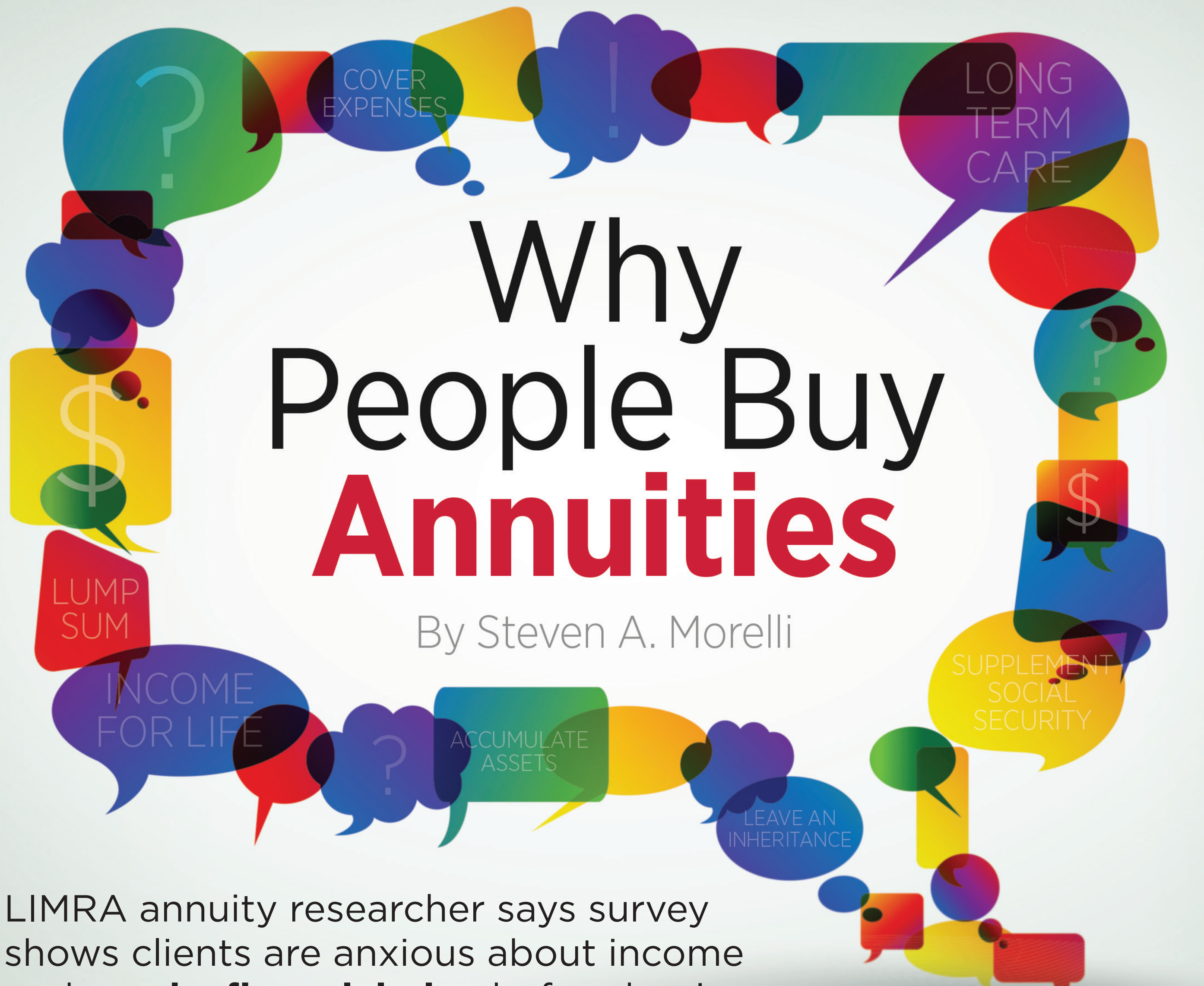


Why People Buy Annuities

By Steven A. Morelli

LIMRA annuity researcher says survey shows clients are anxious about income and **need a financial plan** before buying.

Selling life insurance might seem to be more art than science. Sure, successful sales systems have their tested components derived from experimentation, but when it comes down to it, it's the artful salesperson who usually closes the deal.

