



# Table of Contents

ABOUT THE INSURED RETIREMENT INSTITUTE .....iii

ABOUT THE FACT BOOK .....iii

EXECUTIVE SUMMARY1

CHAPTER 1: INSURED RETIREMENT .....5

    The Changing Face of Retirement .....5

    What is Insured Retirement? .....6

    An Aging Problem.....6

    Two Financial Sides of Retirement .....7

    Is Retirement Getting More Expensive? .....7

    Retirement Income Sources .....9

    Pension Plans .....10

    Social Security .....11

**Spotlight on Boomers**

        IRI Research: Boomer Expectations for Retirement .....13

CHAPTER 2: ANNUITIES 101 .....27

    What is an Annuity?.....27

    What Role Can Annuities Play in a Comprehensive Retirement Plan? .....27

    Who are the Parties to an Annuity Contract? .....28

    What Types of Annuities are Available? .....28

    What are the Differences Between Deferred and Immediate Annuities .....29

    What are the Differences Between Fixed and Variable Annuities? .....30

    What are the Differences Between Qualified and Non-Qualified Annuities?.....32

    Are Annuities Sold Outside of the Retail Market?.....33

    What Fees and Expenses are Associated With Annuities?.....34

    How are Variable Annuity Sales Charges Structured?.....35

    What are Guaranteed Minimum Death Benefits? .....36

    What are the Different Types of Guaranteed Minimum Living Benefits?.....37

    What is the Accumulation Period?.....39

    How is the Value of a Variable Annuity Measured? .....39

    How is the Value of a Fixed Annuity Measured? .....41

    What Happens to the Annuity Value if the Contract is Surrendered? .....42

    How are Annuities Used to Generate Retirement Income.....42

    What are the Various Options for Receiving Retirement Income? .....42

    What are the Benefits of Annuitization? .....44

What Types of Annuity Payout Options are Typically Available at Annuitization? .....	44
How are Variable Annuity Payment Amounts Determined? .....	45
How are Annuity Payments Taxed? .....	46
How are Annuities Used in Estate Planning? .....	47
How are Annuity Products Developed and Sold?4.....	8
Where Can Annuities be Purchased? .....	49
How are Variable Annuity Commissions Determined? .....	49
<b>CHAPTER 3: VARIABLE ANNUITIES – 2010 UPDATE .....</b>	<b>51</b>
Factors Impacting the Variable Annuity Industry.....	52
Product Trends and Innovations.....	53
Sales Trends.....	54
The Real Cost of a Variable Annuity – 2010 Update .....	55
Summary.....	57
<b>CHAPTER 4: FIXED ANNUITIES – 2010 UPDATE .....</b>	<b>59</b>
Sales Trends.....	61
Factors Impacting the Fixed Annuity Industry.....	65
Product Trends and Innovations.....	66
Outlook .....	69
<b>CHAPTER 5: CONSUMER USE AND ATTITUDES TOWARDS ANNUITIES.....</b>	<b>71</b>
Cogent Research: Investor Brandscape .....	71
Who Owns Variable Annuities .....	71
Cerulli/Phoenix Marketing International Global Wealth Monito .....	80
Household Opinion of Annuities .....	80
Annuity Balances.....	83
Reason Household Purchased a Variable Annuity .....	84
Method of Variable Annuity Purchase .....	86
<b>Spotlight on Women</b>	
IRI Report: Women and Retirement .....	87
<b>CHAPTER 6: TAX-QUALIFIED RETIREMENT PLANS.....</b>	<b>89</b>
Personal Retirement Savings Plans.....	89
Defined Benefit Plans.....	90
Defined Contribution Plans .....	90
Shift in Retirement Plan Assets.....	92
The Use of Variable Annuities in Qualified Plans .....	93
<b>Spotlight on Employment-Based Retirement Plan Participation</b>	
Geographic Differences and Trends, 2009 .....	95

**CHAPTER 7: OTHER SOURCE OF INSURED RETIREMENT INCOME**97

Employer-Sponsored: Defined Benefit Plans.....97  
Governmental Programs.....98  
Individually Purchased Vehicles.....99  
Shift in Retirement Plan Assets.....92  
The Use of Variable Annuities in Qualified Plans.....93  
**Spotlight on Employment-Based Retirement Plan Participation**  
Geographic Differences and Trends, 2009.....95

