



Converting savings to income: Factors influencing the decision to annuitize

Retirees receiving annuitized payments (annuitants) and those not receiving such payments (non-annuitants) share the same top financial priorities in retirement: protecting a spouse's financial security and not outliving savings.

These top financial priorities are consistent with annuitization, and yet many retirees choose not to annuitize any of their savings. The TIAA Institute surveyed 1,000 retirees, half of whom were annuitants and half of whom were non-annuitants. The goal was to examine the factors that influenced their decisions on how to convert savings to income in retirement.



Why do some retirees annuitize and others choose not to?

TIAA Institute Savings to Income Survey*

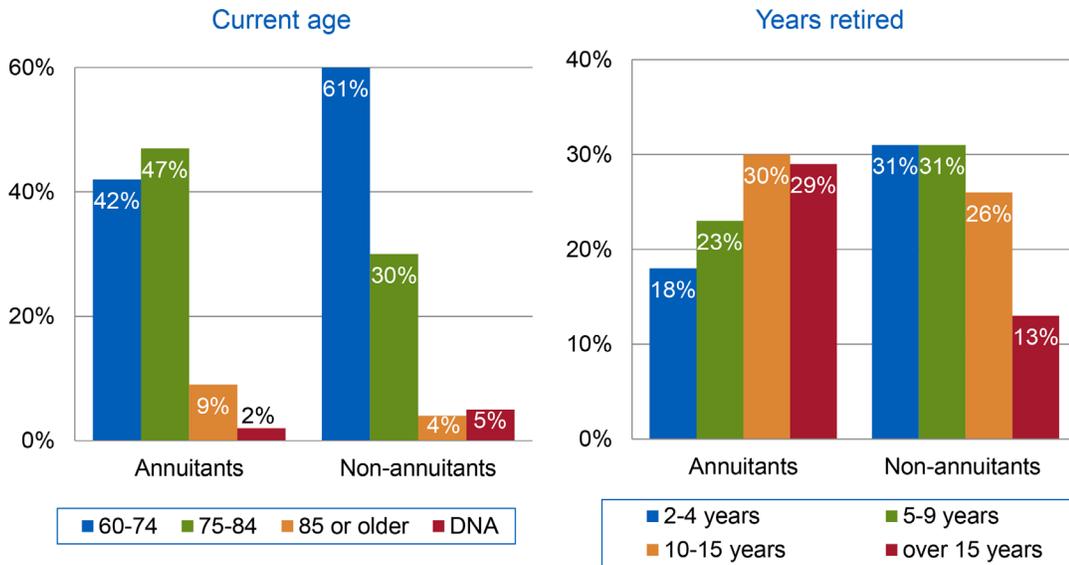
1,000 TIAA plan participants surveyed:

- Age 60 or older
- Retired with at least \$400K in defined contribution and/or IRA assets
- No defined benefit pension income
- 500 receiving annuitized payments (annuitants)
- 500 not receiving annuitized payments (non-annuitants)

*Survey conducted Dec. 2014–Jan. 2015

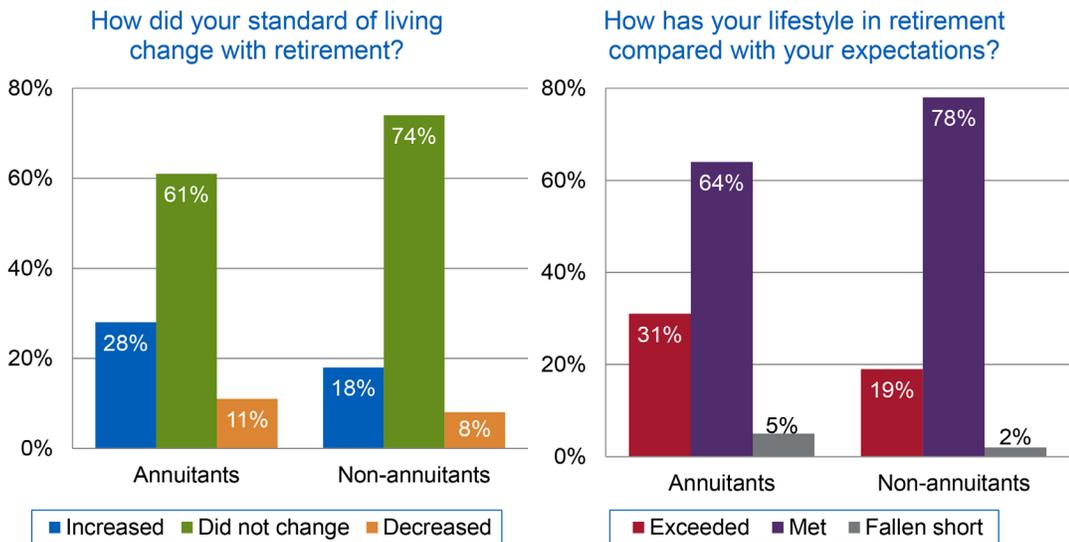
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Annuitant and non-annuitant demographics



