With Income Annuities, a Lot of Knowledge (or None at All) Is Better than a Little

By Editor Test *Thu, May 9, 2013*

Annuity marketers may want to start stressing the link between annuities and independence in old age, rather than just income in old age. That's one of the takeaways from a study published recently in the Journal of Personal Finance.

The truism that annuities are sold rather than bought doesn't apply to Jean Lown, a professor at Utah State University. Her father, a life and health insurance salesman, lived to be 91. Her 88-year-old mother, a former teacher, still receives a small pension from teaching in New York State years ago. Now in her early 60s, Lown herself intends to annuitize part of her TIAA-CREF savings when she retires in a few years.

"All of the research on retirement preparation shows that there's a huge gap in guaranteed income, and annuities seem like such a logical way for people to begin to bridge that gap," Lown told RIJ in a recent phone interview from her home in Logan, Utah, where she has a view of the snowy ridges of the Bear River Mountains. "I've seen their benefit personally."

She also has a professional interest in the topic. "I teach personal finance and investing at USU. Since 1996, I've also taught a workshop on financial planning for women. My research interest has been in answering the question, 'How do we motivate women to take more control of their own finances?' This is my passion."

Not long after the financial crisis, Lown and a graduate student, Devon Robb, decided to test the public's knowledge of and receptiveness toward immediate annuities. The study, whose results were published in the *Journal of Personal Finance* last winter, was based on a survey of 263 USU employees between the ages of 50 and 65, many of them professors. More than half expected to live past age 85. One-third said that they or their spouses were eligible for a defined benefit pension. One-fourth said they had lost more than 30% of their retirement assets in the financial crisis.

The results suggested several things:

- The people who expressed the most interest in immediate annuities tended to be risk-averse and unfamiliar with immediate annuities.
- Those who rated themselves most familiar with annuities held the least positive attitudes toward them.
- A person's income, life expectancy, or expectation of a pension didn't seem to affect their attitude toward immediate annuities.

If the survey results are solid, annuity marketers may want to start stressing the link between annuities and *independence* in old age, rather than just *income* in old age. In Lowe's experiment, participants were told four positive attributes of income annuities. Respondents were then asked to say how "convincing" each one was. "Help you remain independent" was considered "very convincing" by 36.1% of the respondents—the highest percentage. “Payments for as along as you live” was the second most compelling attribute, with 34.4% calling it “very convincing.” About 28% found the ability of annuities to deliver “more income than withdrawing investment gains” to be very convincing.

When explaining annuities, advisors may also want to ask their clients to try to forget everything they’d heard about annuities. Although Lown’s survey showed that people who expressed familiarity with annuities liked them the least, she suspected that by “familiarity” they might simply have meant that they’d read or heard something negative about annuities from the media. She doesn’t think that someone truly familiar with the benefits of annuities—people like herself and her parents, for instance—would be averse to them.