in ten (31%) report that they used proceeds from another investment to fund the purchase, while one-quarter (26%) used an inheritance. Other "one-time" events that owners used to fund the purchase of their annuities include the sale of a home, farm, or business (17%); a gift from a relative (13%); and a death benefit from a life insurance policy (12%).

Why Do People Purchase 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. When asked whether any of a list of specific reasons for purchasing an annuity contract was true for them, 89% of owners of non-qualified annuity contracts say that the tax treatment of annuity contracts was a “very” or “somewhat” important reason that they purchased a non-qualified annuity. Large numbers also indicate that a “very” or “somewhat” important reason for purchasing an annuity was the fact that it is a safe purchase (89%), it has a good rate of return (86%), and they wanted a long-term savings plan (80%).

Nearly three-quarters of owners of non-qualified annuity contracts report the following as “very” or “somewhat” important reasons for purchasing a non-qualified annuity: they can get payments guaranteed to continue for as long as they live (72%), it is an easy way to save (72%), they want a source of funds for emergencies (72%), and they have a choice of methods of receiving payments from their annuity savings (71%). Slightly fewer report that it provides money in case they or their spouse need to enter a nursing home (65%).

What Do Annuity Owners Think About 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” (88%), “annuities are an effective way to save for retirement” (86%), “annuities are a good way to ensure their surviving spouse has a continuing income” (86%), and “annuities are secure and safe” (79%). Very large proportions of owners of non-qualified annuity contracts agree “completely” or “somewhat” that annuities “are a good source of emergency funds in old age” (82%), “have attractive tax treatment” (80%), “are an effective way of assuring money is available to pay for a catastrophic illness or nursing home care” (80%), “offer a good return” (76%), “will prevent them from being a financial burden on their children in their later years” (74%), and “are an important source of retirement security” (79%).

Conclusions and Trends

The tax treatment of non-qualified annuities provides needed incentives that encourage Americans to save for their retirement. The Gallup surveys underscore the importance of the use of non-qualified annuities by middle-class Americans as a means of maintaining their standard of living in retirement. Other than Social Security and defined benefit pension plans, only annuities offer guaranteed lifetime income that can protect Americans against outliving their retirement savings. As advancing age, market fluctuations, a continued decline in the availability of defined benefit plans, and proposals to modify Social Security continue to focus baby boomers on retirement, more and more of them will become concerned about outliving their savings as they

grow older. Hence, the lifetime income streams guaranteed by annuities will become increasingly important as more Americans enter retirement.

Methodology

For each survey, at least 1,000 owners of non-qualified annuities were interviewed. With respect to the 2009 survey, The Gallup Organization conducted telephone interviews of 1,003 owners of non-qualified annuity contracts between March and April 2009, which is a representative sample of people who own such contracts. The companies that issued the contracts owned by these 1,003 individuals are geographically diverse and represent a mix of large and small companies and various distribution systems. Mathew Greenwald & Associates, Inc., consulted with the Committee of Annuity Insurers on the 2009 Survey, including the analysis of results presented therein. The percentages reported in the figures and text have been rounded to the nearest whole number. It is the view of Gallup and Mathew Greenwald & Associates, Inc. (based on the sampling procedures used and other research that Gallup has conducted in this area) that the results of the 2009 survey represent the characteristics of owners of non-qualified annuity contracts, with a sampling error of plus or minus three percentage points at the 95% confidence level. Copies of the 2009 survey and all prior surveys are available on the Committee of Annuity Insurers' website, at www.annuity-insurers.org/annuities.aspx.