THE ORFORD INITIATIVE

UNDERSTANDING THE ANNUITY EXPERIENCE

NOVEMBER 2020 REPORT

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Acknowledgments

This report presents the findings from in-depth interviews with annuitants across Australia, exploring their attitudes, perceptions and decision-making regarding their annuity.

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Please see the [Orford Initiative webpage] for further information on the background, motivations, and other research conducted for this project.

Project team

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Research approach

The team adopts an engaged research approach to all projects. Engaged research is based on authentic partnerships with communities and organisations to craft a research program that creates value with and for communities or organisations and that has aligned academic outcomes.

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Table of Contents

Executive Summary

This report describes the perceptions, decision-making processes and various influences of annuity decision-making from the perspective of annuitants. Research was undertaken with 16 Australian annuitants via in-depth interviews, and this report presents a series of key themes unveiled through qualitative analysis.

It is important to understand the broader context in which retirees are making these financial decisions. Interviewees described their broader **life in retirement,** including their needs and key expenses, to evaluate their financial security.

Interviewees held annuities with eight different annuity providers, the most common of which was Challenger. Challenger also had the greatest **brand awareness** prior to individuals making an annuity purchase.

Key **motivating factors** to purchase an annuity include the certainty and security an annuity provides with a guaranteed income regardless of how long you live (in the case of lifetime annuities). In addition, tax benefits and implications for age pension means testing were strong annuity motivators.

Interviewees acknowledged various **influencing factors** that contributed to their decision-making. **Financial advisers** played a key role in the decision making process. Interviewees expressed a great level of *trust* in advisers, however also due to lack of product knowledge some felt they were *forced to rely on advisers.* **Personal networks** including the interviewee's partner, children, other family, and friends also influenced their decision-making. Some interviewees reported being influenced by **risk aversion** and previous negative **experiences** which caused them to take a conservative approach to retirement finances.

Interviewees shared that they relied on a range of income sources (e.g. account-based pension, annuities, age pension, rental income, shares). This **portfolio of income** strategy reconciles common annuity concerns such as limited access to capital.

There was low knowledge around particular **product features**, with many having to refer to paperwork to answer nuanced questions. **Bequest options** were important to some interviewees; key recipients included their partner, children, and extended family.

The **impact of the current COVID19 pandemic** has had widespread and varied implications on interviewees, including reduced work hours (causing delays to planned retirement), being more conservative with money, experiencing reductions in superannuation balances, and loss of rental income. However, others experienced little impact, and for some, COVID has made them reassess their annuities and see greater value in this product.

Most were **willing to recommend annuities**, however interviewees were reluctant to provide unsolicited advice to others.

Three key implications are drawn to assist those seeking to better reach and communicate the value of annuities with the Australian retiree market:

1. Widespread awareness of annuities should be improved through broad communication efforts from industry and government.
2. Given the complexity of financial markets and financial decision making, more Australians should be encouraged to seek financial advice.
3. Advisers should also be encouraged to consistently include annuities as part of their advice to clients.

Introduction

This report conveys the experience of 16 Australian annuitants with an interest in understanding the decision-making processes and perceived value of annuities *from the perspective of annuitants*.

There has been a relatively recent shift in mindset across industry and government in Australia away from retirement accumulation (how to save for retirement) and towards strategies for managing and maximising money over the course of retirement.

An annuity is one retirement income option that addresses the issue of longevity risk by guaranteeing income (either for a fixed period, or for life). While many Australians feel unprepared for retirement and worry that they will outlive their savings, the Australian annuity market remains very small.

This research aims to better understand the decision-making processes and perceived value of annuities from the *perspective of annuitants*. If we can better understand how and why a person decides to purchase an annuity, these insights could unveil ways to better reach and communicate the value of annuities with the broader Australian retiree market.

This report takes a closer look at these annuity experiences from the perspective of annuitants, to understand the decision-making process through which they purchased an annuity, to investigate the perceived value of annuities, and to understand the role of annuities within the broader spectrum of retirement income streams (e.g. account-based pensions, investments, the Age Pension).

Qualitative research was undertaken via in-depth online and phone interviews with 16 annuitants across Australia. Given the small annuity market in Australia, a qualitative approach was deemed optimal to deeply explore the relatively unique experience of annuitants.

Australian companies and policy makers are advised to consider:

1. How to improve widespread awareness of annuities.
2. How to encourage Australians to seek financial advice.
3. How to ensure advisers consider annuity as part of advice.

Research Overview

Profile of Participants

A total of 16 annuitants were recruited for in-depth interview via zoom or phone. Interviews took on average 29.8 minutes. An overview of participant profiles is provided in Table 1. Interviewees consisted of 12 women and 4 men, across Victoria (7), Queensland (5), New South Wales (2), and South Australia (2). Participants were aged 67-80, and all were primary annuitants (i.e. the original purchaser of the annuities, not inherited or transferred via reversionary benefit). 10 interviewees had a lifetime annuity, 4 had fixed term annuity, 3 had a deferred annuity (this includes one person who reported having both a fixed term and lifetime annuity).

Table 1: Participant profile overview

#	Name*	State	Age	Annuity type	Provider	#	Name*	State	Age	Annuity type	Provider
1	Adam	QLD	72	Fixed + lifetime	BT	9	Isabelle	VIC	71	Fixed	Challenger
2	Betty	VIC	70	Fixed	Allianz	10	Judy	VIC	73	Life	Aware Super/ First State Super
3	Carol	VIC	72	Fixed	Challenger	11	Karen	NSW	71	Life	Challenger
4	Dianne	VIC	70	Life	BT	12	Louise	SA	67	Life	Challenger
5	Evan	VIC	80	Deferred	AMP	13	Mary	QLD	DNS	Life	Challenger
6	Fran	QLD	67	Life	IOOF	14	Nancy	SA	68	Life	Colonial State
7	George	NSW	72	Deferred	Investor Group**	15	Olivia	QLD	74	Life	Challenger
8	Harry	VIC	69	Deferred	Colonial Mutual	16	Penny	QLD	71	Life	Challenger

Notes:
* Pseudonyms have been used to ensure participant anonymity
** Investor Group is a Canadian Wealth management firm (participant's wife is Canadian)

Life in Retirement

When discussing financial wellbeing and income in retirement, most interviewees would contextualise this answer by referring to their broader ‘life in retirement’; (1) their needs, and (2) their expenses.