**CHAPTER 8: REGULATION AND TAXATION OF ANNUITIES**.....103

Regulation by the States:  
Overview.....103  
Insurance Company Licensing.....103  
Agent Licensing.....103  
Contract Requirements and Prior Regulatory Approval.....104  
State Guarantee Funds.....104  
Variable Annuity Asset Protection.....104  
Advertising and Unfair Trade Practices and Rules.....104  
National Association of Insurance Commissioners.....105  
Regulation Under the Federal Securities Laws:  
Introduction.....105  
Securities Act of 1933.....105  
Securities Exchange Act of 1934.....106  
Investment Company Act of 1940.....106  
SEC and FINRA Advertising Rules.....107  
Recent Legislative and Regulatory Action.....107  
Taxation of Annuities:  
Premiums.....109  
Tax Deferral.....109  
Withdrawals.....110  
Complete Surrenders.....110  
Gifts and Assignments of Annuity Contracts.....110  
Premature Distributions.....111  
Taxation of Annuity Payouts.....111  
Death of an Owner.....112  
Replacement Contracts/1035 Exchanges.....113

**Spotlight on Taxation**

IRI Report: The Tax Advantages of Annuities.....114

CHAPTER 9: PUTTING IT ALL TOGETHER .....	127
Will I be able to Retire and Enjoy the Retirement Lifestyle I Have Always Imagined? ...	127
Preparing for Risks .....	127
Managing Finances in Retirement .....	129
Developing a Vision of Retirement.....	129
Investing During Retirement.....	130
Being Thoughtful about Retirement.....	132
CHAPTER 10: INDUSTRY DATA .....	133
Total Annuity Market.....	133
Variable Annuity Market .....	137
Fixed Annuity Market .....	146
GLOSSARY.....	153
THE EVOLUTION OF ANNUITIES .....	167
INDEX.....	169



# List of Figures

## Chapter 1: Insured Retirement

1-1	Retirement Expenses Increasing while Traditional Income Sources Diminish .....	5
1-2	Number of People Age 65 and Older in the United States.....	6
1-3	Timing of Retirement .....	7
1-4	Life Expectancy at Age 65 .....	8
1-5	Healthcare Costs as a Percentage of the U.S. GDP.....	8
1-6	Average Out-of-Pocket Medicare Expenses.....	9
1-7	Income Sources for Household with Someone Age 65 or Older .....	10
1-8	Percentage of Retirement Savings .....	11
1-9	Full Retirement Age and Reduction for Benefits Starting at Age 65.....	12
1-10	Impact of Recent Economic Changes.....	14
1-11	Anticipated Retirement Age .....	15
1-12	Reasons for Uncertainty About Retirement Age .....	16
1-13	Expected Sources of Income in Retirement .....	18
1-14	Social Security as Major Source of Retirement Income, by Age .....	19
1-15	Social Security as Major Source of Retirement Income, by Pre-Retirement Income .....	19
1-16	Employer-Sponsored Plans as Major Source of Retirement Income, by Age .....	20
1-17	Employer-Sponsored Plans as Major Source of Retirement Income, by Pre-Retirement Income .....	21
1-18	Personal Savings and Investments as Major Source of Retirement Income, by Age.....	22
1-19	Personal Savings and Investments as Major Source of Retirement Income, by Pre-Retirement Income.....	22
1-20	Confidence in Retirement Expectations .....	23

## Chapter 2: Annuities 101

2-1	Types of Annuities .....	29
2-2	Qualified and Non-Qualified Annuities .....	32
2-3	Contribution Limits to Retirement Savings Plans – 2011 .....	33
2-4	Guaranteed Minimum Death Benefit Riders (Variable Annuities).....	36
2-5	Guaranteed Minimum Living Benefit Riders (Variable Annuities) .....	37

