Consumers want safe income but don’t understand annuities, study shows

By Editorial Staff *Thu, Mar 9, 2017*

A survey by CANNEX and Greenwald & Associates shows once again that Americans want guaranteed retirement income but don't know much about annuities that provide guaranteed income.

Americans wish their financial advisors told them more about retirement income-generating products, according to the Third Annual Guaranteed Lifetime Income **Study**, produced by survey firm Greenwald & Associates and CANNEX, a source of data on most kinds of annuities.

Nine out of 10 consumers surveyed believe financial advisors should present multiple retirement income strategies, and 61% say advisors should present products that provide guaranteed lifetime income. The survey covered about 1,100 retirees and pre-retirees with more than $100,000 in household assets in December 2016.

But a third of those working with an advisor say they have never discussed these strategies; only about 3 in 10 have discussed annuity products. When advisors discuss retirement income strategies with their clients, clients are three times as likely to purchase a product that guarantees lifetime income, the study showed.

About a third of survey respondents, and 53% of annuity owners, said they are highly familiar with annuities in general. But only between 13% and 16% of those surveyed said they are highly familiar with either variable annuities with income guarantees, fixed annuities with income guarantees, indexed annuities with income guarantees, deferred income annuities, or immediate income annuities.

More than half see these products as desirable, however, when framed as strategies for covering essential expenses in retirement, as a supplement to Social Security. Women, those in poorer health, and those with between $250,000 and $500,000 in assets see the greatest value in products that offer guaranteed lifetime income, the study showed.

Despite having $100,000 or more saved, many of those surveyed expressed anxiety about retirement. The number of respondents concerned about maintaining their standard of living in retirement rose to 34% in 2016 from 25% in 2015.

The share of Americans who were “extremely or very” concerned about their ability to live comfortably in retirement rose to 37% in December 2016 from 30% in 2015. The share who are "very concerned" about earning as much as possible on investments to meet their retirement goals rose to 40%, up from 27% in 2015.

About four in five consumers (81%) think people over age 50 need strategies to prevent significant investment losses. More than half said they would rather own an investment with a lower but certain return than one with a higher but uncertain return. Only about one in five said they know what investments will help them achieve their goals and protect against drops in the market.

"The study reveals high levels of uncertainty post-election, particularly among pre-retirees with lower savings levels, and a focus on maximizing returns in the low interest rate environment," said study director Doug Kincaid of Greenwald & Associates. "It shows that consumers recognize the value of guaranteed income and expect advisors to discuss income strategies with them."

The survey showed that many consumers remain concerned about the cost of guaranteed lifetime income products and believe they can get better returns with "other types of investments." Only a quarter strongly agreed that guaranteed lifetime income products can help diversify a portfolio.

"The data shows when it comes to their investment portfolios, consumers are focused on risk assets including equities, but at the same time want to ensure that in retirement they will have the income they need to meet their needs," said Gary Baker, president of CANNEX USA. "The lack of familiarity about specific products underscores the importance of providing advisors and their clients options to meet both needs."

The study did not appear to address two major reasons for persistent public confusion about annuities. First, the word "annuities" is routinely applied to five or six dissimilar products. Second, annuities are often presented as safe investment products instead of as insurance products.

The fact that annuities are insurance, not investments, determines who can sell them, what they cost, and why they involve complicated contracts—factors that will always make an annuity purchase fundamentally different from and more complicated than a mutual fund purchase. A majority of the public will continue to misunderstand annuities as long as ambiguous terms are used to describe them.