If More Retirees Buy Annuities, Fewer Will Be ‘At Risk’

By Editor Test *Wed, Oct 27, 2010*

It’s riskier to try to live off the interest of your savings or to use a 4% drawdown than to buy an inflation-indexed income annuity, according to a study conducted by the Center for Retirement Research at Boston College and sponsored by Nationwide Mutual.

It should come as no surprise: Buying an income annuity can make retirement more financially secure. But an additional discovery in a recent analysis of the National Retirement Risk Index (NRRI) *was* a slight surprise: High-income households have as much or more to gain from buying an income annuity than other income groups.

The analysis, conducted by the Center for Retirement Research at Boston College, and sponsored by Nationwide Mutual Insurance, shows overall that it’s riskier to try to live off the interest of your savings or to use a 4% drawdown than to buy an inflation-indexed income annuity.

In the aggregate, the percent of U.S. households likely to be ‘at risk’ of not maintaining their standard of living in retirement is 60% without an annuity and 51% with an interest-only retirement income strategy. The at-risk percentage is 53% if households use a four-percent-per year drawdown method in retirement. The NRRI assumes that people work to age 65, receive income from reverse mortgages on their homes and annuitize all of their financial assets. It also assumes that the real rate of interest on savings is 1.9%.

The study also found, when examining households by income level, that high-net worth individuals had the most to gain by annuitizing their assets; they had the most to annuitize. The percent of this group ‘at risk’ was 47% for those who drew down their assets at four percent a year and 57% for those who lived off the interest of their assets (estimated at 1.9 percent annually), compared to only 42% with the annuity.