In assessing their financial wellbeing in retirement, interviewees reflected on their life in retirement more generally, specifically evaluating their current needs and key expenses. Many suggested that they had more simple needs in retirement (compared to working life), requiring less income to sustain them;

“The thing is, when you're retired, other than if you want to do big holidays, you don't need all these clothes for work and you don't need this and you don't need that. There's a lot of things you don't need to have to spend money on.” (Penny)

Further, Judy explains that she watches her money as her income has decreased along with her needs;

“At 73, I don't have huge expenses now. I run a car and it's pretty old now, but it still goes fine, and I have my house and I've completed the renovations... I don't splurge much, especially now, and I do have to watch my money a bit better than I used to.” (Judy)

Common expenses shared by interviewees – above the everyday costs of living – included travel, home renovations, and increased health costs. Many interviewees referred to travel ambitions in retirement, however these are predominantly postponed during COVID19;

“We plan to do a lot of travel. We were supposed to do a big trip this year. Obviously, that's not going to happen and who knows about next year.” (Betty)

It was also common for interviewees to make considerable renovations and upgrades to their home upon retirement;

“No, we haven't really given any thought to old aged care living or anything like that. Hubby has just redone our house from top to bottom so it's all looking beautiful…There's nothing we need” (Louise)

Louise also referred to giving little thought to aged care living; this sentiment was common throughout the interviews, with people mainly conceptualising their *current* needs and expenses, with less consideration to long term changes in circumstance and their associated costs.

Finally, health costs were considerable among interviewees. For some, having a limited income in retirement meant delaying some medical procedures;

“At times I wish I could get some medical work done. You know, dental and stuff like that. Hearing and general health. Just sometimes I'm short so I have to defer things longer than I otherwise would have when I was working at a much larger continuous income, but I can't complain too much.” (Evan)

Brand Awareness

Challenger was the most common annuity provider among interview participants, and also had the greatest brand awareness prior to them making an annuity purchase.

7 participants held their annuity with Challenger, making it the most common annuity provider among our interviewees. This was followed by Colonial and BT, both with 2 interviewees, and then 1 interviewee each held a product with Allianz, AMP, Investor Group (A Canadian wealth management fund), IOOF, and First State (now Aware Super) (see Table 1 for participant overview).

Challenger also had the greatest brand awareness prior to people making annuity purchase decisions – i.e. they had already heard of Challenger before they went through their decision-making process. Four interviewees reported seeing a Challenger advertisement (either a TV commercial or email marketing) before making an annuity purchase.

From these accounts, the TV advertising from Challenger was not reported as being overly compelling, for example one interviewee reported not paying much attention to the ad;

“I'd seen the Challenger ad on TV - ‘have you got enough to last you a lifetime’ or whatever it says. I hadn't really paid a whole lot of attention to it… So, until I had one, I had no idea about it.” (Louise)

Another said they were not overly interested in the product based on the ad;

“Yeah, I had seen it advertised… [Interviewer: Was it something you were interested in when you heard about it?] No, not really.” (Penny)

Further, according to Carol, some of the particular ad content and messaging was not compelling or reflective of the retiree experience;

“I obviously see the ads on TV for Challenger particularly and I think some of them are a bit ridiculous - floating cups of coffee flying around is not really what you are necessarily spending your money on.” (Carol)

Nevertheless, brand awareness was apparent among the interviewees, and 3 of these 4 participants who had seen a Challenger advertisement had also subsequently purchased a Challenger annuity.

An additional marketing technique reported from one interviewee was unprompted marketing emails. Fran holds an annuity with IOOF but recalled receiving correspondence from Challenger during her decision making;

“Since I had looked a little bit [at annuities], you wouldn't believe the stuff that's come up on my email… Challenger came up. It was really funny because I thought, "What's this Challenger?" Normally I don't click on junk so then I Googled it and, yeah, Challenger - I think it's Challenger Annuities. I thought okay, my algorithms are telling banks, "This lady is looking for something." (Fran)

Motivating Factors – Certainty

When asked why people decided to purchase annuities, responses centred around *certainty, peace of mind, security, and comfort in receiving guaranteed income and longevity protection*.

A key motivating factor for interviewees to purchase an annuity was the *certainty* it provides, for example;

"It's nice to have that monthly payment. You know exactly what it's going to be for how long and it's set in cement which I thought was good." (Nancy)

Others referred to *security* - they saw annuities as a secure option to protect their money;

"All I wanted to know was that it was secure and that it would still be there at the end of the term. That was all I cared about, protecting my super." (Isabelle)

Similarly, Judy refers to her annuity as 'security for her future';

"I don't have sheep stations but I do own my own home and making the decision was about the security for my future because it was a bit nerve wracking going into retirement, wondering how you're going to survive without a regular income." (Judy)

This sentiment of uncertainty, particularly in retirement, was expressed by various interviewees - please see *Risk Aversion and Lived Experience* on page 17 for related discussion. When faced with this uncertainty, annuities were seen by many as providing much needed security. According to Dianne, this certainty and security of the annuity gives her *peace of mind*;

"I know it's sitting there every month and it gives me peace of mind. I don't have to worry. I've got it for the rest of my life for the moment." (Dianne)

These sentiments were particularly apparent for lifetime annuities, where interviewees spoke of the value of guaranteed income *regardless of how long they lived*;

"I would be 87 when my money ran out. At the end of that time, my understanding is that I continue to get paid for my lifetime if it's longer than 87 years through investments with [provider]. It won't actually be my money because I will have had that all back, but I continue to get paid that $916 through investments that [provider] make along the way until I pass." (Louise)

Motivating Factors – Tax Benefits

The tax benefits and means testing for the age pension were also major factors encouraging annuitants to purchase their annuity.

