

Annuities improve outcomes

Six client types who may benefit from an annuity

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The following is based on findings from research from J.P. Morgan Asset Management. *Annuities improve outcomes* provides profiles that illustrate client situations that potentially can improve their retirement experience by incorporating an annuity into their retirement income strategy. Please see important annuity disclosure on page 11.

Introduction

When it comes to using your investments to cover expenses in retirement, there is no single strategy that works for everyone. This is one reason why managing finances in retirement can be more challenging than saving for it. The decision to use an annuity for lifetime income is an important piece of this puzzle.

Access to periodic income from defined benefit plans is in steep decline — 40% of today's 61- to 79-year-olds will receive some level of income from a defined benefit pension, which drops by nearly half to 23% for those age 29–44.¹ This indicates a need for additional retirement income sources. However, households often struggle with whether an annuity makes sense for their retirement income plan due to product complexity and potential costs. There are several clear situations in which an annuity may fit as one part of a household's retirement income strategy because it can meaningfully improve the overall outcome. We profile six types of clients and the situations when it would be appropriate to consider an annuity.

What type of annuity is better?

Due to the popularity of different types of annuities, we are expanding our analysis to include a variable annuity, a fixed indexed annuity and in one profile, a registered index-linked annuity. Which type is better depends on a client's individual preference and desired outcomes.

- In our analysis, the variable annuity benefits from annual guaranteed rollups as well as step-ups for 10 years prior to income being drawn beginning at age 65.
- Likewise, the fixed indexed annuity we modeled includes an income rider and has 10 years of increases in the benefit base before the income phase at age 65.
- We also discuss the use of a registered index-linked annuity (RILA) for those who want some market exposure but also want a way to limit their risk.

Our results include guaranteed income streams that allow for spending after the account cash value has been depleted. In general, we found the fixed indexed annuity's cash value was likely to be depleted sooner than the variable annuity's cash value. While the primary goal of income protection is to maintain spending through retirement, cash value may be a consideration for some investors.

¹2022 Survey of Consumer Finances, Federal Reserve Board, 2023.

For all modeled annuity results, the amount of income protection or guarantee will be based on the amount of annuity purchase and specific annuity benefits and is dependent on the claims-paying ability of the insurer.

Variable annuity assumptions

- Purchase age: 55
- Retirement age: 65
- Income rider fee: 1.5%
- Annual rollup: 6%
- Step-ups: quarterly
- Payout rate: 6%
- Timeframe: 30 years

Fixed indexed annuity assumptions

- Purchase age: 55
- Retirement age: 65
- 100% participation in S&P 500 Index (ex-dividend)
- Initial cap rate: 5.5% (on contract value increases)*
- Annual rollup: 10% simple interest on initial value
- Income rider fee: 1.25% on higher of benefit base or contract value
- Payout rate: 6.5%
- Timeframe: 30 years

*Subsequent years cap rates assumed: 4% year 2; 3.5% year 3; 3% thereafter

Assumptions used throughout the analysis

In some profiles, we use the term “likelihood of success.” In these analyses, we are running thousands of investment return scenarios and modeling the ability to keep spending at the assumed level for each one.

We are assuming the spending level starts at \$45k, which is approximately 4.5% of the non-annuity portfolio value at retirement (approximately 5% for the conservative investor profile). This amount is adjusted for inflation and retiree spending behavior. A scenario that allows for this assumed spending “succeeds” and a scenario that doesn’t “fails.”

This means we don’t account for individuals reducing their spending after poor market returns, although this is discussed in the “Pay my bills” profile. While not included in our analysis, even when spending reductions are required to avoid “failure,” the annuities we modeled would provide some ongoing income.

Profile 1: Mis-timer

Households have some control over when they retire but not what type of market they retire into. Sequence of return risk can be described as experiencing a poor sequence of returns just before or after they retire. This is typically when household wealth is greatest, and therefore is at greatest risk.