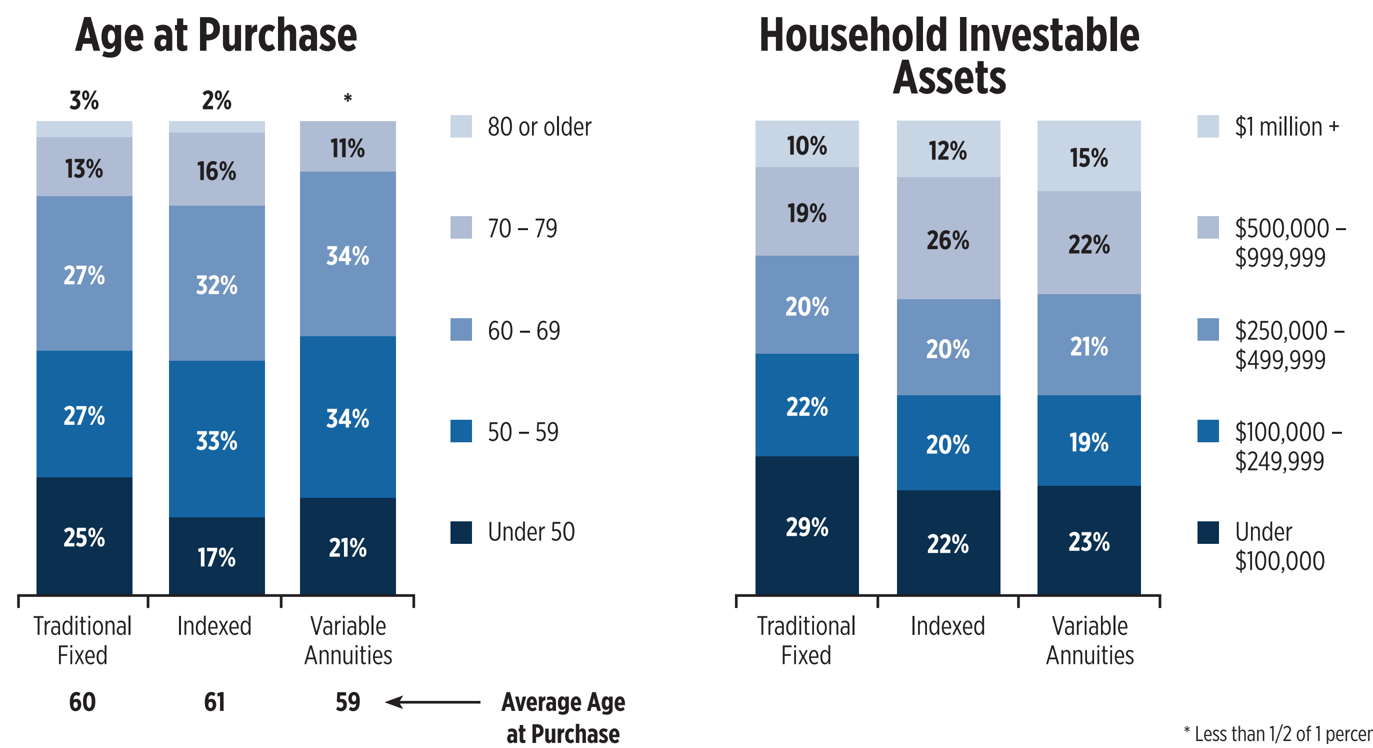
That's the person who seems to know what the client is thinking and how to answer objections before they are even expressed. Of course, it takes years of experience to hone the intuition that turns a mere salesperson into a mind-reading superproducer.

The latest study from LIMRA can take years off that process by giving producers a peek into the mind of the annuity buyer. The "Deferred Annuity Buyer Attitudes and Behaviors" study might sound like a snoozer but the answers it provides to producers' key questions can be pretty exciting.

According to the key findings, annuity buyers:

- **Know they are on their own.** Supplementing Social Security and pensions was the leading reason people bought traditional fixed, indexed and variable annuities. Accumulating assets for retirement was No.2 across the board. Retirement anxiety was clearly the driving force for buyers – far more than it was before the financial crash of 2008.
- **Build a financial plan before getting an annuity.** Eight out of 10 buyers bought their annuities as part of a financial plan. It could be a written plan or one they carry around in their head. One in four annuity buyers had a formal plan and six in 10 had an informal plan. Bottom line: When clients develop financial plans, they are apt to buy annuities.
- **Don't need to be sold; they are looking to buy.** More annuity buyers, particularly younger ones, are initiating sales. Nearly half, or 47 percent, of traditional fixed annuity buyers initiated the sale. The numbers were pretty high for the others, too – 45 percent of indexed and 39 percent of variable annuity buyers. So, they are out there looking for you.

Age at Purchase and Household Investable Assets



- The majority of deferred annuities were purchased by people in this study ages 50 to 69; **1 in 4 buyers purchased their traditional fixed annuities when they were under 50 years old.**
- Variable and indexed annuity buyers are fairly evenly distributed among the five household investable asset value categories, while half of the traditional fixed annuity buyers in the survey have household assets under $250,000.