An additional major factor encouraging annuitants to purchase their annuity was the tax benefits and means testing implications for the age pension. This was felt for both lifetime annuities and those with fixed term products.

When asked what ultimately made them decide to purchase an annuity, Nancy referred to the tax incentives and means testing that favours lifetime annuities, as explained by her adviser;

“My financial advisor suggested this and it's also a tax thing too because something about 40% of it is tax - you don't have to declare it. Something along those lines. Some new rule came in last financial year… [Interviewer: Ultimately what made you decide to purchase an annuity?] Probably because mainly the tax thing. It put my pension up. I don't know, it wasn't a real lot, $40 a week.” (Nancy)

Nancy’s adviser was referring to the new social security means test rules for lifetime income streams introduced on 1 July 2019, under which 60% of lifetime income stream payments are assessed as income (DSS 2019). In addition, 60% of the purchase amount is considered an asset under the assets test until life expectancy, reduced to 30% thereafter (Department of Social Services 2019).

Another interviewee explained how fixed term annuities are valued by government and how that also provide an incentive:

“We actually spoke to one of the Centrelink finance people when we started our general thinking about retirement and as far as the government is concerned, my [annuity] goes down 10% a year, so it's counted as 10% less each year and yet it's still preserved.” (Isabelle)

While fixed term annuities are assessed at their full purchase price (not at 60% like the new means testing for lifetime income streams as previously discussed), the value of the annuity is reduced ‘on a straight line basis’ every 6 or 12 months (Services Australia 2020).

Influencing Factors - Reliance on Financial Adviser

Participants spoke of the key role their adviser played in making them aware of annuity options, simplifying complex information, and relying on their advice in making the annuity decision.

One of the major overarching themes from this research is the focal role of the financial adviser. Researchers have acknowledged the pivotal need for professional advice given the complexity of financial markets (Bruhn and Asher 2020). The majority of annuitants spoke of the role their adviser played in making them aware of annuity options, simplifying complex information, and ultimately relying on their advice in making the annuity decision as well as ongoing management of finances. In this way, interviewees demonstrate a high level of *emotional engagement* with and reliance on their adviser.

A key role of the adviser was simplifying complex financial information, particularly for annuities. Judy demonstrates the relative expertise of the adviser versus her own financial literacy;

"[My adviser] is really exemplary, the way he explains things because I'm no finance guru. He's been really good. It was all down to him that I have the benefits that I do now… He endeavoured to explain [annuities] to me. I'm very daft when it comes to finance...He uses the whiteboard all the time. He writes everything down. He sends me emails. He clarifies things. He's got the patience of Jobe really." (Judy)

Individuals reported not knowing the nuances of particular options and decisions, instead relying on the experience and knowledge of their adviser to make decisions on their behalf:

"I wouldn't know the strengths or weaknesses or anything of [investment options] unfortunately. What my advisors do is they do look up things and have got research and people researching and things like that. So, it's not just done on a whim and a prayer. I would hope that it's not done just because they get kick-backs from that particular [product]… I accept the advice of my advisor rather than go off and do other research." (Adam)

This demonstrates that people do not just go to advisers for information, but rather put the decision making into their adviser's hands and relieve themselves from that responsibility.

An interesting manifestation of this was the reliance of many interviewees on their paperwork. Many found it difficult to talk naturally about the annuity product they had purchased, particularly specific product features or anything too technical;

"I understand the paperwork I have in front of me. That's probably all I know, and I feel like that's all I need to know. I trust my advisor. She's brilliant. I leave it in her capable hands pretty much." (Nancy)

Influencing Factors - Reliance on Financial Adviser (cont.)

Two major factors play into the 'reliance on financial adviser' theme: the first was the *level of trust in the adviser* (trust gives people the confidence to lean on and rely on their adviser)

Many interviewees spoke of the strong trust they had built with their adviser, meaning they had the confidence to lean on them and rely on the advice they were given. There has been significant scepticism around financial advise for a number of years in Australia, which was acknowledged by the following interviewee;

"It's the trust. It is really the trust because you hear so many horror stories about financial advisors doing the wrong thing. I think [financial advice firm] are very ethical in their approach and my accountant is also with [firm]." (Mary)

Trust is particularly important as there is scepticism around advice. In service literature this is referred to as broad-scope versus narrow-scope trust; that is, the trust generally toward companies within a certain industry or business type versus trust in an individual's specific service provider (Hansen 2012). Typically, it is understood that low trust in the industry generally (broad-scope trust) will diminish the trust an individual has with their specific service provider (narrow-scope trust) (Hansen 2012). The idea that someone can commit and trust completely in a person who belongs to an industry that has a reputation for not acting in the clients best interest is very interesting.

Others spoke about building trust with a firm or an adviser over time, to the point that employees of a firm are seen almost as personal friends because of the length of the relationship.

In addition, experiencing tough moments in life with the support of the adviser builds that relationship and validates trust;

"I'm very fortunate to have [adviser] in my corner… As well as having the advisors to help us, I think a lot of the others working there, they're almost personal friends as well because I've been dealing with some of them for a long time… My husband passed away 2.5 years ago… I was just so lucky that [adviser] was there, that all of a sudden, 'I've got a different situation all together.'… So, I'm lucky. I've got not just [adviser] but that whole company that he works for." (Olivia)

Influencing Factors - Reliance on Financial Adviser (cont.)

Two major factors play into the 'reliance on financial adviser' theme: the second was the *lack of knowledge* people had about annuities (in a sense they were *forced* to rely on the adviser)

The second factor contributing to the reliance on advisers was around the lack of knowledge people had about annuities, and indeed their finances more generally (Bruhn and Asher 2020). This in a sense 'forced' them to rely on their adviser.