A mis-timer is a person who:

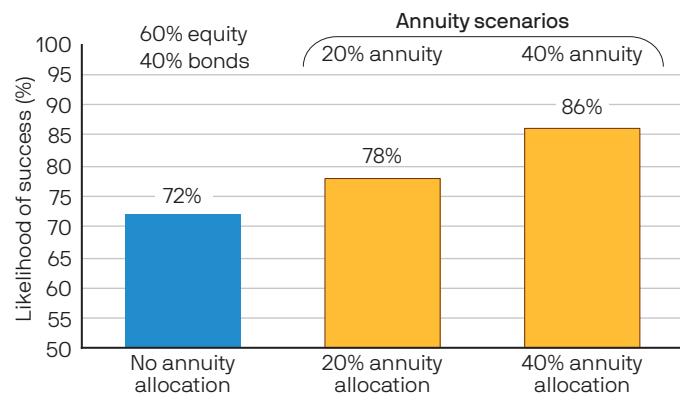
- Experiences below average or negative returns as they transition into retirement or wants to protect against this risk.

- Should consider an annuity to protect against sequence of return risk.

Exhibit 1 compares a portfolio of 60% equity and 40% bonds to using either 20% or 40% of the portfolio value to purchase a variable annuity that is invested 75% in equity and 25% in bonds. The annuity allocations increase the likelihood of being able to successfully spend \$45k in inflation-adjusted spending to 78% and 86%. This compares favorably to no annuity allocation, which has a 72% chance of success.

Retirement mis-timer variable annuity outcomes

Exhibit 1: No annuity vs. variable annuity, -20% return first year in retirement



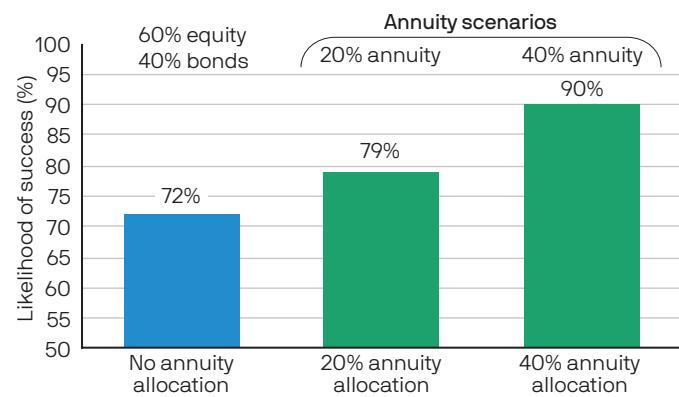
See important information on the Annuity Disclosures on page 9.

\$45k spend is ~4.5% of median non-annuity portfolio at age 65. The growth rate applied to spending is a long-term forward-looking inflation assumption adjusted for spending behavior. Annuity payout of 6% is \$13,500 with a 20% annuity allocation and \$27,000 with a 40% annuity allocation. Investment costs and M&E are not included because they are assumed to be equivalent in the investment portfolio including advisor management fees. Non-annuity portfolio in the annuity scenarios is 60% equity/40% bonds.

Exhibit 2 compares a portfolio of 60% equities and 40% bonds to using either 20% or 40% of the portfolio value to purchase a fixed indexed annuity. The annuity allocations increase the likelihood of being able to successfully spend \$45k in inflation-adjusted spending to 79% and 90%. This compares favorably to no annuity allocation, which has a 72% chance of success.

Retirement mis-timer fixed indexed annuity outcomes

Exhibit 2: No annuity vs. fixed indexed annuity, -20% return first year in retirement



See important information on the Annuity Disclosures on page 9.
\$45k spend is ~4.5% of median non-annuity portfolio at age 65. The growth rate applied to spending is a long-term forward-looking inflation assumption adjusted for spending behavior. Non-annuity portfolio in the annuity scenarios is 60% equity/40% bonds.

Profile 1: Mis-timer outcomes

In our analysis that includes a 20% market decline at the beginning of retirement, our research finds that the annuities modeled provide greater likelihood of meeting the full spending goal throughout retirement. The lower chance of running out of funds or having to reduce spending may lead to a better retirement lifestyle.

Profile 2: “Pay my bills”

In most cases, even if the likelihood of success is relatively high, there is a chance that individuals will run out of money if they continue to spend at their desired spending level. If paying recurring bills is a concern, one approach is to consider an annuity to cover stable spending that occurs each month.

