

Study by Finke, Pfau Shows Annuities Improve Retirement Outcomes

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From left, study researchers Michael Finke, Ph.D., CFP, and Wade Pfau, Ph.D., CFA.

Annuities still have an image problem, but new [research](#) including 10,000 simulations show income annuities really do improve retirement outcomes compared to investments alone.

This is according to a study commissioned by [Principal Financial Group](#) and conducted by Michael Finke, Ph.D., CFP, and Wade Pfau, Ph.D., CFP, nationally renowned researchers from The American College (who are not affiliated with Principal).

After running the Monte Carlo simulations for stock and bond returns and crunching the numbers, the research revealed how retirees can use guaranteed income [annuities](#) to not only improve financial outcomes, but also increase confidence and reduce stress in retirement.

“Workers show strong interest in guaranteed income¹, but one-third of individuals report lower interest in the same guaranteed lifetime income product when it is labeled as an annuity²,” said Sri Reddy, senior vice president of retirement and income solutions at Principal. “It’s time to demystify the value of annuities and acknowledge their role as part of a balanced retirement plan.”

How annuities impact retirement portfolios

Retirees who had guaranteed income through an annuity were more likely to feel confident and accept more market volatility with their other assets, the survey found.

Annuities are one of the most efficient ways to generate guaranteed income. This is demonstrated through a series of [three case studies](#) which looked at combination strategies using both annuities and investments compared to traditional investments-only portfolios. The simulations found:

- 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.

Ultimately, the research showed income annuities can help to better meet client goals in retirement than an investments-only approach in most situations.

“Annuities are essentially a pension provided by a private company. If you’re the type of retiree who wishes they had a pension, you can buy one through an income annuity that will provide a regular income as long as you live,” Finke said. “If the reason you saved for retirement was to provide a secure lifestyle, there’s no more efficient way to create lifetime income that through an annuity.”

The role of confidence

In addition to the quantitative findings, the researchers interviewed income annuity owners to provide insight into the emotional impact of guaranteed income. They found that annuity owners have a greater level of confidence, feel the freedom to spend and invest and feel more certain in leaving a legacy.

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.

“If the hard numbers and math don’t convince you, then take it right from the source. Retirees who had purchased an annuity are more confident than those without one,” Reddy said. “They worry less about the market, feel more comfortable spending on things they enjoy and feel they have a better life with less worry of outliving their savings. The head and the heart come together here to show that annuities really do help people have enough, save enough and protect enough for their future.”

• **SEE ALSO:** [Wade Pfau to Head RICP Designation at The American College](#)

¹EBRI 2018 Retirement Confidence Survey

²2018 Guaranteed Lifetime Income Study, Greenwald & Associates