Source: LIMRA U.S. Deferred Annuity Buyer Attitudes and Behaviors

But another number to keep in mind is the real doozy. That is how much business is at stake. If producers think of themselves as retirement advisors, an enormous galaxy of opportunity opens up. How large?

According to one of the study's researchers, Joseph Montminy, boomers and older seniors are holding billions of dollars that they want to keep safe for retirement. Today, $400 billion is waiting to be rolled over from retirement funds. By 2015, that's expected to grow by 50 percent to $600 billion.

A majority of those pension, IRA and 401(k) owners are not secure that their dollars will last their lifetime, Montminy said. That is why clients are eager to plan their retirement and when they make plans, they are more likely to include more than just annuities.

"We did find that there wasn't a high level of confidence – I mean very, very high level – that their assets would last a lifetime," said Montminy, LIMRA assistant vice president, annuity research. "But having a plan offers more security. That plan can lead to additional purchases, whether it's an annuity product or other types of product that they

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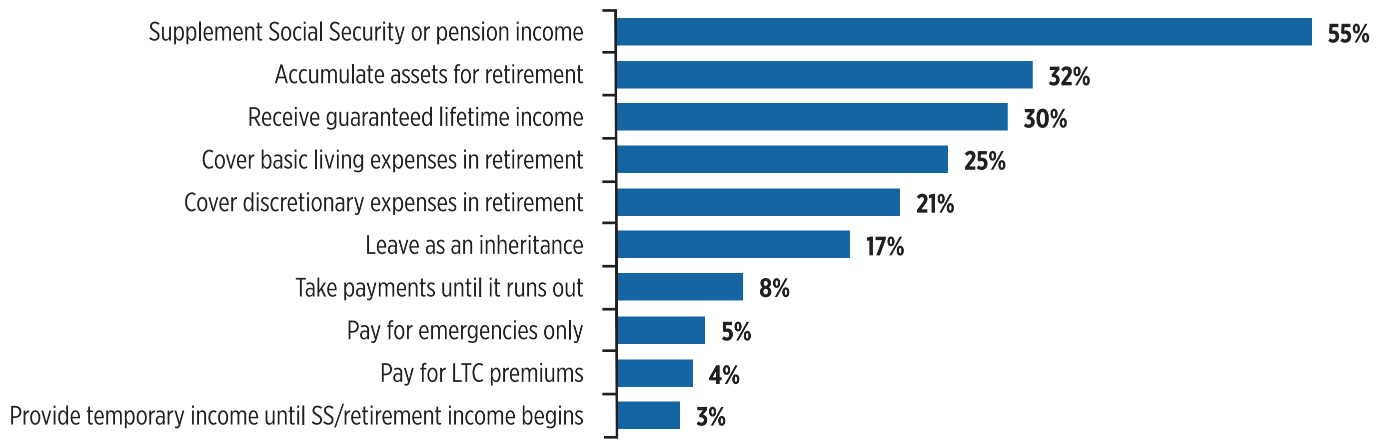
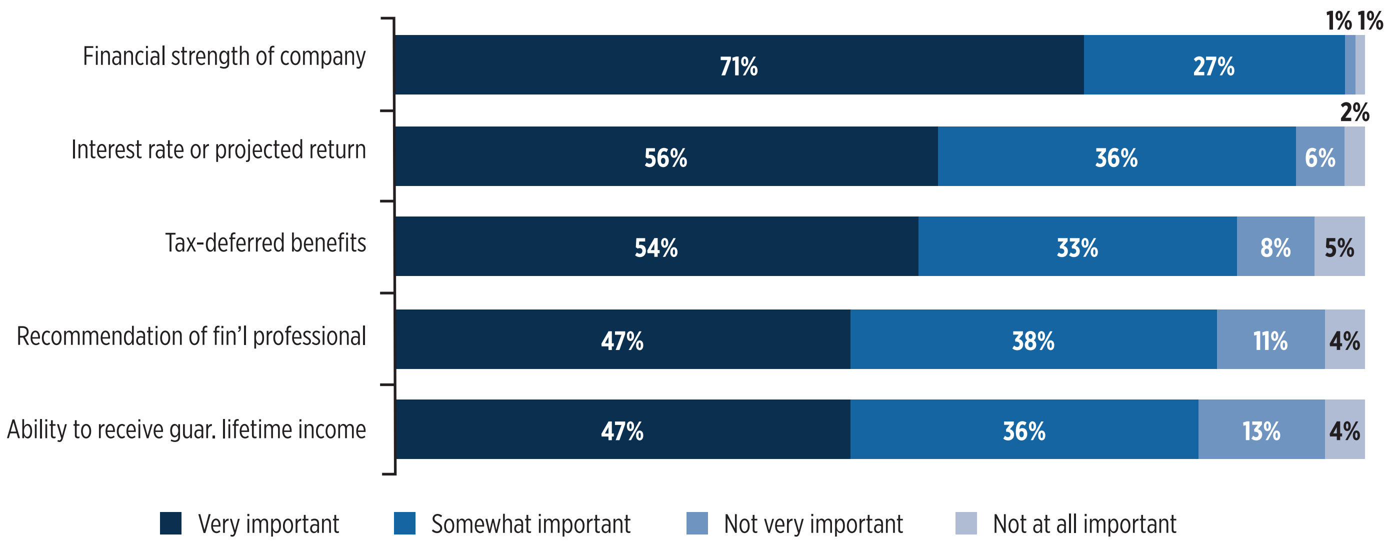
Intended Uses for Variable Annuities