A “pay my bills” individual:

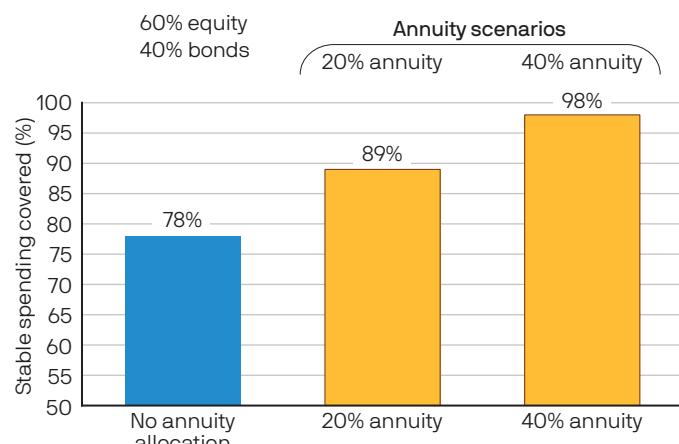
- Is at risk for running out of money if they experience returns that lead to a “failure scenario” unless they reduce their spending.

- Wants to lessen the impact of negative markets on spending—especially their stable spending.
- May consider an annuity to cover some of their expenses in case of adverse markets.

Exhibit 3 compares a portfolio of 60% equities and 40% bonds to using either 20% or 40% of the portfolio value to purchase a variable annuity that is invested 75% in equities and 25% in bonds. The annuity allocations cover 89% and 98% of stable expenses, assuming no reduction in inflation-adjusted spending of \$45k until the portfolio is depleted. This compares favorably to no annuity allocation, which covers 78% of stable expenses.

“Pay my bills” variable annuity outcomes

Exhibit 3: “Pay my bills” no annuity vs. a variable annuity, percentage of stable spending covered, -20% return first year in retirement



Assumes all Social Security income is spent. The spending and Social Security estimates are derived from J.P. Morgan Asset Management, based on internal select data from JPMorgan Chase Bank, N.A. and its affiliates (collectively “Chase”) including select Chase check, credit and debit card and electronic payment transactions from 2017 to 2019. Spending assumptions for this estimated asset level are reflective of those at the 75th percentile (one-quarter of households spent more).

Profile 2: “Pay my bills” outcomes

Our research finds that the annuities modeled cover more funding for stable monthly expenses, even in the cases when total spending was not reduced if the portfolio balance was low.

Profile 3: Market timer

It may be frustrating for individuals to see their portfolio value go down while in retirement, but this is common: the S&P 500 Index has averaged intra-year drops of 14% since 1980 as seen in **Exhibit 4**. Yet, the returns at year-end were positive in 34 of 45 years, so selling out when bad news hits is not a good strategy. And the ability for individuals to predict market declines is poor: 12-month average returns after consumer sentiment peaks is only 3.5%—compared to 24.1% after sentiment troughs.²

A person who may be at risk for market timing:

- Gets concerned when their portfolio experiences market downturns and is prone to pull out of the market.
- Should consider an annuity to give them the confidence to stay invested.

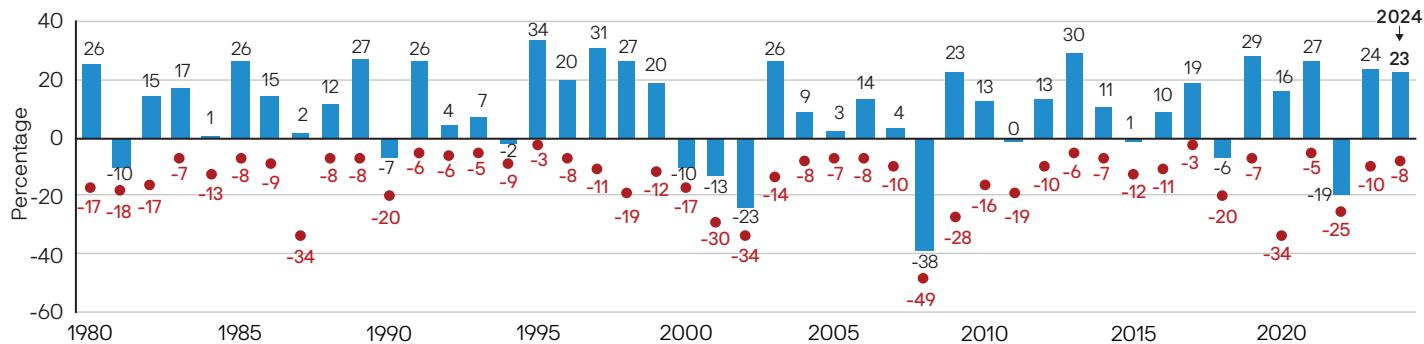
Exhibit 5 compares a market timer portfolio to annuity allocations of 40%. The market timer portfolio is 60% equities and 40% bonds, which shifts to 20% equities, 40% bonds and 40% cash for the 12-month period following a 10% or greater market decline. We are assuming the funds in the annuity will allow the individual to stay invested through all market conditions (75% equity in the annuity and 60% equity in the portfolio not invested in the annuity).

