RETIREMENT INCOME INSTITUTE
Alliance for Lifetime Income

Who Should Read This Insight:
Retirement investor, financial professionals, annuity plan providers

Institute Research Agenda Topic:
Understanding differences in consumer behavior and decision-making

Definitions of **bold key terms** are at the end of this article.

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Authors, Titles and Publication Dates of the Articles Addressed in the Insight
Nyce, Steve, and Billie Jean Quade. 2012. "Annuities and Retirement Happiness." Towers Watson Insider.

Steve Nyce is the Director, Research and Innovation Center, at Willis Towers Watson. Billie Jean Quade was with Towers Watson (now Willis Towers Watson) at the time this article was published.

Insight: RELATIONSHIP BETWEEN RETIREE WEALTH, HEALTH, AND ANNUITIES AND RETIREMENT SATISFACTION

IDEAS IN THE INSIGHT YOU CAN PUT INTO ACTION

While the lessons also apply to the current economic uncertainty of the COVID-19 era, the article was written about the Great Recession that started in 2009. As older consumers and retirees face the decision about whether to convert some of their wealth into an annuity and how much of their retirement savings to **annuitize** in the present-day economic reality, this article outlines ways in which annuitizing can boost retirement satisfaction. **Annuity** plan providers could enhance their efforts to reach retirees who are less affluent or in poor health since individuals in those groups with high shares of annuitized income report the most satisfaction. Finally, while higher-income workers are somewhat more likely to have employer-provided **defined-benefit plans,** policymakers can support access to annuities (beyond Social Security) for populations that are more vulnerable.

PRINCIPAL INSIGHTS

The 2009 financial crisis and subsequent Great Recession created economic uncertainty for nearly all Americans. Retirees were particularly hit hard as the market downturn temporarily lowered the value of their retirement savings and, therefore, put them at greater risk of outliving their retirement assets. Annuities help protect retirees against the risk of running out of money, and also provide a floor level of income (beyond Social Security benefits) that is buffered from market declines. Steve Nyce and Billie Jean Quade's article focuses on changes between 1998 and 2010 in retirement satisfaction and explores the potential mitigating effects of annuities. The researchers analyzed data from a longitudinal and nationally representative survey that collects data from about 20,000 retirees about aspects of aging. The survey measures respondent satisfaction by asking, "All in all, would you say that your retirement has turned out to be satisfying, moderately satisfying, or not at all satisfying?"

Multiple factors are correlated with individuals' well-being in retirement, though it is difficult to determine whether all of these factors directly improve well-being. Previous research studies show that wealthier and healthier retirees have the highest rates of happiness, followed by those with higher annual incomes. In addition, retirees with more annuitized income sustain higher levels of satisfaction than retirees with less or no annuitized income. Other papers demonstrate that retirees with defined-benefit plans, which often deliver a flow of annuitized income after retirement, are more satisfied than those without pensions and those who have only a **defined-contribution plan,** which delivers a lump-sum payout.

Nonetheless, consumers now have fewer employer-provided, defined-benefit plans while their retirement savings have increasingly transitioned to lump-sum amounts in defined-contribution plans; that is to say, most employers now offer only defined-contribution plans to employees, who then bear the responsibility and risk of planning for retirement. This change can create greater unease about financial stability in retirement, particularly during economic downturns. However, many Americans have been reluctant to annuitize their income on their own, outside of their employer pension, despite the evidence offered here that individuals who hold annuities report higher retirement satisfaction.

The researchers suggest two main findings. First, retirees within vulnerable populations—the least wealthy and those in poor health—and who have annuitized income have lower declines in satisfaction (during a period when overall retiree satisfaction declined) than retirees without annuitized income. Second, the difference in retirement satisfaction is greatest between those with a greater share and those with a lower share of annuitized income. However, they found that although annuitized income is associated with overall satisfaction rates, retiree wealth and health levels are even more strongly associated with satisfaction.

The researchers found that overall retirement satisfaction declined by nine percentage points over the 12-year period studied. Within the overall nine-point decline in satisfaction, the researchers analyzed trends for different groups. Of the survey respondents in 2010, 48% had annuitized income other than Social Security benefits, and 27% of respondents had more than 30% of their income in annuities. Both measures of annuitized income decreased between 1998 and 2010.

Among retirees with comparable wealth and health levels, retirees with annuitized incomes report the highest levels of happiness. In each of the 12 years, retirees with annuities—specifically those whose share of income received as an annuity exceeded 30%—were more satisfied than retirees without annuitized income. In addition, retirees whose share of income received as an annuity exceeded 30% maintain higher satisfaction levels over time.

Finally, both the overall decrease in retirement satisfaction and the positive relationship between annuitized income and satisfaction are long term and cut across all respondents. Importantly, the researchers suggest that annuitized income does not seem to completely counter this downward trend. Rather, they suggest that wealth and health levels have more of an effect on retirement satisfaction than income. And, retirees with lower wealth levels have a greater need for a stable income source such as annuities during times of greater economic uncertainty.

To learn more, visit the Retirement Income Institute at
www.allianceforlifetimeincome.org/retirement-income-institute

KEY TERMS ARE SOURCED FROM THE ALLIANCE FOR LIFETIME INCOME'S ANNUITIES LANGUAGE GLOSSARY AND INVESTOPEDIA

Annuitize: *When you turn your current account balance into a series of periodic income payments, either for a specific period of time or for your whole life.*

Annuity: *A financial product that can offer protected lifetime income and even potentially grow your money.*

Defined-benefit plan: *A defined-benefit plan is an employer-sponsored retirement plan where employee benefits are computed using a formula that considers several factors, such as length of employment and salary history.*

Defined-contribution plan: *A defined-contribution plan is a retirement plan that's typically tax-deferred, like a 401(k) or a 403(b), in which employees contribute a fixed amount or a percentage of their paychecks to an account that is intended to fund their retirements.*