Level of Importance When Deciding to Purchase a Variable Annuity



Source: LIMRA U.S. Deferred Annuity Buyer Attitudes and Behaviors

offer. It's becoming a whole retirement-income marketplace."

The study showed that after planning and buying annuities, buyers were more confident about their retirement. And they are willing to come back for more. Many households had more than one annuity.

"For variable annuities and fixed, six out of 10 households had more than one annuity," Montminy said. "On the traditional fixed, about half of them had more than one, which still is pretty high."

Montminy said the fact that many buyers made multiple purchases meant two things for producers: They should make sure they are keeping in touch with clients and they should ask their satisfied buyers for referrals.

"As they go through some of these different life stages – whether it's having a family, being married, changing jobs or the kids are out of college – that's an opportunity to go back and reconnect with your customer to say 'Have things changed? Do you have an additional need to maybe save more for income or save more for retirement?' and utilize these products," he said.

"You have an opportunity for another sale and an opportunity for referral because that seems to be something that they're willing to do."

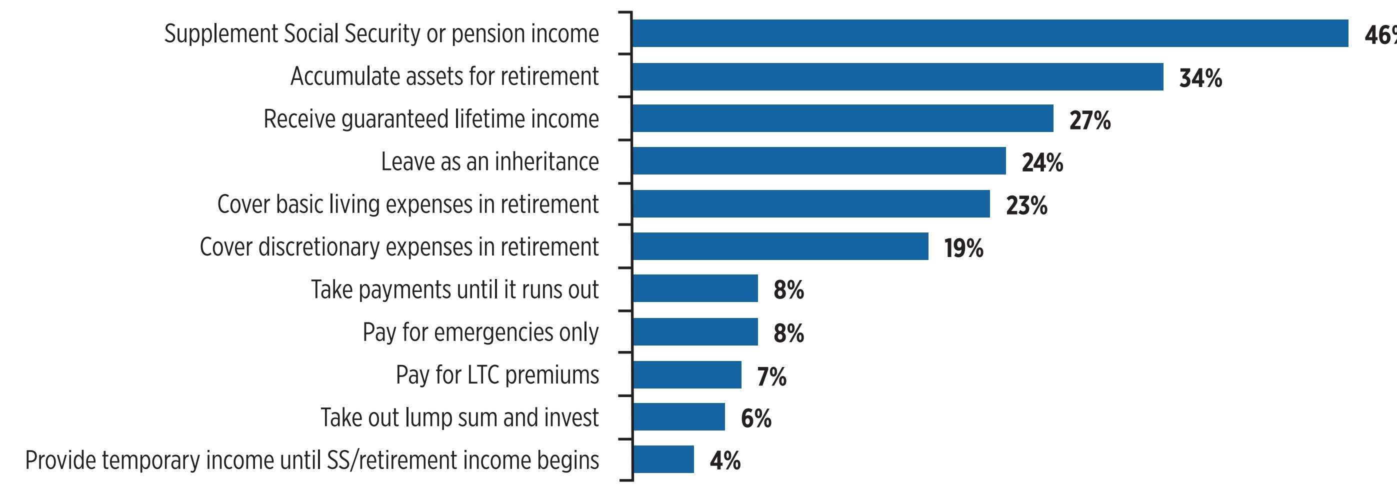
In fact, five out of six buyers said they would be willing to refer business.

Who is Buying?