The annuity allocation increases the likelihood of being able to successfully spend \$45k in inflation-adjusted spending from 85% for the non-annuity allocation to either 94% with the variable annuity we modeled or 97% with the fixed indexed annuity.

² J.P. Morgan Guide to the Markets — U.S. data are as of December 31, 2024.

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years

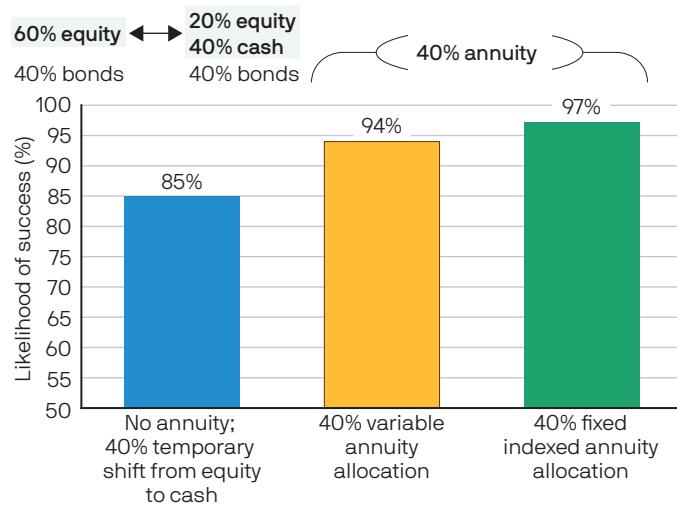
Exhibit 4: Annual returns and intra-year declines



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2024, over which the average annual return was 10.6%. *Guide to the Markets* — U.S. Data are as of December 31, 2024.

Market timer variable annuity improved outcomes

Exhibit 5: Market timer vs. 40% variable annuity or fixed indexed annuity allocation



See important information on the Annuity Disclosures on page 9.

\$45k spend is ~4.5% of median non-annuity portfolio at age 65 with no shifts from equity to cash. The growth rate applied to spending is a long-term forward-looking inflation assumption adjusted for spending behavior. Non-annuity portfolio in annuity allocation is 60% equity/40% bonds. Annuity payout for the variable annuity of 6% is \$13,500 with a 20% annuity allocation and \$27,000 with a 40% annuity allocation. Investment costs and M&E are not included because they are assumed to be equivalent in the investment portfolio including advisor management fees.

Profile 3: Market timer outcomes

The annuities modeled provided better results and greater likelihood of success than moving two-thirds of the equity in the portfolio to cash and not reinvesting it for a year after each 10% market decline.

Profile 4: Good saver, fearful spender

The good saver, fearful spender household has successfully accumulated more than enough wealth to cover their spending needs—yet has a difficult time spending any principal.