Many annuitants said that they had little or no prior knowledge or information about annuities before speaking with their adviser;

"I admit, when [adviser] started this for me, I didn't know a thing about annuities. Absolutely nothing. We'd gone down the path of making plans for our retirement possibly 10 years before we actually retired but we knew nothing about annuities. Then of course we started the Google and all that business and [adviser] walked me through it, but I have been surprised. People I talk to don't have any idea what an annuity is." (Olivia)

The inability for Olivia to talk with personal connections about the product would potentially heighten her uncertainty and skepticism of annuities; sharing ideas and seeking validation from trusted personal connections can validate decisions.

One interviewee spoke of the information asymmetry inherent in the client-adviser relationship (Bruhn and Asher 2020), and the potential for advisers to take advantage of this;

"I've been bitten by so many damn financial advisors… You think you're going with the professionals but I tell you what, buyer beware, believe me. This is how they fleece you - because you haven't got the financial knowledge, because you haven't got the financial time." (Harry)

Another explained that although she was naive with her finances and should build her financial literacy, the idea of taking that step and gaining that financial literacy to help her take charge of her financial decisions was too overwhelming. This nervousness and unwillingness to build her own financial capability drove her to rely on her adviser;

"I didn't know anything [about annuities]. I was naive in anything financial. I probably still am. I just took his advice… I think it would probably be in my best interest to find out more because it is my money and it's in someone else's hands basically. [Interviewer: Is it something you would look into?] No, I'm too nervous. I'm too nervous and too old. It would just freak me out so that's why I pay him to do it for me. He seems to be looking after me and this is what he suggested so I went with it." (Dianne)

Influencing Factors – Personal Networks

Aside from the key role of the adviser, annuitants mentioned others who played a part in the decision making process.

Decision making in consultation with a partner was common, particularly in the case of joint annuities. However, some annuitants explained that while in a couple, they choose to take separate retirement income strategies and have their own individual annuity:

“[Partner] came in with me to decide what we would do with my super and then when [adviser] explained this package to us, we decided it was a good thing to do. We made it as a partnership agreement, hubby and I.” (Louise)

Isabelle spoke of having different priorities and risk profile to her husband, and as a result they invested portions of their joint assets differently, despite using the money together;

“We both kind of decided we’d [invest my super] as a fixed term because if his [super/ABP] ran out, then in 15 years mine would be there… [interviewer: So you consulted with your husband but took different strategies with investing?] Yeah, he didn't want to do what I wanted to do but it was my money so I did what I wanted to do with my money.” (Isabelle)

Others spoke with family about their annuity decision, or had general discussions with friends in a similar position to them:

“I discussed it with my brother and sister-in-law - they went off onto Mr. Google and, ‘Are you sure you're doing the right thing here?’… ‘I think you better read this a bit further.’… but because I trusted [adviser] so much, I thought this has got to be okay and it's turned out.” (Olivia)

Discussions with friends, however, seemed to only be on a superficial level – in the example below Judy says she still relied on the adviser for that specific advice;

“I spoke to them about things over the years because most of my friends are about my age or a few years younger. So, gradually we were all retiring. Yeah, from time to time we would discuss something like that but really it was down to [adviser] to give me that advice.” (Judy)

This sentiment was common throughout the interviews and manifested in various situations – for some, there was a perceived inappropriateness in discussing finances with friends (and sometimes also family) or recommending financial products (see related discussion on page 26, ‘Willingness to recommend annuity’).

Influencing Factors – Personal Networks (cont.)

Aside from the key role of the adviser, annuitants mentioned others who were part of the decision making process.

Participants also discussed annuities with their children. Sometimes this was because they had an interest in financial topics generally;

“Normally we've done our finances through our son-in-law. He always knew what he was talking about and he would advise me.” (Fran)

Less commonly children were consulted because the parent wanted to discuss impacts on potential inheritance (see further discussion of bequest motives on pages 22-23):

“[I spoke with] my two sons because my concern was that this is going to mean if I live longer than 7 years, they will get less inheritance than they would have otherwise, but they both said, "Your money, Mum. We don't need it, just do what you want.“… I talked to my sons about [the annuity] and that clarified it a bit too… I sent all the information to him and he went through it and said, "It seems like a good option, Mum.” (Mary)

However, others did not consult with anyone else apart from their financial adviser. Financial decisions were private and personal, which increased their reliance on their financial adviser:

“I don't think I really talked about what I ended up doing with my money. I have never really thought too much about going into that sort of stuff with the kids. I mean, they're in their forties now so they're not young.” (Carol)

“No, I'm the only one that makes those decisions.” (Dianne)

Influencing Factors – Risk Aversion & Lived Experience

Psychological traits (e.g. risk aversion) and/or negative financial experiences have caused some interviewees to be more conservative in their investments, making annuities an attractive option.

Consumers are often influenced by various pre-existing psychological traits or personal tendencies that guide their decision-making. A common trait researched in the context of financial-decision making is *risk aversion.* Risk aversion refers to a hesitation to take monetary risk even when that risk involves an anticipated gain (Rabin & Thaler, 2001, p219). In other words, it is the tendency for some people to anchor on fear and focus on what they have to lose rather than any potential gains. Interviewees spoke of risk aversion, or being financially conservative, as a driver of their annuity purchase. For example;

"I just thought [annuity] was a good balance... I'm probably reasonably cautious with money. I brought up my two daughters as a single parent and having lived through times when it was quite difficult, I don't think I would ever get to the stage where I wouldn't. I don't worry about money but I'm careful with what I spend." (Carol)

Others spoke of specific negative experiences – either personally or with close family members – that caused them to be more financially conservative now;

"We had a self-managed super fund and lost a lot of money with the crash… My husband was getting close to retirement so he went and saw a financial planner and wanted to do shares - I didn't want to do that because I wanted my money to be secure… [SMSF experience is] why I became - not paranoid - but I didn't want to risk it." (Isabelle)

Interestingly, psychological traits such as risk aversion can impact annuity perceptions in different ways, and these differences can be attributed to how the annuity is *framed* (either in the mind of the consumer or through product information) (Bockweg et al. 2018). If individuals consider annuities through an 'investment frame', they may perceive annuities as a gamble because they may die before their level of investment is returned to them, and remaining funds are not available for bequest, leading to negative annuity perceptions and purchase behaviour (Bockweg et al. 2018; Brown et al 2008). Conversely, if an individual considers annuities through a 'consumption frame', they are more likely to view annuities as ensuring they have income for as long as they live; this fear of running out of money if they live longer than expected, their annuity perceptions and purchase behaviour is increased (Bockweg et al. 2018; Brown et al 2008).

