Solving the annuitization puzzle

Annuities can provide valuable protection against the risk of outliving your savings. Yet many people resist annuitizing their wealth, creating what some researchers call the “annuitization puzzle.” Two large surveys shed light on the cause of this resistance and the factors that influence consumer attitudes.

Key findings

- Allowing people to annuitize a portion of their wealth, instead of forcing an all-or-nothing decision, tends to increase annuitization rates.
- Highlighting the effects of inflation increases the demand for inflation protection.
- Many people prefer to receive an extra “bonus” payment during one month of the year that is funded by lower payments in the remaining months.
- Most people prefer a payout stream that is flat or rising in real terms over one that declines over time (with the same expected present value).
- Framing the annuitization decision in terms of flexibility and control or investment risk significantly reduces annuitization.

Action steps

To help plan participants make informed financial choices, consider these self-reported motives for and against annuitization.

#1 reason to annuitize savings
- Having guaranteed income later in life

Factors that discourage annuitization
- Spending flexibility
- Counterparty risk (“worried about company not being able to pay me”)

Factor having little influence on the decision
- Desire to leave a bequest

To learn more

To access the full study report, released in March 2013, click here or copy and paste this address into your web browser: http://www.tiaa-crefinstitute.org/ucm/groups/content/@ap_ucm_p_inst/documents/document/tiaa04046597.pdf