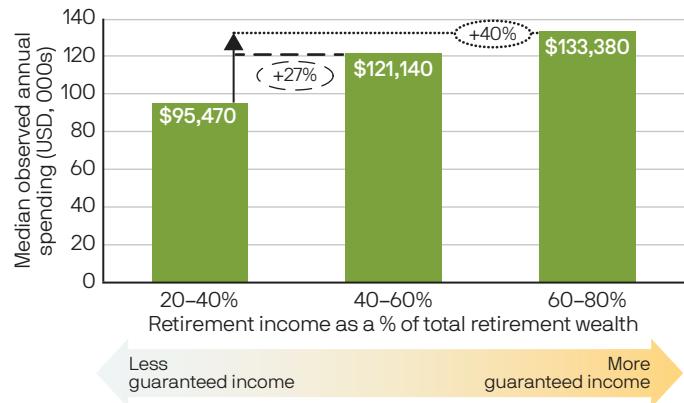
The best savers are very good at allocating savings for future goals, and generally experience growing wealth over time. As those households shift into retirement, the idea of depleting their wealth to support their retirement lifestyle can feel daunting. In this situation, an annuity can translate a portion of a portfolio into a consistent level of lifetime income that can be used to enhance the household's retirement lifestyle.

A key question: Do households with higher levels of consistent income—in the form of pensions, annuities and Social Security—spend more than those with less income but equivalent means? The answer is yes.

Using de-identified Chase data for households that do most of their spending through their Chase relationship, we estimated each household's total retirement wealth (which is comprised of the current value of their investable wealth and the present value of their observed sources of income to age 90, essentially creating an asset equivalent of their Social Security, pensions and/or annuities). We then grouped households with similar total retirement wealth together and observed their annual spending behaviors.

More guaranteed income = less fear of spending

Exhibit 6A: Median spending; total retirement wealth \$3M-\$5M



Source: Chase data including select Chase credit and debit card, electronic payment, ATM withdrawal and check transactions in 2023. Information that would have allowed identification of specific customers was removed prior to the analysis. Asset estimates for de-identified and aggregated households supplied by IXI/Equifax, Inc. Total retirement wealth is the sum of investable wealth and the present value of observed retirement income sources including Social Security (inflated), pensions and annuities (both not inflated) until age 90. Inflation rate assumption is 2.5%. Observed retirement income sources are adjusted to pre-tax values to be consistent with investable wealth.

Profile 4: Good saver, fearful spender outcomes

Our research shows that households that have less of their total retirement wealth in the form of retirement income spend less than similar households that have greater retirement income. Households with \$3–\$5M in total retirement wealth, who have 20–40% in retirement income, spend 40% less than households that have 60–80% in retirement income. Results for total retirement wealth of \$1–\$3M are very similar (**Exhibits 6A** and **6B**).

Total retirement wealth is the combination of retirement assets and sources of income. It represents the total means that a household has for retirement spending.

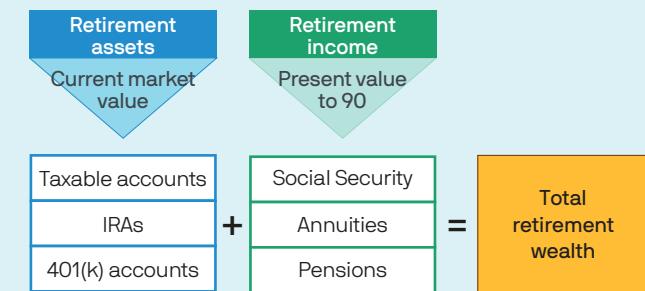


Exhibit 6B: Median spending; total retirement wealth \$1M–\$3M



Profile 5: Conservative investor

Individuals typically have a declining risk appetite as they get older. For more conservative individuals, the transition from work to retirement can magnify their risk aversion, resulting in a desire to have little, if any, market exposure in retirement. Over a 30- to 40-year retirement, this decision can result in significant erosion of purchasing power and increase the risk of running out of money over a long life.



3 out of 4 de-risk at retirement



17% Average decline in equity allocation



1 out of 4 reduce equity allocation by > 55%

Source: "In Data There Is Truth: Understanding How Households Actually Support Spending in Retirement," Employee Benefit Research Institute & J.P. Morgan Asset Management, 2021.

A conservative investor:

- Has a low tolerance for investment risk.
- Is at risk of an overly conservative approach thereby increasing the likelihood of running out of money in retirement.

For these individuals, including guaranteed income as a part of their retirement income strategy could help them maintain a more appropriate level of market exposure through their retirement and, as a result, increase their likelihood of success.