The Orford Initiative is currently running a series of experiments to further test the impact of investment and consumption frames, as well as other framing effects.

Influencing Factors – Risk Aversion & Lived Experience (cont.)

The retirement context can exacerbate these fears and feelings of uncertainty because there's an inability to recoup financial losses or 'wait out' market drops.

Retirement itself can exacerbate feelings of needing to be financially conservative because there is an inability to recoup financial losses or 'wait out' drops in the market (Yeung 2018). The following interviewee, Dianne, spoke of not feeling financially comfortable, despite receiving reassurance from her adviser. She is worried about the unknown, so the assurance of the monthly annuity is helpful;

"I'm not comfortable at all. Even though [adviser] says I'm okay, I'm not really worse off than I was before, I'm still not comfortable for the future… Interest rates are pretty low. Super is - well, I don't know… it's the unknown. As long as I can keep getting this monthly [annuity] and not have to worry about it… but of course I don't want to lose any other funds because I'm in retirement. I've been retired for five years and I wouldn't know what to do. I've got no other monies coming in. What I've got is what I've got." (Dianne)

Similar sentiments were expressed by Betty, who describes annuities as 'playing safe';

"The reason we went [with annuity] is we were playing safe. You can cap your losses… sometimes with my super, I lost a fair amount - 10%, 12%, 15% when the market was down - and that looks a bit frightening. I know they say it goes up and down but it still scares you a little, especially at our age, because we've got no time… when you are in your 70s, you can't wait another 20-30 years for it to pick up." (Betty)

However, these feelings of uncertainty regarding finances were not universal; others felt financially comfortable and stated that they do not worry about money. The aged pension was viewed as a safety net;

"If things get desperate, you need to use some of your super. If you're under the assets, you can apply for a part pension. So, no, I don't worry about it too much." (Penny)

Yeung (2018) uses a 'resource-based dynamic model' to explain why some people better adjust to retirement and maintain well-being. When a person feels they have the resources to meet retirement challenges (as Penny acknowledges she has her super and pension), their perceived financial wellbeing is maintained. Similarly, if a person does not perceive a strong change to their resources during retirement transition, this adjustment seems less severe and reduces any sense of fear. The following interviewee, Nancy, demonstrates this;

"I'm happy. I'm not worried about my finances. I haven't changed the way I think since I was working full time. I feel quite relaxed about it." (Nancy)

Portfolio of Income

Annuitants spoke of having a 'portfolio' of various income sources, including their annuity.

A portfolio strategy comprising of various income sources gave interviewees flexibility, and a means of diversification. This strategy also mitigates common concerns regarding annuity attributes (e.g. limited access to capital) (O'Meara et al. 2015), as these needs are fulfilled via other income sources, not the annuity.

For example, Adam spoke of various income sources, as well as keeping a fixed amount in cash for unexpected costs. He referred to his annuity as a different investment option that he perceived as more safe compared to shares and allocated pension. Through multiple income sources he was able to implement a diversification strategy that combined investments of different risk levels;

"I've got the allocated pension, shares and the [annuity] and a cash account… I always believe in keeping about $10,000 in an account in case there's any issues… the [annuity] is about two-thirds of my investments… I wanted it to be in an area that was safe and as a different option to property and my shares." (Adam)

Another interviewee, Dianne, shared that in times when she has needed extra money she is able to get it from other income sources; it is not the purpose of the annuity. This further demonstrates how a portfolio approach mitigates annuity concerns and limited access to capital (O'Meara et al. 2015);

"A couple of times I've needed extra money but I don't get it from [annuity]. It's just to keep me going monthly with household expenses." (Dianne)

One person described their annuity as designated to health insurance and rental costs, while ABP and pension were for everyday living. This mindset conceptualises annuities as a means of assuring that ongoing, relatively stable expenses are met, while fluctuating expenses and unexpected costs are covered by more liquid income sources;

"My [annuity] just sits over there and pays my health insurance and monthly rent and I manage on a small amount of [partner's] super and the part pension. I live comfortably and I live in a retirement village with good facilities. So, I'm not worried at all really." (Isabelle)

Finally, Karen explained that she purchased 2 separate annuities that provide 2 income sources of different amounts and at different increments;

"[Adviser] said, "Why don't we put that in an annuity?" I thought yeah, it's really quite sensible at my age. So, we did that and then a couple of months later, I said, "Why don't we put the rest of it in another one but stagger the repayments so I'm getting something every month and then a bigger amount on a quarterly basis?"… Because I have the annuities, I'm dropping the base amount that I'm getting monthly from my super but then I also have a part pension which goes up because I've got so much less in super. I've got four sources of income - Centrelink, my [ABP] and my two annuities." (Karen)

Product Features

A lack of knowledge was apparent for many interviewees when asked about specific product features of their annuity. Many had to refer to paperwork to clarify whether benefit was included.

The discussion with interviewees about the product features included in their annuity policy highlighted the limited knowledge of many in the products they had purchased. Many did not know, or had to refer to their paperwork to see what benefits were included. This relates to the previous theme of the reliance on financial advisers (pages 11-13) – interviewees had strong *emotional* engagement with the adviser, demonstrating significant trust and dependence on the adviser to make the annuity decision. However, this also meant that they did not need (nor want) to *cognitively* engage in this decision. Some interviewees didn't have great understanding of the nuances of their policy, and others were also limited in their explanation of why that particular feature had or had not been chosen.

