

How Annuities Could Improve Retirement Security amid Economic Uncertainty

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Retirement savings are not just personal nest eggs—they are a pillar of the US economy. As of 2025, Americans held approximately \$44 trillion in retirement accounts (Investment Company Institute 2025), second only to home equity (\$48 trillion) in household wealth (Board of Governors of the Federal Reserve System 2025). Because consumer spending drives nearly two-thirds of US economic activity,¹ sharp declines in retirement account values can erode consumer confidence and reduce spending,² amplifying macroeconomic instability (McEntarfer 2022). This risk is especially acute for retirees, who face the dual threat of market volatility and outliving their savings (Butrica and Mermin 2007). In this context, financial tools such as annuities that stabilize retirement income can benefit both individuals and the broader economy.

An annuity is an insurance contract that can convert a lump sum or series of payments into a guaranteed stream of income, often for life.³ Unlike standard retirement accounts, which offer no income guarantees and fluctuate with markets, annuities can provide predictable, lifelong payments, helping retirees avoid the risk of running out of money.

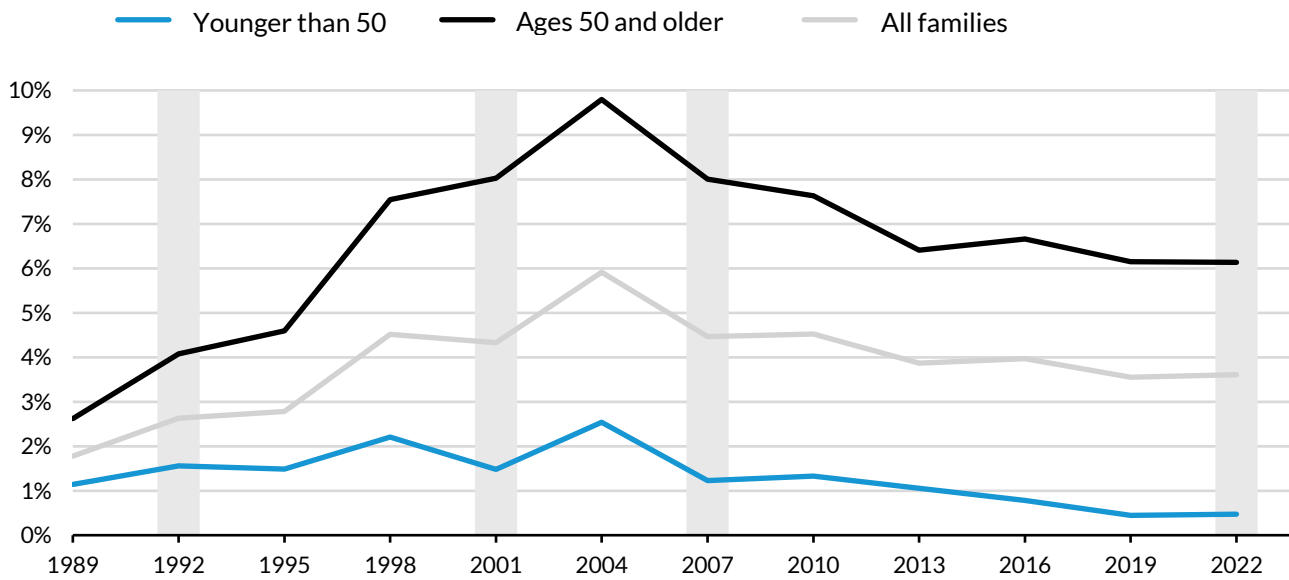
Annuities Offer Stability, but Adoption Remains Low

Annuities can play a valuable role in retirement planning by helping to manage longevity risk, or the chance of outliving one's savings. Fixed annuities provide predictable, guaranteed income or investment growth that is not tied to market performance, offering stability when stocks or bonds fluctuate. Variable and indexed annuities may offer growth potential linked to market returns, often with features that limit downside risk (e.g., minimum income guarantees or loss protections). Variable annuity values fluctuate based on selected investment funds, whereas indexed annuities track broad market indexes like the S&P 500, typically offering risk and return potential between fixed and variable options.⁴ Across types, annuities can serve as a source of reliable income within a diversified retirement portfolio, particularly when other assets are volatile.