Exhibits 7A and 7B compare a portfolio of 20% equities and 80% bonds to using either 20% or 40% of the portfolio value to purchase an annuity. The annuity

allocations increase the likelihood of being able to successfully spend \$45k in inflation-adjusted spending from 90% in the no annuity allocation to:

- 95% and 98% for the 20% and 40% variable annuity allocations, respectively.
- 96% and 99% for the 20% and 40% fixed indexed annuity allocations, respectively.

Conservative investor outcomes

Exhibit 7A: Conservative allocation vs. a variable annuity allocation

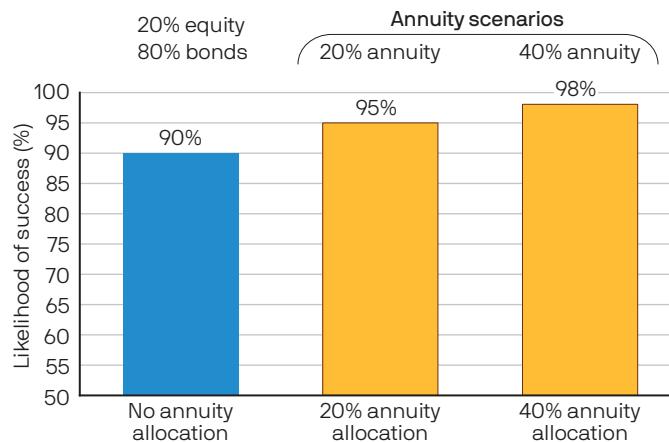
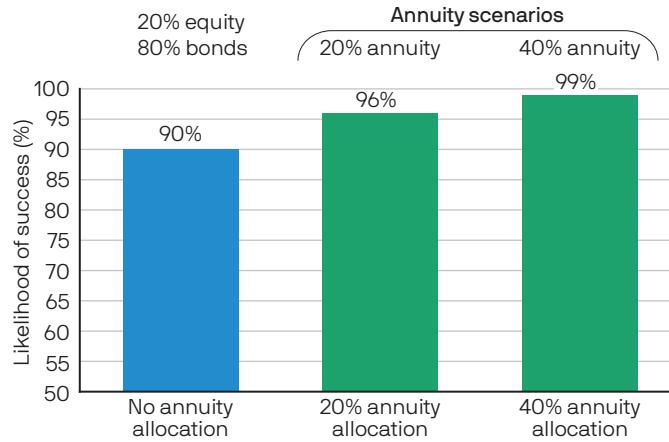