For example, Evan shares that he does not understand the technical details of the reversionary benefit;

[Do you know if a reversionary benefit is included in your annuity?] "Not really. It was independent of the pension as such. I don't understand the technical details of the difference really." (Evan)

Similarly, Harry refers to needing his paperwork to confirm product features;

"I'm not 100% certain but I think so [includes reversionary or death benefit]. Unfortunately, I haven't got my policy on me or account or whatever, but I've got a feeling that I can." (Harry)

Carol believed that she has a period certain guarantee, however read out the terms of her policy in order to explain the included features;

"If I die before I'm 80, I will get back what I would get if I cashed it in when I died… I think it - yeah, I'm just looking here. In the event of death it says [reads out policy] 'within the guarantee period, the remaining proceeds of your investment would be paid as a lump sum to my estate'… At this stage I would probably leave the money in the annuity to my two grandchildren." (Carol)

Another interviewee, Nancy, described having a death benefit included in her annuity, however also admitted that she did not know how that product feature worked;

"Let me look. I've got my two daughters named as annuity beneficiaries, 50% each. I'm assuming if I die soon, they will receive something but there's fees and stuff. I'm not 100% how that works actually." (Nancy)

Product Features

The main reason for including *death benefit/ guarantee period* was to ensure money went to estate rather than annuity provider.

When looking at specific product features (for those who did have this knowledge), death benefit/ guarantee periods were more frequently used (6 interviewees) than reversionary benefit. In fact, only one interviewee (Betty) was certain they had a reversionary benefit.

The rationale for selecting a death benefit or guarantee period was mainly to ensure that remaining money went to their estate rather than the annuity provider. Isabelle, for example, described how her adviser explained the different types of annuities available, and she specifically chose an annuity that would return remaining funds to her estate;

"One of the [other annuities offered], if you die, that's it... If I bought that and then I died in three years, all my money is gone. I didn't want that. If I died in 3 years, I'd like my children to have my money, I didn't want [provider] to have my money." (Isabelle)

Olivia also expressed a desire for her money to go to her estate;

"If I was to pass away before the end of the maturity date, I didn't want the money going out into cyberspace somewhere. I wanted that to go into my estate." (Olivia)

The reasons provided for not including a death benefit/ guarantee period were quite brief, and provide limited justification for not taking these features;

"No, I didn't take that out. I didn't see the need for that. I've never taken out a death benefit." (Betty)

"No, it doesn't get passed onto anybody. It has an annualised figure. ***I'm reading it off here****, and it's a lifetime so until I kick the bucket, but it has no passing on level of payments."* (Karen)

Interestingly, Diane explains that she did not see the value in including the death benefit feature because her bequest intentions would be fulfilled through her other assets – i.e. her superannuation;

"I do [have children]. They're adult children. That's not how mine is set up. When I die, it will just stop... So, [annuity] would stop and - I assume - they'd get funds from [super]." (Dianne)

By identifying other sources of inheritance such as superannuation, the annuity was not seen as an intended outlet for leaving a bequest. This relates back to the discussion on page 18, *Portfolio of Income*, where it was explained that a portfolio approach of various income sources can mitigate the common concern that annuities reduce the level of bequest available.

Product Features

The *reversionary benefit* was not frequently taken by interviewees. The reason for including a *reversionary benefit* was to ensure continuity of income for partner/ children.

For the sole interviewee who had a reversionary benefit, their reasoning was centred on the continuity of income provided to their partner or children after they died;

"[Reversionary benefit] was crucial for us too because it was important that if something happened to either one of us, the other would be the beneficiary, and that if something happened to the two of us, then it would be the children." (Betty)

Betty's rationale was not too dissimilar from those for death benefit/guarantee period, however the emphasis on 'not leaving money to the annuity provider' was not apparent.

In explaining the causes for not having a reversionary benefit, some explained that they were not given information about this feature;

"No, [adviser] didn't mention that [reversionary benefit]. I'm not sure that I would do it because we just march along nicely getting our pension one Wednesday and then another allocated pension the next Wednesday and then this one comes on the 25th of every month." (Louise)

Louise believed she would not have taken a reversionary benefit even if the option was known to her; this could reflect her happiness with the status quo/ current product, or perhaps it indicates that steady income was the key motivator for her decision making.

Another interviewee also shared this lack of knowledge in available annuity benefits;

"I didn't know you could [have a reversionary/death benefit], but I have not done such a thing. I wasn't aware. I for some reason presumed that once you died then that payment stopped." (Karen)

Bequest Motives

Leaving a bequest to loved ones (partner, children, extended family) was an important consideration for some interviewees.

In addition to bequest motives being a key motivator to include annuity features like death benefits or reversionary benefits, it is also an important consideration for some when holistically viewing their retirement assets. Leaving a bequest to loved ones, whether a partner, child or extended family, was important for many interviewees.

Particularly in the context of a partner, interviewees expressed a desire for their partner to be taken care of after they die. For example;

"It's a lucky circumstance to be in, to know that if anything happened to me, that [my daughter] would look after [my wife] very well and that [wife] would have the finances to be able to do that... I know that if [wife] ever chose to go back to Canada - if I died tomorrow and she wanted to go back to Canada to live with her sister, she's got all her annuity money over there as well as her pension. So, she'd be okay as well." (George)

Harry was similarly motivated to leave a bequest for his partner;

"I'd like to be able to provide for my wife once I'm gone and of course family as well." (Harry)

Children were also common bequest recipients;

"I've put in my will that all that money goes to my children. Anything in my name from the trust fund, from annuities, from super, from savings to buildings to whatever go to my children." (Fran)

Others identified extended family as intended beneficiaries, for example;

"I'm more confident than ever that when I pass away, there will be enough there for my sister or my niece to get some money out of the thing and they won't be beholden for anything that I'm leaving. But there's nothing with regard to a funeral or that type of thing in the annuity or anywhere else in my finances, other than the plot that I've already pre-purchased." (Adam)

Adam also refers to funeral costs and shares that he doesn't want his extended family to be financially burdened by this; in other words, his bequest is also intended to cover these funeral costs.