Non-annuitants tend to be younger than annuitants, and they tend to have retired more recently.

Standard of living and lifestyle



Annuitants are more likely to have experienced an increased standard of living in retirement and a retirement lifestyle that has exceeded expectations. One possible explanation is that annuitized payments are greater than had been expected.

Top financial priorities in retirement

How much of a priority is [this issue] when it comes to managing your personal finances during retirement?

	Very high	High	Moderate	Low/not
Ensuring the financial security of your spouse if you die first				
Annuitants	57%	36%	5%	3%
Non-annuitants	51	36	8	5
Not outliving savings and financial assets				
Annuitants	54	35	7	4
Non-annuitants	49	37	10	4
Having a guaranteed income stream sufficient to cover basic expenses				
Annuitants	53	38	6	3
Non-annuitants	36	35	18	10

Annuitization is consistent with annuitants' top financial priorities for retirement: protecting a spouse's financial security, not outliving savings, and covering basic expenses with guaranteed income. These top financial priorities also are consistent with the most important reasons cited by retirees for having decided to annuitize.

Non-annuitants share two of annuitants' top three financial priorities, namely protecting a spouse's financial security and not outliving savings. Covering basic expenses with guaranteed income is a mid-level priority for non-annuitants, along with maintaining direct control of their financial assets, preserving their financial assets, and maintaining the same standard of living throughout retirement. The latter three are also mid-level priorities for annuitants. Given that other items are generally higher priorities for non-annuitants, none of their mid-level priorities should be a barrier to annuitization in practice.

Why do some retirees annuitize and others choose not to?

Why do some retirees annuitize while others do not? It is possible that non-annuitants do not understand that annuitization would address their top financial priorities:

- 80% of non-annuitants were advised not to annuitize or did not receive advice regarding annuitization; on the other hand, 60% of annuitants were advised to do so.
- In-plan deferred annuities present an opportunity for participants to become socialized to annuities and annuitization. But for 75% of non-annuitants, either their plan(s) did not have a deferred annuity or they did not realize it, the latter likely being the case for many.
- Non-annuitants were twice as likely as annuitants to report having a "fair" or "poor" understanding of annuities (26% vs. 13%).

Given the relative rankings of financial priorities among non-annuitants, there appears to be a disconnect for many who make the decision not to annuitize.

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Similarly, most non-annuitants do not have a good idea about the income level that annuitizing their savings would provide:

- Among non-annuitants professing to have “a pretty good idea” or “somewhat of an idea,” just one-third gave a reasonable answer regarding how much retirement income \$100,000 would generate if annuitized.

There does not appear to be a strong, driving reason why retirees do not annuitize; no single reason was rated “extremely important” by a large share of non-annuitants. The most significant reason given—maintaining direct control of the money—was only a mid-level financial priority. Rather than a driving reason or reasons leading individuals not to annuitize, is it more the case that non-annuitants simply do not perceive a compelling reason to take action to annuitize?

Read more:

Yakoboski, P. (2015). *Data Summary. How Retirees Manage Retirement Savings for Retirement Income: A Survey of TIAA-CREF Participants*. New York: NY. TIAA Institute.

About the TIAA Institute

The TIAA Institute helps advance the ways individuals and institutions plan for financial security and organizational effectiveness. The Institute conducts in-depth research, provides access to a network of thought leaders, and enables those it serves to anticipate trends, plan future strategies, and maximize opportunities for success. To learn more, visit www.tiaainstitute.org.

There does not appear to be a strong reason that explains why retirees do not annuitize. It may be that non-annuitants simply do not perceive a compelling reason to do so.

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