

THE ARIZONA REPUBLIC

Who Buys Annuities and Why?

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This is the 4th in a series on annuities. In 2009, The Gallup Organization surveyed 1,003 owners of non-qualified (money that is not in a retirement account such as an IRA or 401(k)). The principal purpose of the Survey was to gain an insight into their attitudes towards saving for retirement. This Survey shows how annuities fit the financial motivations and planning of Seniors and Baby Boomers.

Demographic Profile of non-qualified annuity owners:

- Age at First Purchase: Most annuity owners (79%) purchased their first annuity before age 65. The average age at which owners purchased their first annuity was 52.
- Employment Status: 69% are retired
- Household Income: Owners have moderate incomes. Almost half (42%) have annual household incomes below \$50,000. The average household income of owners is just over \$75,000.

Dr. Wong analysis: This data fits with my observations from over 30 seminars I conducted last year, personal consultations with retirees, and data collected from other financial professionals nationwide. Baby Boomers are much more likely to try for high returns and forget about the corresponding high risk. That's why so many 401(k) plans have shrunk by 25-50% during the Wall Street Meltdown during the last 2 years. This same meltdown occurred during the 2000-2002 Internet Bust.

In contrast, the parents of Baby Boomers were children either during the Great Depression or World War 2. They remember hard times, massive bank failures, and want the safety of annuities.

Why did they Buy an Annuity? Those in the Survey who rated these reasons as either very or somewhat important:

- Earnings would not be taxed until the funds were used
 - Was a safe purchase
 - Had a good rate of return
 - Wanted a long-term savings plan
 - Could get payments guaranteed to continue for as long as you live
 - Easy way to save
 - Wanted a source of funds that could be used to pay for emergencies, such as catastrophic illness during retirement
 - Had choices of methods of getting the money
 - Provides money in case owner needs to enter a nursing home
- Dr. Wong analysis: Annuities, particularly fixed or fixed indexed annuities, offer safety and a reasonable rate of return which typically matches or exceeds bank CD rates. This is a major reason why those with or without retirement plans have been seeking the protection of fixed and fixed indexed annuities.

Tax Advantages: In fact, just 55% of the owners of non-qualified annuities have participated in a retirement program offered through an employer at some point during their working careers. This is an astoundingly low figure. Because taxes on one's annuity earnings are deferred until one takes the money out, an annuity acts much like an IRA or 401(k). This is a major reason why those without employer retirement plans like annuities.

Increased Life Expectancy: Another difference is that older people realize that medical and nursing home costs are serious issues that might require an emergency fund. The Baby Boom generation rejects the idea of getting



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old. Their motto is that "age 60 is the new 40".

However, we are all living much longer than what the parents of Baby Boomers ever imagined. If a couple reaches age 65, there is a 47% chance that at least one will reach age 93 and a 26% chance that one will reach age 97.

People are concerned they will outlive their money: Will your investments protect you and also cover the devastating expense of a nursing home or long-term care facility? Only an annuity has the feature of a guaranteed lifetime income. Some annuities have an interesting rider, where one's guaranteed annual income doubles in the event you are in a nursing home.

Conclusion: This Survey indicates there are many reasons why annuities are popular with millions of Americans. No product or planning tool fits all situations. However, Baby Boomers might learn a lesson from their parents and use fixed or fixed indexed annuities to increase the safety of their retirement future.

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