Despite these benefits, annuity adoption remains low. Figure 1 shows that fewer than 6 percent of households held any assets in annuities from 1989 to 2022 based on the Survey of Consumer Finances (SCF). Because annuities are typically purchased later in life, annuity holders tend to be older. As shown in figure 1, families with the head of the household age 50 or older consistently have higher annuity ownership rates than those younger than 50. In figure 2, we focus our analysis on those ages 50 and older, who are closer to retirement and are more likely than younger investors to find the core benefits of annuities relevant.⁵ In 2022, the median net worth of annuity-holding families ages 50 and older was \$938,300, more than twice that of nonholders (\$353,500) (figure 2).

Historically, several factors explain low uptake. Foremost, many families may not even recognize the term “annuity” or understand how it could benefit them, a barrier rooted in unequal access to financial advice and retirement plan coverage. Beyond this awareness gap, concerns about product complexity and fees often arise, particularly for savers with limited assets (Wettstein et al. 2021).

FIGURE 1
Annuity Adoption Has Historically Been Low Among US Families
 Share of families with annuities by age, 1989–2022

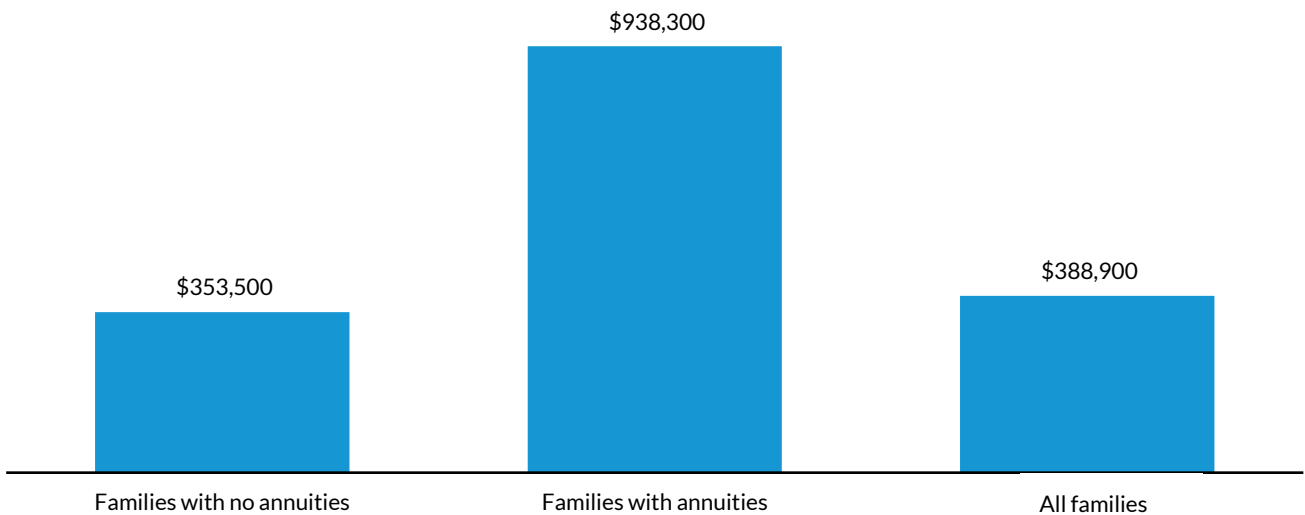


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Source: Authors' analysis of Survey of Consumer Finances data and National Bureau of Economic Research recession data, 1989–2022.

Note: Gray bars refer to recessionary periods as defined by the National Bureau of Economic Research. Age refers to the age of the reference person within a family.

FIGURE 2
Annuity Holders Typically Have Higher Net Worths
 Median net worth in 2022 among annuity holders and non-annuity holders, ages 50 and older



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Source: Authors' analysis of Survey of Consumer Finances data, 2022.