Exhibit 7B: Conservative allocation vs. a fixed indexed annuity allocation

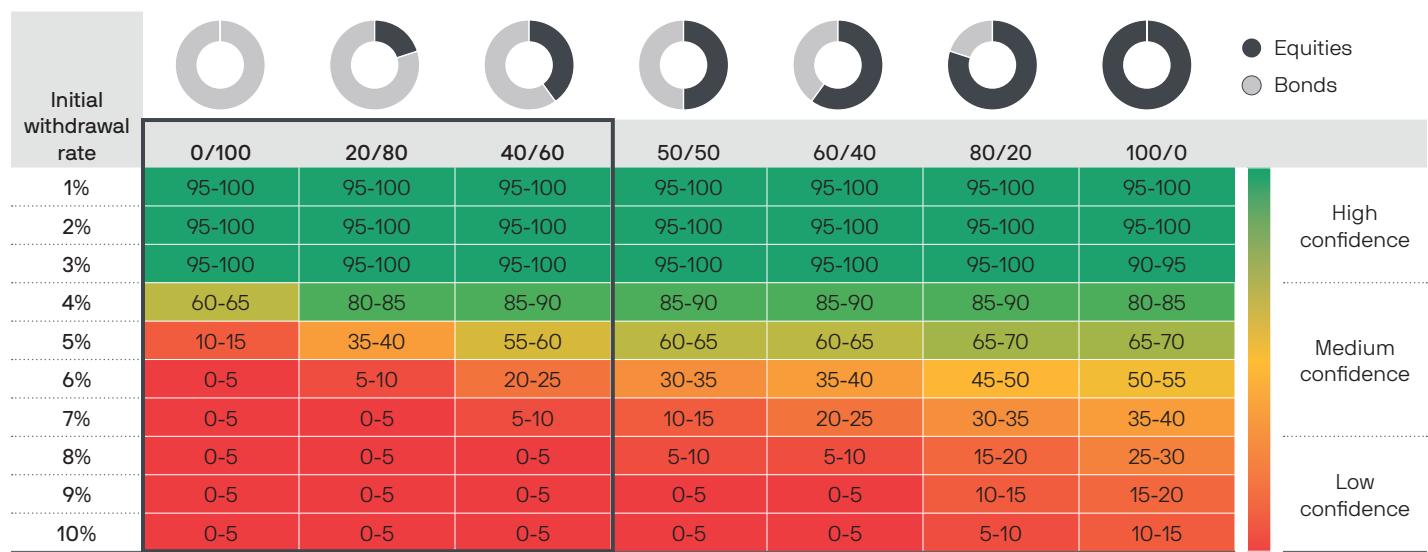


See important information on the Annuity Disclosures on page 9.

\$45k spend is ~5% of median non-annuity portfolio at age 65. The growth rate applied to spending is a long-term forward-looking inflation assumption adjusted for spending behavior. Annuity payout for the variable annuity of 6% is \$13,500 with a 20% annuity allocation and \$27,000 with a 40% annuity allocation. Investment costs and M&E are not included because they are assumed to be equivalent in the investment portfolio including advisor management fees. Non-annuity portfolio in the annuity scenarios is 20% equity/80% bonds.

Likelihood of success after 35 years in retirement

Exhibit 8: Various withdrawal rates and asset allocation



Source: J.P. Morgan 2025 Guide to Retirement, On the Bench. See important annuity disclosure on page 11.

Planning for the possibility of a long retirement

One piece of the retirement equation is not knowing how long you may live and if an unexpectedly long life might lead to running out of funds. As shown in **Exhibit 8**, withdrawal rates over 4%, adjusted for inflation over 35 years may result in a very low likelihood of success, which is much worse for those with very conservative asset allocations. The need to plan for a 35-year retirement timeframe is not unrealistic, given that many individuals retire before age 65 and/or they are non-smokers who have longer life expectancies than the general population. In fact, over 4 in 10 male/female non-smoking couples in excellent health at age 65 will have at least one member of the couple live to age 95 or longer.³

³J.P. Morgan 2025 Guide to Retirement.

Extended retirement analysis

For this analysis (not shown), we increased the retirement timeframe from 30 years to 35 years for the variable annuity comparison. The annuity allocations increase the likelihood of being able to successfully spend \$45k in inflation-adjusted spending from 81% in the no annuity allocation to 86% for the 20% annuity allocation and 90% for the 40% annuity allocation.

Profile 5: Conservative investor outcomes

Our research finds that the annuities modeled provide greater upside opportunity and increased likelihood of meeting the full spending goal throughout retirement. This is even more important for those who retire early and/or want to plan for the possibility of a long life.

Profile 6: Accumulator

Individuals saving for retirement or other goals may be prone to losing ground to inflation and missing out on potentially higher returns if they are holding a significant amount of cash (**Exhibit 9**). And while short-term CD rates may look attractive, they are subject to reinvestment risk after the term ends. To limit risk while capturing some of the possible upside, an investor may consider a registered index-linked annuity (RILA). The RILA guarantee will be based on the amount of annuity purchase and specific annuity benefits and is dependent on the claims-paying ability of the insurer.

