



# Annuities: Creating Guaranteed Income for Life

Retirement today requires more planning than in previous generations. Sources of steady retirement income have changed, as fewer and fewer workers are covered by traditional pensions that provide a lifetime benefit. In addition, advances in medicine have resulted in increased longevity and today's retirees may spend 20, 30 or more years in retirement.

Given this landscape, workers face two dilemmas: how to accumulate savings for retirement and how to generate a stream of income in retirement guaranteed to last a lifetime. A 2010 survey shows that only 16 percent of American workers are very confident that they will have enough money to live comfortably throughout their retirement years, down from 27 percent in 2007.<sup>1</sup>

With the increased popularity of defined contribution plans, such as 401(k)s, responsibility for making sure retirement savings last has shifted from the employer to the individual. Unlike traditional defined benefit plans that provide a stream of payments to retirees for life, defined contribution plans typically offer a lump sum that retirees must then manage on their own.

The only way to create a guaranteed lifetime income stream in retirement is through an annuity. An annuity is an insurance contract that offers an efficient solution to what otherwise could be an overwhelming asset management task: Creating a steady paycheck in retirement that cannot be outlived.



AMERICAN COUNCIL OF LIFE INSURERS



NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS



## SUCCESS OF THE PRODUCT

Annuities are insurance contracts that offer solutions to both sides of the retirement equation: They provide ways to accumulate retirement savings and to turn those savings into a lifetime income stream.

The recent economic crisis has highlighted and enhanced the long-term value and guarantees that annuities provide. In fact, despite the market turmoil, 79 percent of current annuity owners say that annuities were a safe and secure way to save for retirement and that annuities make them feel secure in times of financial uncertainty.<sup>2</sup>

A deferred annuity can address both pre-retirement savings and post-retirement income needs. For example, for those who are years away from retirement—or are retired and don't need to produce income right away—a deferred annuity allows savings to accumulate, tax deferred, until you choose to receive income payments. Annuity owners decide how their money accumulates—at a fixed interest rate, an indexed interest rate, or a variable interest rate. They also choose how and when they receive income—in a lump sum, as payments over a specified number of years, or through a steady stream of income they can't outlive.

For those who need income right away, an immediate annuity converts a lump sum of money (such as money from the sale of a home or business, or a portion of accumulated savings in a workplace retirement plan) into a series of monthly, quarterly, or annual payments. The annuity owner chooses if those income payments last for a specified number of years or for life.

<sup>1</sup> Employee Benefit Research Institute. *2010 Retirement Confidence Survey*.

<sup>2</sup> Committee of Annuity Insurers. *2009 Survey of Owners of Non-Qualified Annuity Contracts*. (Conducted by The Gallup Organization and Mathew Greenwald & Associates.)

## AALU

Founded in 1957, the Association for Advanced Life Underwriting (AALU) is a professional trade association representing 2,000 life insurance agents and financial advisors nationwide. Most members are engaged in complex uses of life insurance such as in business continuation planning, estate planning, charitable planning, retirement planning, deferred compensation and employee benefit planning. The mission of AALU is to promote, preserve and protect advanced life insurance planning for the benefit of its members, their clients, the industry and the general public. [www.aalu.org](http://www.aalu.org)

## ACLI

The American Council of Life Insurers represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. These member companies represent more than 90% of the assets and premiums of the U.S. life insurance and annuity industry. In addition to life insurance and annuities, ACLI member companies offer pensions, 401(k)s and other retirements plans, long-term and disability income insurance, and reinsurance. [www.acli.com](http://www.acli.com).

## GAMA International

GAMA International is a worldwide professional association serving 5,500 field leaders in the insurance and financial services industry. Its members recognize their critical role in finding, building and inspiring the next generation of top performers who will, in their turn, lead the industry into the future. To help build these leaders, the association provides its members with professional development resources and opportunities, including educational, networking and leadership. [www.gamaweb.com](http://www.gamaweb.com).

## NAIFA

NAIFA comprises more than 700 state and local associations representing the interests of approximately 200,000 agents and their associates nationwide. NAIFA members focus their practices on one or more of the following: life insurance and annuities, health insurance and employee benefits, multiline, and financial advising and investments. The Association's mission is to advocate for a positive legislative and regulatory environment, enhance business and professional skills, and promote the ethical conduct of its members. Visit NAIFA's website at [www.naifa.org](http://www.naifa.org)

## NAILBA

The National Association of Independent Life Brokerage Agencies (NAILBA) is a nonprofit trade association with 375 member agencies in the U.S., representing 250,000 producers who deliver more than one billion dollars in first year life insurance premiums annually. NAILBA is dedicated to fostering the growth of its member agencies by providing educational resources, industry standards and a collective voice for legislative and regulatory efforts. Each of NAILBA's members commits to a statement of responsibilities to ethically and responsibly serve their clients' best interests. [www.nailba.org](http://www.nailba.org)

Certain annuities offer the option of continuing income payments to a spouse (or other beneficiary) after the annuity owner dies. Some also provide death benefits if death occurs before income payments begin. Other options also may be available, such as guaranteed living benefits, which provide additional savings and income protection.

## CURRENT TAX TREATMENT

By encouraging long-term savings during the working years and helping individuals manage assets during retirement, the current tax treatment of annuities promotes financial discipline.

For those who are years away from retirement, or are retired and have assets that don't need to produce income right away, a deferred annuity allows savings to build up, free of current federal income tax. When payments are received, the portion that comes from earnings is taxed as ordinary income.

To encourage long-term savings for retirement, there are tax penalties for withdrawals from deferred annuities before age 59½ in addition to the income tax due on earnings. The tax penalty is not applied to certain lifetime payouts, death benefits, or payments made if an annuitant becomes disabled. Other exceptions may apply.

The current tax treatment has served as an effective savings incentive: 73 percent of individual annuity owners report that they have set aside more for retirement than they would have if the tax-deferred growth of annuities was not available. A large majority (89%) cite the tax treatment of annuities as a "very" or "somewhat" important reason for their purchase.<sup>3</sup>

The current federal income tax treatment of annuities is reflective of sound public policy that recognizes the annuity's unique role in helping Americans accumulate savings for retirement and guarantee a steady stream of income for life.

## CONCLUSION

An annuity can help American workers meet the challenges of the changing retirement landscape. In fact, eight out of 10 individual annuity owners say they believe that annuities are an important source of retirement security and make them feel more comfortable in times of financial uncertainty. With the shift from defined benefit to defined contribution plans and increased longevity, the role of the annuity in retirement has never been more important. Policy-makers should explore ways to encourage more Americans to turn to annuities for long-term savings and guaranteed lifetime income.

## KEY FACTS

- More than three in four (76%) annuity owners say that they will use their annuities for retirement income.<sup>4</sup>
- Over seven in 10 (72%) annuity owners are 64 years old or older, including nearly half who are age 72 or older (46%).<sup>5</sup>
- Individual annuity owners received \$42 billion in benefit payments in 2009.<sup>6</sup>

<sup>3</sup> Committee of Annuity Insurers. *2009 Survey of Owners of Non-Qualified Annuity Contracts*. (Conducted by The Gallup Organization and Mathew Greenwald & Associates.)

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> American Council of Life Insurers. *2010 Life Insurers Fact Book*.