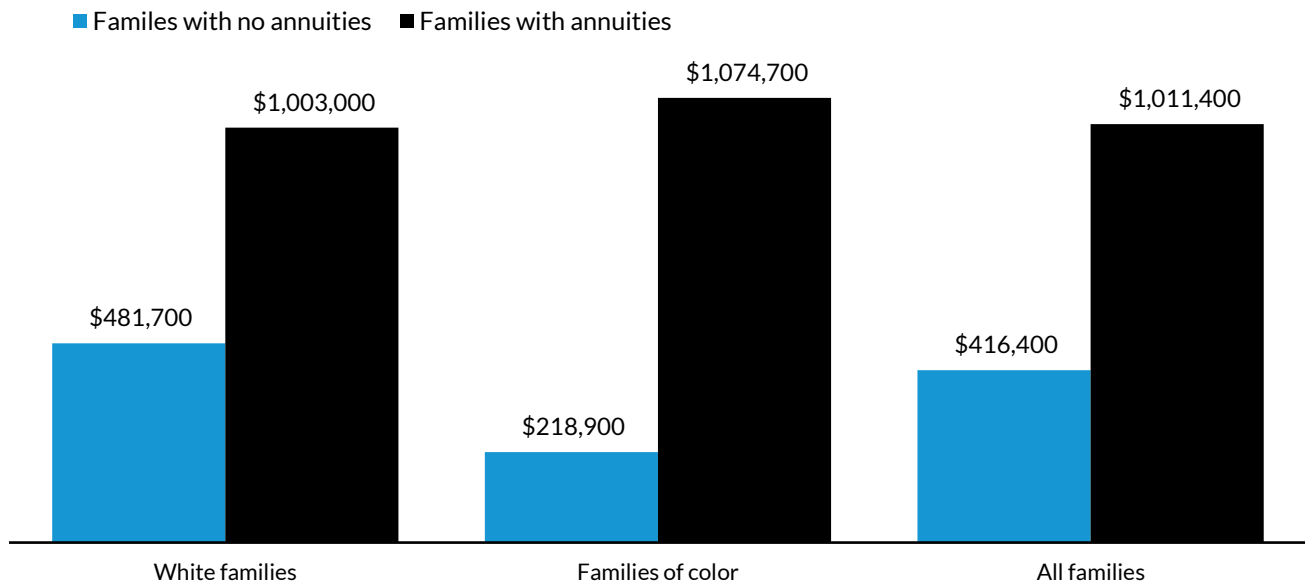
Note: We focus on families with positive net worth.

Figure 3 reveals significant disparities in asset levels between annuity holders and nonholders, particularly for families of color. According to 2022 Survey of Consumer Finances data for families ages 50 and older, the median asset value for white annuity holders is approximately \$1 million, compared with \$480,000 for nonholders. Among families of color, the gap is wider: annuity holders hold a median of \$1.1 million, while nonholders hold just \$220,000. This suggests that families of color may need to accumulate significantly more assets before including annuities in their portfolios, pointing to potential barriers related to financial awareness and trust.

FIGURE 3

Large Asset Gaps Exist Between Annuity Holders and Nonholders Among Families of Color

Median asset values in 2022 for families with and without annuities, by race or ethnicity, ages 50 and older



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Source: Authors' analysis of Survey of Consumer Finances data, 2022.

Notes: We focus on families with positive assets.

Policy Is Starting to Catch Up, but More Is Needed

To summarize our findings, annuity use, despite its benefits, has declined in the US since peaking in 2004. There was a modest rise in the 1990s, coinciding with the decline of traditional pensions, but overall adoption remains low. Data from the Survey of Consumer Finances also show that annuity holders tend to be wealthier overall, and the large asset gap between annuity holders and non-annuity holders exists among families of color. These disparities reflect broader inequities in access to retirement plans, financial advice, and wealth-building opportunities. Recent legislation, particularly the SECURE 2.0 Act, has taken steps to make annuities more accessible and practical within retirement plans.⁶ Key provisions include

- removing required minimum distribution barriers for life annuities (section 201),
- finalizing rules for qualifying longevity annuity contracts that delay income until later in retirement (section 202),
- allowing exchange-traded funds in variable annuities (section 203), and
- eliminating penalties for partial annuitization (section 204).