Finally, charities were mentioned as a bequest recipient, however less frequently. For example, Karen mentioned charities as one bequest recipient, in addition to children and extended family;

"I sat down and picked out a couple of charities that I would leave a set amount to and to my nephews and the rest was - you know, whatever is there or whatever is left is to be divided 50/50 by [children]." (Karen)

Bequest Motives (cont.)

For others, leaving a bequest was 'less important'; however the family home was still intended as inheritance.

For others, leaving a bequest was described as less important. For example;

"I'm not the sort of person who thinks that I have to be worrying about how much I have to leave [children] because I'd rather help them now and whatever is left is left. The house will be left anyway." (Carol)

Interestingly, despite stating outright that she didn't feel she needed to worry about leaving a bequest, Carol still refers to her house as being a designated asset for inheritance.

Similarly, Isabelle explains that the children will receive whatever assets remain, however leaving an inheritance was not necessarily their main motivation as they had provided for their children throughout their lives;

[Interviewer: Did you have motivations to provide an inheritance that impacted on your decisions?] "No, not really. We had children between us. It was a Brady Bunch family and so our children thankfully just wanted us to enjoy our life and whatever was left, they knew they'd get, but it was not about providing for them at all… We're baby boomers and we're not doing that. Sorry… They can find their way. There will be something left, like they'll have the house… I think people who go into investment properties probably do it to provide for their children when they die but I wasn't interested in that and neither was my husband. They got a lot from us during our lives." (Isabelle)

It seems that the family home is perceived differently in people's minds to their other retirement assets; perhaps as an illiquid asset the interviewees do not see the home as an income source or asset that they must actively forgo in order to bequest to their children.

COVID19 Impacts

The COVID19 pandemic has provided a unique opportunity for reflection on ones financial security. Some annuitants reported major changes in mindset and strategy as a result of the pandemic.

COVID19 was an unprompted discussion point for the majority of interviewees and provided a unique opportunity to reflect on their financial security, with various implications. Australian trends estimate reductions in the workforce and private consumption due to COVID (PWC 2020). The most immediate and 'tangible' impact was experienced by Harry, the only interviewee still working. Not only has he lost work hours during the pandemic, he also believes this will delay his plans to retire;

"It's made me think an awful lot more [about finances]… I deliver papers three times a week. It was four times but when COVID hit, I lost a day… [Do you have plans to retire?] Definitely but yet again, now with everything that's happened, I won't be looking at that for at least 5 years." (Harry)

However, the impact of the pandemic is equally felt for those no longer in the workforce. Some interviewees reported major changes in mindset and financial strategy as a result of the pandemic, for example being more conservative with money;

"It's an interesting time with COVID. I've noticed other people aren't spending as much money either… It's not actually helping the economy. Me not spending is not helping the economy. I do hear that there will be another $750 coming through at some stage. I will spend that." (Fran)

Further, others felt increased financial anxiety:

"Given the current financial situation we're in, I got very anxious when I realised that I was actually losing money all the time. I rang [adviser] and he said, 'If you are the slightest bit anxious, take it out of the market.' So, I did." (Carol)

Similarly, the following interviewee described freezing her allocated pension payments for several months during COVID, and has now recommenced drawdown at half the rate to preserve her balance;

"We did freeze [allocated pensions] from April, May and June and didn't receive any at all, but we didn't find that was really a problem. You couldn't go anywhere anyway so we didn't need that money and now we've gone back onto our allocated pensions at 2.5% drawing monthly instead of 5%. We've halved it so that it lasts a bit longer." (Louise)

Many other interviewees spoke of the turbulence COVID has placed on their super balance;

[Interviewee: Do you have an anticipated timeframe you think your super will last?] "It depends on how this super grows. At the moment, it's dropped about $30,000 or more because of COVID." (Judy)

In addition, one interviewee who relied on rental income as part of their retirement portfolio explained the barriers COVID had created for them in finding a new tenant, with subsequent reductions on their retirement income;

COVID19 Impacts (cont.)

The COVID19 pandemic has provided a unique opportunity for reflection on ones financial security. However, others reported making no changes and feeling no major impacts.

"Just before the COVID issue - one of our tenants had moved out. It was on the market but of course they couldn't bring people through so it ended up not being rented for nearly 3 months… in that situation, it helps when you have the annuity because it's a little bit of security that it's going to come in anyway. When we did get a new tenant, we had to drop our rent and then of course you're still paying all your rates and management fees. So, there is still money being taken out without any income and that's where I started to feel this [annuity] was a good move." (Betty)

Betty explained that the annuity was particularly useful during this time as it provided some income security, even in the absence of their rental income.

For others, COVID did not prompt them to make financial changes and they felt no major impact, arguably for similar reasons to those expressed by Betty i.e. the security and continuity they received from their annuity income alleviated their concerns;

"Financially, it has not affected me at all, and I sort of almost feel a little bit guilty because I'm still getting what I was getting before the lockdown and all this sort of thing. So, it hasn't affected me. I'm quite happy and contented with my financial situation." (Karen)

In fact, for some, COVID has made them reassess their annuities and experience increased satisfaction in this product. For example, according to Louise, the only downside she saw in an annuity was fixed interest rates. However, during COVID, this previously negative annuity attribute became a benefit as interest rates dropped to incredible lows;

"Really, the only thing I thought at the time of taking it out that was a downside - I could see nothing of a downside except this very one thing, and it turned out to be a plus anyway. It doesn't move with the market. So, if interests go up, mine doesn't. It always stays at $916 a month for the term of my life. I was thinking well, I guess that's the only downside because I've made up the money with Centrelink anyway but then we had COVID, it all went down and therefore mine stayed the same… So, that ended up being a plus as well. I've got so many plusses going here; I don't know what to do next! … That was the only thing I questioned at the time, thinking oh, what's going to happen if the market goes really well, never dreaming this would happen." (Louise)

Willingness to Recommend Annuity

Overall there was a strong willingness to recommend annuities to family and friends, although some were reluctant to give unsolicited advice.