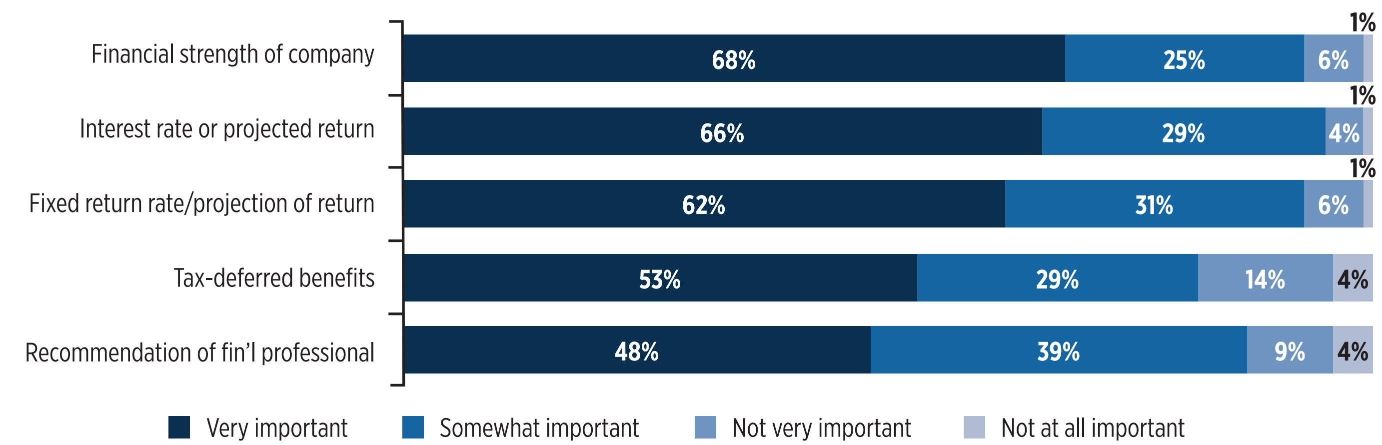
Buyers average around 60 years old – 59 for VAs, 60 for traditional fixed and 61 for indexed. The age for VAs did not surprise researchers, but the average for traditional fixed and indexed were younger than they expected, which would have been closer to 65.

As printed in the July 2012 issue of InsuranceNewsNet Magazine.

Intended Uses for Indexed Annuities



Level of Importance When Deciding to Purchase an Indexed Annuity



Source: LIMRA U.S. Deferred Annuity Buyer Attitudes and Behaviors

That might have happened because of another surprise – about one out of four buyers were under 50 when they purchased their annuity.

Another interesting point is that VA and indexed buyers skew wealthier than traditional ones. With indexed, 38 percent of the buyer households had investable assets of $500,000 and more; VAs, 37 percent; and traditional, 29 percent. VA buyers had more very wealthy clients, $1 million or more, with 15 percent; indexed had 12 percent; and traditional had 10 percent.

In fact, the largest group of traditional fixed buyers was in the lowest household investable asset segment, under $100,000. Close to a third (29 percent) of the traditional buyers had under $100,000; 23 percent of VAs; and 22 percent of indexed.

Why Are They Buying?

Consumers in general are starting with an anxious mindset. That was partly a result of the 2008 crash, which still resonates.

In another LIMRA study, retirees were asked, "'Are you as financially secure now as you thought you would be when you first retired?" The percentage who answered, "No, I feel less

"About one out of four buyers were **under 50** when they purchased their annuity."