More action is needed. To enhance retirement security, policymakers and plan sponsors could consider defaulting 401(k) assets into annuities (Horneff, Maurer, and Mitchell 2025), simplifying product design, and improving communication so both employers and employees understand how annuities can provide lifelong income. Harmonizing private product innovation with consistent public policy is essential to ensure all Americans, not just the wealthy, can retire with dignity and security.

Rebuilding Retirement Security for All

The traditional model of retirement income—the “three-legged stool” of Social Security, employer-sponsored pensions, and personal savings—has fundamentally eroded. Social Security remains vital but faces long-term funding shortfalls, with reforms likely needed within the decade that could include higher retirement ages, tax changes, or benefit adjustments, creating uncertainty for future retirees. Defined-benefit pensions, which once guaranteed lifetime income based on salary and years of service, have nearly vanished. Today, most workers rely on defined-contribution plans such as 401(k)s and 403(b)s, where the responsibility for saving, investing, and managing withdrawals falls entirely on the individual.

This shift has left many Americans exposed to market risk, longevity risk, and the complex challenge of turning a lump sum into sustainable lifetime income. In this new landscape, annuities can help restore balance to the retirement stool. By converting retirement savings into a guaranteed stream of income, often for life, annuities replicate a key function pensions once provided: protection against outliving one’s money. Unlike standard retirement account balances, which offer no income guarantees and fluctuate with markets, annuities can provide stability during downturns and can help retirees manage spending over decades.

Reimagining retirement security means integrating tools such as annuities into defined-contribution plans—not as a one-size-fits-all solution but as a thoughtfully designed option, potentially even a default decumulation choice, to help people withdraw savings gradually and sustainably. Other solutions to consider include encouraging workers, especially those nearing retirement, to allocate their retirement assets in target date funds to protect from economic volatility.⁷ Ensuring this works for everyone, not just the wealthy, requires inclusive policy, transparent product design, and equitable access to financial guidance. Only then can we build a retirement system that delivers dignity, stability, and peace of mind for all Americans.

Notes

- ¹ Colby Smith and Christine Zhang, “Consumers Prop Up the Economy. They’re Showing Signs of Strain,” *New York Times*, May 15, 2025, <https://www.nytimes.com/interactive/2025/05/15/business/economy/us-economy-recession-consumer-spending.html>; and “Consumer Spending,” Bureau of Economic Analysis, last updated September 26, 2025, <https://www.bea.gov/data/consumer-spending/main>.
- ² “Preliminary Results for October 2025,” University of Michigan, Surveys of Consumers, accessed October 13, 2025, <https://www.sca.isr.umich.edu/>.
- ³ “Annuities: A Brief Description,” Internal Revenue Service, last updated August 26, 2025, <https://www.irs.gov/retirement-plans/annuities-a-brief-description>.
- ⁴ “The Complicated Risks and Rewards of Indexed Annuities,” Financial Industry Regulatory Authority, July 14, 2022, <https://www.finra.org/investors/insights/complicated-risks-and-rewards-indexed-annuities>.
- ⁵ Kimberly Lankford, “5 Things You Should Know About Annuities,” AARP, last updated March 6, 2024, <https://www.aarp.org/money/retirement/learn-about-annuities/>.
- ⁶ [*Securing a Strong Retirement Act of 2022*](#), H.R. 2954, 117th Cong. (2021).
- ⁷ Mingli Zhong and Michael Neal. “Market Volatility Could Hit Some Retirees Harder Than Others,” *Urban Wire*, Urban Institute, July 22, 2025, <https://www.urban.org/urban-wire/market-volatility-could-hit-some-retirees-harder-others>.

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