There was a strong willingness to recommend annuities to family and friends. Interviewees referred to their key motives for purchasing an annuity as the basis of their recommendation, for example income certainty;

"Yes, I would. It's just nice to have that monthly payment. You know exactly what it's going to be for how long and it's just set in cement which I thought was good." (Nancy)

Further, Louise spoke about the overall ease of implementing her annuity as the basis of her recommendation;

"Yes, definitely. I haven't had any problems with it whatsoever… I would certainly recommend it to them if they asked. It's been very streamlined for me." (Louise)

Others shared that they had already recommended or received a recommendation about their annuity;

"Yes, I would. I have an aunt who I was talking to about all this and she's got an annuity. I discussed it with her at some length. I went to her as well, 'Where have you got your money?' She said, 'Yeah, go with it, it's great'." (Olivia)

Betty also indicated a willingness to recommend, as in her experience very few people were able or wanted to talked to her about annuities (even advisers) – she wanted to share that knowledge about this option with others as she didn't think it was widely known or discussed enough;

"I would because, coming back to earlier, no one talked to us about annuities…So, definitely. Without a doubt." (Betty)

However, for some this recommendation came with a caveat in that they were reluctant to give unsolicited advice;

"I think it's a very individual thing… I don't tend to discuss my finances with my friends but if somebody asked me, I would say it's certainly worth looking into." (Mary)

Carol shared this sentiment, however stated that she would recommend to others who shared her desire to want certainty;

"I think I've spoken about it to people. I would be very hesitant to recommend anything to anyone else about retirement and money because everybody's situation is different… but I would recommend having an annuity if you're the sort of person like me, who likes to have some certainty." (Carol)

One interviewee stated that they have not recommended an annuity, however this seemed to be due to their aversion to talking about financial matters generally with others, rather than being unsatisfied with the product itself:

"No, I haven't spoken about it. It's just my personal business." (Dianne)

Implications

This research report has delved into the various motivators, decision making processes, influences and impacts that encapsulate the annuitant experience. For providers and policy makers seeking to use these insights to better reach and communicate the value of annuities with the broader Australian retiree market, we offer the following three considerations:

1. Improve widespread awareness of annuities

It was evident from this research that many people are unfamiliar with annuities. Many interviewees were not aware of annuities before it was discussed with a financial adviser. Further, when discussing the idea of annuities with family or friends, many were unfamiliar (and thus unsure) of annuities as a viable retirement income option. When individuals have no prior knowledge of a product before it is raised by an adviser, and they cannot discuss the pros and cons of this product decision with trusted others, this can cause feelings of uncertainty and scepticism, creating a significant barrier to annuity purchase. A widespread awareness campaign is required to build consumer awareness of and confidence in annuities. A coordinated effort is required from both government and industry in this communication.

There is evidence from other countries (i.e. Denmark), where considerable effort has been expended by both government and pension funds to communicate the benefits of annuitisation to consumers, leading to higher annuitisation rates. Please see the Orford Initiative report on ‘annuities across international retirement contexts’ for more information.

2. Encourage Australians to seek financial advice

The findings also highlight that financial advisers are key gatekeepers of knowledge and play a fundamental role in helping consumers make decisions about their retirement income. These findings are consistent with research arguing the necessity for most people to seek financial advice, given the complexity of financial markets and low financial literacy of consumers (Bruhn and Asher 2020). If more Australians are encouraged to seek financial advice when planning for retirement, they will have greater knowledge of the various retirement income options available to them, including annuities, and are likely to experience greater financial security in retirement as a result. Recognising the extreme complexity of the financial advice context, increased financial advice should be paired with greater ethical frameworks to ensure advisers act in the consumer’s best interest (Bruhn and Asher 2020), and consideration of how financial barriers to receiving advice can be mitigated.

3. Ensure advisers consider annuity as part of advice

The idea that more people seeking financial advice will lead to greater uptake of annuities is predicated on the assumption that those advisers will include annuities as part of their advice. However, there is some evidence to suggest that this may not always occur. For example, one interviewee had to speak with multiple advisers and actively ask about annuities before this option was presented to them;

“We talked to a couple of financial advisors very early in the piece, and none of them really talked about annuities… My sister suggested ‘why don't you try an annuity?’… Then I went to our accountant and said, ‘What do you think about this?’, he said, ‘Oh yeah, but you’re pretty well set up’, and ‘what would we want out of it’ and that sort of thing.” (Betty)

The Orford Initiative recently conducted online focus groups with financial advisers, the preliminary findings of which support this idea that advisers often decide against including annuities as part of their advice. The full report will be released shortly.

Conclusion

In conclusion, this report has highlighted the experience of 16 annuitants across Australia, to better understand the annuity experience *from the perspective of annuitants*.

This report sought to explain decision-making processes through which annuitants purchased an annuity, including key motivators and the influence of advisers and personal networks. A portfolio approach with multiple income sources (including annuities) was highlighted. The impacts of psychological factors, the COVID19 pandemic, and bequest motives were also addressed.

Those seeking to to better reach and communicate the value of annuities with the broader Australian retiree market are encouraged to consider;

- How widespread awareness of annuities can be improved
- How to encourage more Australians to seek financial advice to understand the plethora of retirement income options available to them, including annuities
- How to ensure financial advisers consider annuities as part of their advice to clients.

Further information about the Orford Initiative

To find out more about our previous research, please visit the Orford Initiative webpage:

https://go.mbs.edu/orford/

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