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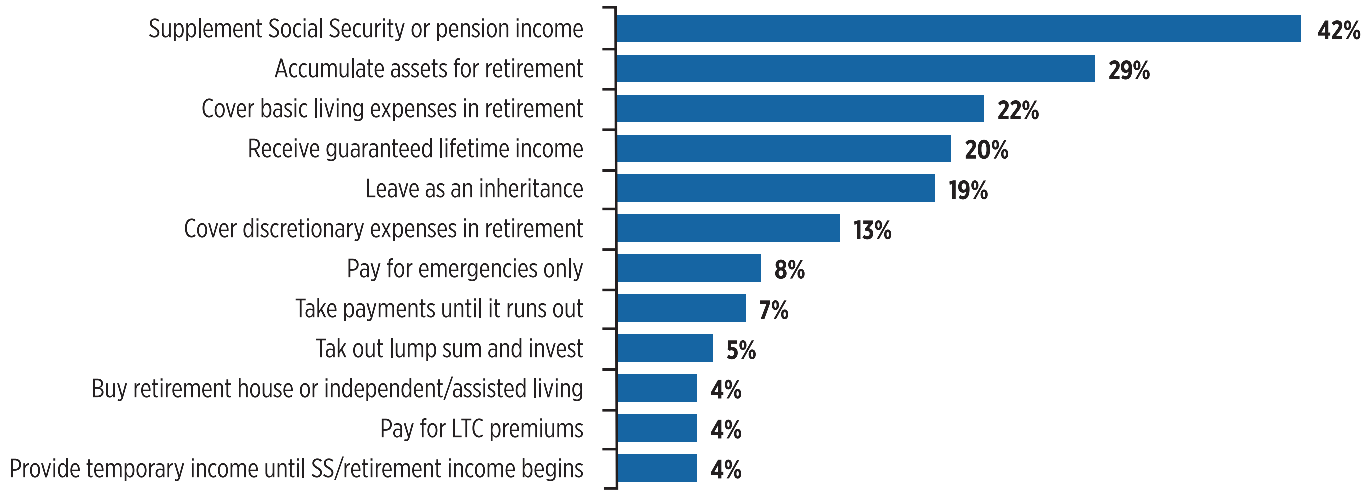
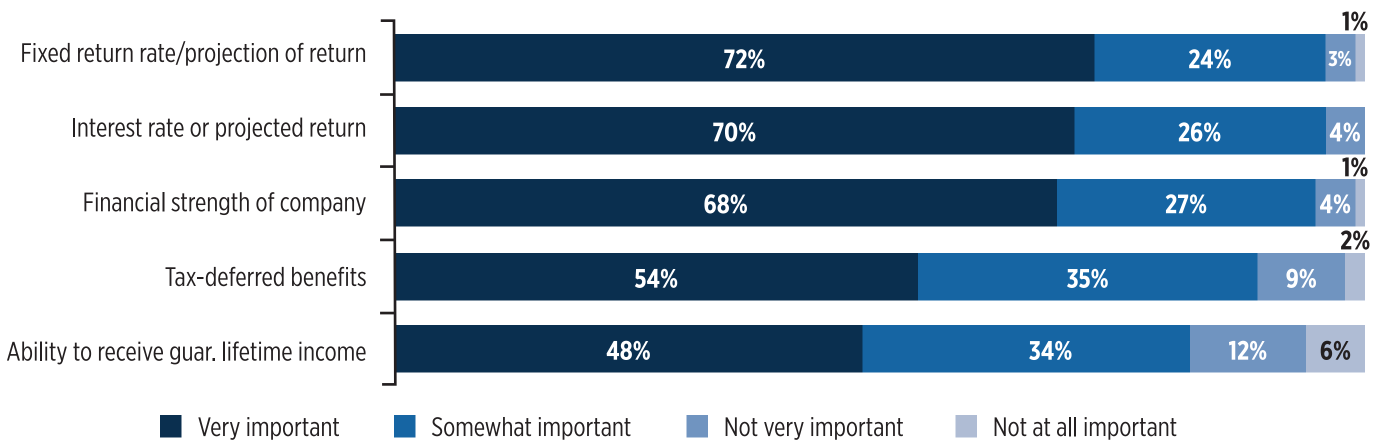
Intended Uses for Traditional Fixed Annuities



Level of Importance When Deciding to Purchase a Traditional Fixed Annuity



Source: LIMRA U.S. Deferred Annuity Buyer Attitudes and Behaviors

secure" was 20 percent in 2008 before the crash. That shot up to 49 percent in 2009. In 2011, the percentage settled down to 28 percent, but it suggests a bit of scar tissue from 2008.

Certainly, the crash taught consumers that their foundations are not as sturdy as they thought.

"As the market was going up and the value of your house was significant, the value of your retirement plans was much higher and you didn't have all the volatility that we've seen over the past two or three years, you felt much more comfortable with where you are," Montminy said, adding that is not the case now.

"They now realize they need to do a lot more to plan for themselves and they can't just rely upon some other asset that they have," he said. "They need to actually go out and look at retirement-income products that help them – give them some of that stability, or at least some minimum guaranteed income."

In fact, the top three intended uses for the three annuity types involved retirement income. "Supplement Social Security or pension income" was a strong No.1 for all of them. "Accumulate assets for retirement" was No. 2; "receive guaranteed lifetime income" or "cover basic living expenses in retirement" was No. 3. ("Cover basic living expenses" was No. 3 for traditional fixed, which might reflect the lower wealth profile of those buyers.)

