Happy Ants, Struggling Grasshoppers

By Editor Test *Tue, Aug 9, 2011*

SunAmerica's 'Retirement Re-Set' study showed why some retirees are happier than others. Jana Greer, president and CEO of SunAmerica Retirement Markets, explains. The company was the sixth biggest VA-seller in 1Q 2011.

Ten years ago, SunAmerica's "Revisioning Retirement" survey found that almost half of U.S. retirees (46%) described themselves as either "Ageless Explorers" or "Cautiously Contents." In other words, they were more or less enjoying their sunset years.

But a lot has happened since then. This year, when SunAmerica Financial conducted a follow-up survey called "Retirement Re-Set," the AIG-unit discovered that only 38% expressed comfort, while 62% identified themselves as members of the less happy "Live for Todays" or "Worried Strugglers" categories.

In other words, today's retirees—those who are a half- to a full-generation ahead of the Boomers, feels financially less secure than the people who are a half-generation ahead of them. That makes sense, because younger generations are less likely to have defined benefit plan coverage.

The happiest retirees, not surprisingly, behaved like the ants in Aesop's fable—careful preparing for their future. The Ageless Explorers, for example, took "very good care of their health" (89%, compared to 58% for Worried Strugglers). And they have the money for travel because they planned ahead, paid off their mortgage and saved on a tax-deferred basis.

Only about one-quarter of the unhappy retirees, by contrast, made careful retirement plans. Either because they couldn't or wouldn't save, less than one in five invested in mutual funds, stocks, or bonds, consulted an advisor, or bought long-term care insurance.

Like other recent retirement surveys, the latest SunAmerica research found that retirees increasingly want investments that won't lose value. At the same time, they're concerned about taxes, inflation and returns. SunAmerica also found an uptick in awareness of extended-family ties and responsibilities.

"The wild card is that nearly half of retirees believe they will need to provide financial assistance to family members. More specifically, 70% believe they will have to provide financial assistance to adult children," said Jana Greer, President and CEO of SunAmerica Retirement Market.

"The sandwich generation used to be Boomers, who were squeezed between elderly parents and small children. Now, with the recession, the unemployment, the downturn in home values and foreclosures, they believe they may have to provide assistance to adult children. Many think they'll have to help grandchildren, and one-quarter thought they might have to take care of siblings," Greer told RIJ.

"Faced with all of these pressures, people said they intend to work to about age 69. But when we surveyed people who were retired, we found that 49% had retired earlier than they planned. The main reason was poor health, at 41%. The next was job loss, at 19%."

As a VA marketer, SunAmerica has a obvious stake in all this. At the end of the first quarter of 2011, SunAmerica/VALIC was the sixth biggest seller of variable annuities in the U.S., with sales of $1.84 billion and a market-share of 4.76%. Much of that volume was sold through affiliated broker-dealers, Royal Alliance, SagePoint and FSC, Greer told RIJ.

Risk-wise, SunAmerica Financial Group considers itself well-diversified in the retirement space. Besides offering variable annuities, it owns a large life insurer in American General, a big fixed annuity issuer in Western National Life, as well as a big group annuity provider in VALIC.

After the financial crisis, SunAmerica made an effort to de-risk its variable annuity income riders. Rider fees are now linked to equity market volatility. Instead of being a flat five percent from age 65 onward, the income payout rate is 6% until the contract becomes truly in-the-money. If the account value drops to zero while the contract owner is alive, the payout rate drops to just four percent.

"We use the VIX index to moderate the financial risk," Greer said. "We were the first in the industry to do that, and it's been very successful for us. Also, we knew that retirees wanted higher income early, and in contrast to other products, we allow people to withdraw six percent. That drops to four percent when the account value is zero. Those have allowed us to provide competitive product."

© 2011 RIJ Publishing LLC. All rights reserved.