

Executive summary

It's more than money

Case studies and insights
from income annuity
owners on the efficiency of
guaranteed income

Provide guaranteed income in retirement...and confidence and higher satisfaction levels

At retirement, retirees face the momentous challenge of creating a lifestyle from the nest egg they've spent their whole lives building. Research from Principal®, in conjunction with Wade Pfau, Ph.D., CFA®, and Michael Finke, Ph.D., CFP®, takes a closer look at how retirees can use guaranteed income to improve financial outcomes and emotional well-being in retirement.

The findings? When incorporated in a retirement portfolio, income annuities help better meet goals in retirement than traditional investments-only approaches. This “combination approach” provides retirees not only confidence and peace of mind, but the same or higher income with lower risk of outliving savings, more wealth for heirs and increased risk capacity.

Why retirees like annuities

How do you find out what retirees really think about annuities? You ask them.

Interviews with income annuity owners provide insight into the emotional impacts of guaranteed income. So why do they like annuities?

1. Confidence

- › Certainty provides confidence. This is one of the reasons retirees who have incorporated income annuities into their retirement planning reported higher levels of satisfaction.
- › Guaranteed income means one less thing to worry about. Retirees may experience less anxiety from worrying about the next market downturn or from spending their nest egg.

2. Freedom to spend — and invest

- › Many retirees see the annuity payment and Social Security as their “monthly budget.”
- › Most of the annuity owners said that having guaranteed income allowed them to accept more market volatility in other parts of their retirement savings.
- › With guaranteed income, retirees felt better able to maintain their spending, even in a down market, because they knew the annuity payments would continue.

Highlights

- › Purchasing an income annuity with a portion of retirement savings can provide a higher potential for success, greater legacy wealth over the long term and increased risk capacity
- › Income annuities are less expensive and safer for risk-averse retirees whose primary goal is income security in retirement
- › Annuities allow a retiree to spend at a level that would otherwise require a high risk of failure if funded solely from an investment portfolio
- › Income annuities provide confidence, the freedom to spend and invest, as well as the opportunity to leave a legacy



One of the best things about an annuity is that you know your basic expenses are always going to be covered. Less worry. Less stress. We don't want to be stressed every month at this point in our life.



– Income annuity owner

Annuities in action

Annuities are less expensive and safer for risk-averse retirees. We demonstrate that through a series of three case studies which compare combination strategies using both annuities and investments to investments-only portfolios.

By adding an income annuity to a retirement portfolio, a retiree can get the same or higher income with lower risk of outliving their savings. With an investments-only approach, retirees must accept the possibility that their portfolio can't match the comparable income from the combination strategy.

Benefits of the combination approach

- › Adding an income annuity to a retirement portfolio allows a retiree to get the same or higher income with lower risk of outliving savings than an investments-only approach.
- › Income annuities allow a retiree to spend at a level that investments alone would be unable to match without significant risk of running out of money before age 95.
- › Using both annuities and investments can enhance the value of assets for heirs over the long term.

The bottom line

A combination approach can help better meet retiree goals in retirement than an investments-only strategy — both financially and emotionally.

Conclusions

Using an income annuity supports higher success rates in retirement. Retirement outcomes when the combination approach is used are very attractive when compared to investments-only, both in terms of supporting a spending goal and a greater legacy value of remaining assets.

On an emotional level, retirees are more confident when there's certainty to their monthly income. The certainty an income annuity provides increases confidence and reduces stress in retirement.

[The stability and security of guaranteed income helps retirees ...](#)

-  Worry less about the market.
-  Feel more comfortable spending on things they enjoy.
-  Live a better life with less worry of outliving their savings.



Drs. Finke and Pfau are not affiliated with Principal.

Quotes were provided by actual Principal customers who were compensated for their time to take part in the study. Quotes are not representative of and should not be construed as guarantees of investor satisfaction. Results are hypothetical, and past performance, no guarantee of future results. Additionally, illustrations utilized in the case study are based on rates available at the time of publication but could vary based on the date quotes are sought and individual client situation and purchase amounts.

This is not a recommendation and is not intended to be taken as a recommendation. This material was prepared for financial professionals. Consumers should discuss their specific situation and retirement planning strategies with their financial representative.

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