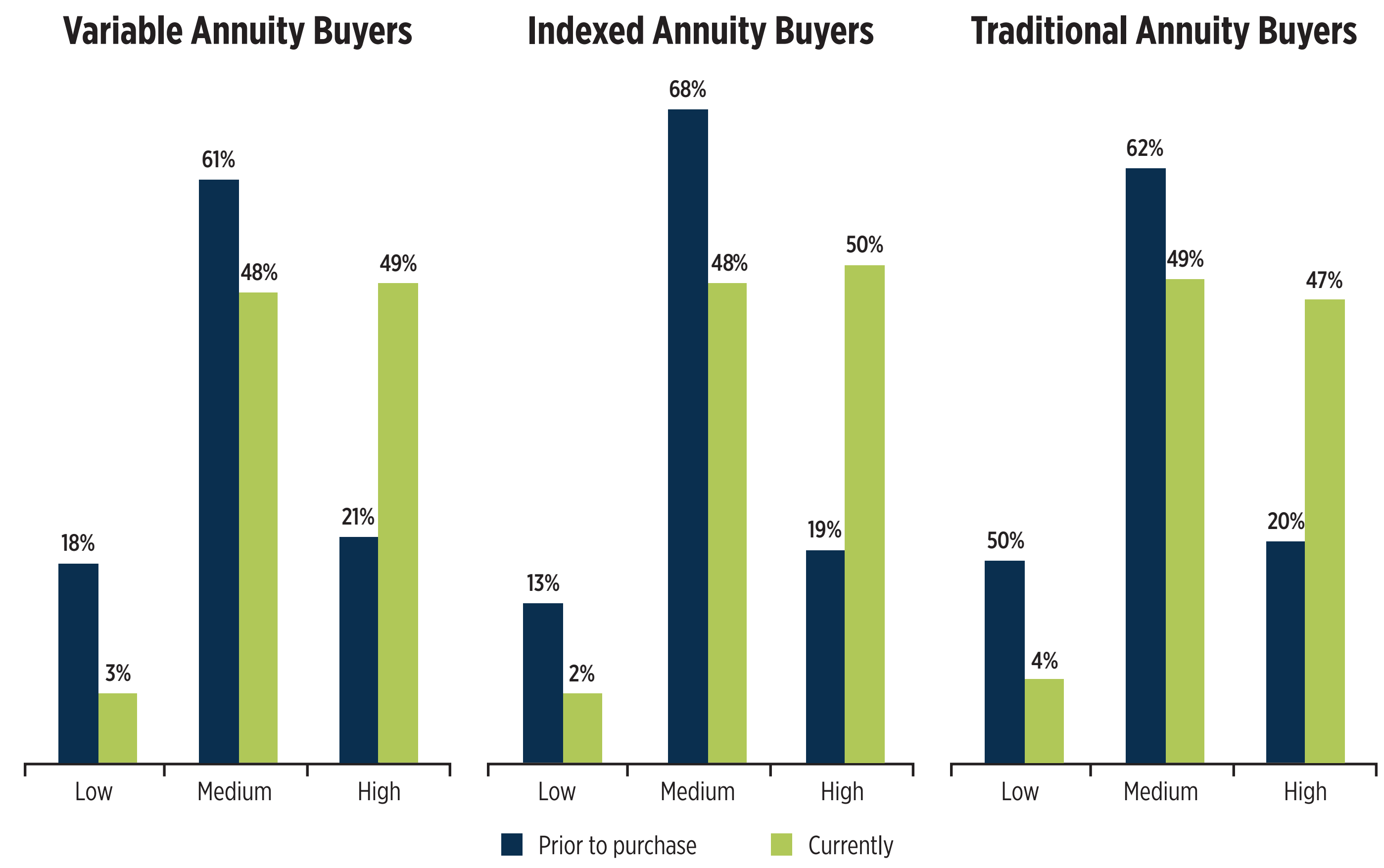
The age groups' goals were predictable, with younger buyers more focused on asset accumulation and older ones wanting a dependable income stream in retirement.

But the overarching concern and the main takeaway was that buyers know they cannot depend on Social Security, savings, pension or other defined benefit plans to help them in retirement.

"People see that they have defined benefit, Social Security and then you've

As printed in the July 2012 issue of InsuranceNewsNet Magazine.

Level of Understanding of Annuities Before and After Recent Purchase



On this graph. level of understanding is grouped as the following: "Low" = 1, 2; "Mid" = 3-5; and "High" = 6, 7.

Source: LIMRA U.S. Deferred Annuity Buyer Attitudes and Behaviors

got your own," Montminy said. "Well, with defined benefit going away and Social Security not being enough, if I were an advisor I would focus on those as reference points. Because people are not thinking of it as guaranteed lifetime income, even if that is what they are actually looking for."

It appears that annuity buyers are trying to establish a personal pension that is truly theirs and that no one else can take away.

What Made Them Buy?