<b>Chapter 3: Variable Annuities – 2010 Update</b>	
3-1	Variable Annuity Total Sales and Net Sales.....51
3-2	Variable Annuity Assets.....52
3-3	Variable Annuity Contracts.....54
3-4	Variable Annuity Total Sales by Distribution Channel, 2010.....55
3-5	Fees and Expenses – Variable Annuities vs. Mutual Funds.....56
<b>Chapter 4: Fixed Annuities – 2010 Update</b>	
4-1	Fixed Annuity Sales 2003-2010 .....59
4-2	Fixed Annuity Sales by Quarter 2008-2010 .....60
4-3	Fixed Annuity Sales by Product Type 2003-2010 .....61
4-4	Fixed Annuity Market Share by Distribution Channel 2003-2010.....63
4-5	Qualified vs. Non-Qualified Sales 2003-2010 .....64
4-6	Fixed Annuity Sales and 5-year Credited/Treasury Rated Spread 2003-2010.....66
<b>Chapter 5: Consumer Use and Attitudes Towards Annuities</b>	
5-1	Variable Annuity Ownership by Gender .....71
5-2	Variable Annuity Ownership by Generation.....72
5-3	Variable Annuity Ownership by Education Level.....72
5-4	Variable Annuity Ownership by Household Income .....73
5-5	Variable Annuity Ownership by Employment Status.....74
5-6	Use of Distribution Channels.....75
5-7	2009 Pre-Retirees: Retirement Plan in Place, Confidence in Meeting Retirement Expenses.....76
5-9	When Owners Plan to Begin VA Withdrawals .....78
5-10	Interest in Retirement Products.....79
5-11	Household Opinion of Annuities by Investable Asset Range, 2010 .....80
5-12	Household Opinion of Annuities by Investable Asset Range, 2010 chart .....81
5-13	Household Opinion of Annuities by Age, 2010 .....82
5-14	Fixed Annuity Balance by Investable Asset Range, 2010.....83
5-15	Variable Annuity Balance by Investable Asset Range, 2010 .....83
5-17	Method of Variable Annuity Purchase by Primary Provider Channel, 2010.....85
<b>Chapter 6: Tax-Qualified Retirement Plans</b>	
6-1	Total U.S. Retirement Plan Assets – 1999.....92
6-2	Total U.S. Retirement Plan Assets – 2009.....93

**Chapter 8: Regulation and Taxation of Annuities**

8-1 The Power of Tax Deferral .....116

8-2 By the Numbers: Tax Deferral and Retirement Income .....117

8-3 Effective Cost of Annuity Retirement Riders, No Tax Deferral.....118

8-4 Percent of Households with Less Than the Specified Level of Resources to Cover Basic Expenses and Uninsured Health Costs .....119

8-5 Annuity Ownership by Annual Household Income, 2009 .....120

8-6 Internal Rate of Return, Tax-Deferred Annuity vs. Non-Tax-Deferred Investment, \$50K Income Level.....121

8-7 Internal Rate of Return, Tax-Deferred Annuity vs. Non-Tax-Deferred Investment, \$75K Income Level.....122

8-8 Internal Rate of Return, Tax-Deferred Annuity vs. Non-Tax-Deferred Investment, \$200K Income Level.....122

8-9 Tax Treatment of Annuity Withdrawals and Full Surrenders .....124

8-10 Tax Treatment of Annuity Payouts (scheduled, periodic payments) .....125

**Chapter 9: Putting It All Together**

9-3 Level of Allocation of Investment Solutions Advisors Use for Retirement Income Clients.....131

**Chapter 10: Data Section**

**TOTAL ANNUITY MARKET**

10-1 Annuity Industry Net Assets .....133

10-2 Annuity Industry Total Sales .....133

10-3 Annuity Industry Sales by Quarter .....134

10-4 Annuity Industry Net Assets – Qualified vs. Non-Qualified.....135

10-5 Annuity Industry Total Sales – Qualified vs. Non-Qualified.....135

10-6 Annuity Industry Total Sales – Deferred vs. Immediate.....136

10-7 Annuity Industry Total Sales by Distribution Channel.....136

**VARIABLE ANNUITY MARKET**

10-8 Variable Annuity Sales and Net Assets.....137

10-9 Variable Annuity Sales and Net Assets by Quarter.....138

10-10 Variable Annuity Net Assets – Qualified vs. Non-Qualified.....139

10-11 Variable Annuity Total Sales – Qualified vs. Non-Qualified .....139

10-12 Variable Annuity Total Sales – Deferred vs. Immediate .....140

10-13 Variable Annuity Total Sales by Distribution Channel.....140

10-14 Variable Annuity Total Sales by Distribution Channel by Quarter .....141

10-15 Variable Annuity Contracts.....142

10-16 Variable Annuity Net Assets by Asset Class .....142

10-17 Variable Annuity Net Assets by Subaccount Investment Category.....143

10-18	Variable Annuity Total Sales by State – 2010.....	144
10-19	Variable Annuity Total Sales by Top 25 Issuers.....	145

**FIXED ANNUITY MARKET**

10-20	Fixed Annuity Sales and Net Assets.....	146
10-21	Fixed Annuity Sales and Net Assets by Quarter.....	147
10-22	Fixed Annuity Net Assets – Qualified vs. Non-Qualified.....	148
10-23	Fixed Annuity Total Sales – Qualified vs. Non-Qualified.....	148
10-24	Fixed Annuity Total Sales – Deferred vs. Immediate.....	149
10-25	Fixed Annuity Sales by Distribution Channel.....	149
10-26	Fixed Annuity Sales by Distribution Channel by Quarter.....	150
10-27	Indexed Annuities.....	151