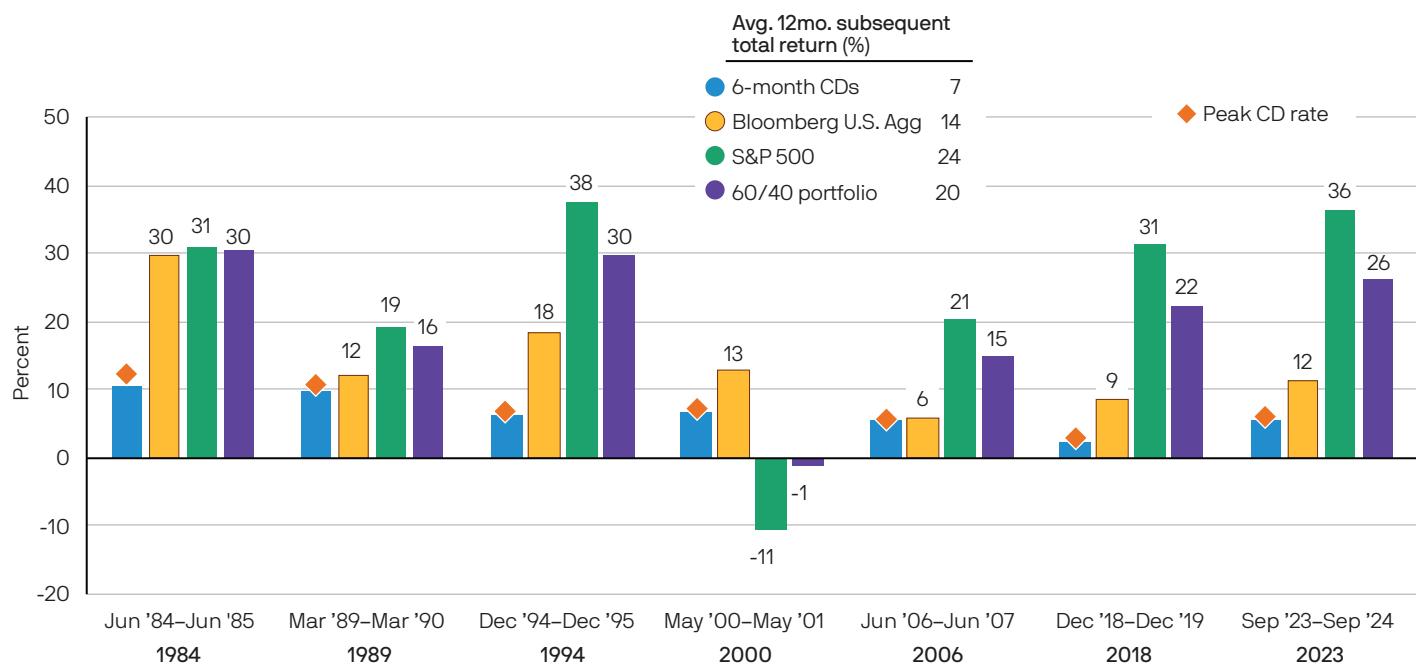
In conclusion

Annuities are an important tool in the toolkit for households approaching and living in retirement to consider as part of their retirement income strategy. These profiles are prime candidates for using annuities to meet a specific retirement need.

Allocating part of a portfolio to an annuity is valuable when the annuity is being used to provide a base level of lifetime income or to provide guarantees through market cycles. Households considering an annuity purchase should carefully review its benefits, trade-offs and fees to make an informed decision about how it supports their overall retirement income strategy.

Investment opportunities outside of CDs

Exhibit 9: Peak 6-month certificate of deposit (CD) rate during previous rate hiking cycles and subsequent 12-month total returns



Source: Bloomberg, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management. *Guide to the Markets* – U.S. data are as of December 31, 2024.

The 60/40 portfolio is 60% invested in S&P 500 Total Return Index and 40% invested in Bloomberg U.S. Aggregate Total Return Index. The analysis references the month in which the month-end 6-month CD rate peaked during previous rate hiking cycles. CD rate data prior to 2013 are sourced from the Federal Reserve, whereas data from 2013 onward are sourced from Bloomberg. CD subsequent 12-month return calculation assumes reinvestment at the prevailing 6-month rate when the initial CD matures.

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Important annuity disclosure

It is important to consider a number of factors before making an investment in an annuity. Because variable annuities invest in securities they are subject to "stock market risk" meaning that stock prices in general (or in particular, the prices of the types of securities in which a fund invests) may decline over short or extended periods of time. When the value of a fund's securities goes down, an investment in a fund decreases in value. Due to various features, benefits, limitations, early surrender charges, penalties and possible tax implications that may apply to a particular annuity; it is important to read the prospectus, contract, statement of additional information and offering material, and to discuss your particular needs and circumstances with your Financial Professional to determine the type of annuity that may be most appropriate for your investment needs. You should consider the risks and objectives of the annuity and match them to your own goals and risk tolerance. In addition, you should fully understand the costs associated with your investment.

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