It might surprise producers who have been taught lately to de-emphasize talking about the insurance carrier during the sales process, but the "financial strength of company" was the most important factor in buying a VA or indexed. For VAs, 71 percent said it was most important; 68 percent for indexed; and 68 percent for traditional fixed.

An interesting point here is that even though the same percentage of indexed and traditional buyers felt the company's financial strength was important, it was the No. 3 factor for traditional fixed buyers. For them, No. 1 was "fixed return rate/protection of return" at 72 percent and "interest rate or projected return" was No. 2 at 70 percent.

"You've got to remember those traditional fixed buyers tend to be a little bit more conservative and they're buying a fixed interest rate because they want that principal protection and that guarantee," Montminy said.

The survey also asked why people bought the annuity and allowed an open-ended answer, rather than a multiple choice. The most common answer was for retirement planning, which was expected. But the next most frequent answer spoke to the particular product's purpose.

"When you looked at the VA buyers the next most common theme was market growth potential," Montminy said. "And that's exactly what the VA is really all about – it has that ability to have your account value grow. Whereas for indexed the next two were tied, and one was market growth potential

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and personal protection. And what's really fascinating is that's really what an indexed annuity does. It gives you the ability to have some growth on the upside but it protects your principal. And then for the traditional fixed buyers, their next most important theme was guaranteed income or guaranteed rates, which exactly falls in line with how that product works."

The researchers interpret these answers to mean that clients have a solid grasp of the products they are buying. Annuity companies and producers have long been accused of selling a complicated product to clients who vaguely understand them. The survey also asked people how well they understood the products before and after the sale. At least 96 percent said they had a mid- to high-level of understanding of the product after the sale, with about half in the high range. That was up from 82 percent before the sale, with about 20 percent in the high range. Montminy said the two questions confirm that producers are doing a good job of educating clients.

"They're getting what the products are supposed to do and that's why they're buying them."

> "Two takeaways from this study really excited researchers.
>
> The first was that **younger consumers are buying annuities** and they are doing it differently. The other point is if producers aren't advising on retirement, the **greatest generational rollover** will roll right by them."

So, What Now?

Two takeaways from this study really excited researchers. The first was that younger consumers are buying annuities and they are doing it differently.

"We find that for those under age 60, roughly half of them were the ones initiating the discussion," Montminy said.

Pair that with the discovery that about 25 percent of the annuity buyers were under 50 and that becomes an interesting dynamic, because that age group is more comfortable getting information on the Internet in multiple ways, including social media. So, with the demographic for advisors, finding the prospects is about as important as being found.

"The message is not so much to the advisors but to the firms and to the companies to provide self-directed services that allow these consumers to have access to information," Montminy said. "And then direct them to an advisor in the area who can help them."

The other point is about retirement income and planning. If producers aren't advising on retirement, the greatest generational rollover will roll right by them.

It is clear from this survey and others that consumers are very concerned about running out of money.

"When we asked them, 'What was one of the most important objectives that you have for your all your assets,' the top one that they said was most important was having enough money to last their lifetime," Montminy said.

Although that might be the concern, it is expressed in different ways. For example, along with "providing income that lasts your lifetime," the phrase "supplementing Social Security and other retirement income" has significant power with consumers, according to the survey.

These findings also fit in well with a survey of advisors that LIMRA released earlier this year, "Advisor Perspectives on Retirement Planning." In that, four in 10 advisors said retirement planning constitutes half or more of their business activities and they planned to add more. Also, it was the more seasoned advisor who tended to advise more clients on retirement planning.

That survey found a crying need for retirement advice. Matt Drinkwater, associate managing director, LIMRA Retirement Research, said, "LIMRA's research has found that only one-third of Americans feel they are saving enough for retirement and a majority of pre-retirees (people within five years of retirement) feel that they are not prepared for retirement. There is a great opportunity to help these consumers identify their financial needs in retirement and develop a sound plan to address them."

And with the annuity buyer study, it is apparent that clients are more apt to buy annuities when they develop a financial plan. Also clear is that annuity buyers are generally happy with their purchase and willing to refer business.

"Linking back to that advisors survey, 81 percent of the advisors said that client referrals are one of three of the most efficient ways to actually capture IRA rollovers," Montminy said. "And those rollovers are actually one of the things that we think are going to help organically grow this marketplace."

With 10,000 boomers turning 65 each day for the next 18 years, there will be an ever-growing cascade of rollovers – with a huge number of people unsure of what to do with them. They need a plan. And they need an advisor.

"If advisors start doing retirement plans they are going to benefit the client and themselves," Montminy said. "It's a win-win situation."

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