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## A Letter to RIJ from Moshe Milevsky

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By No Author      Thu, Aug 2, 2018

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*The York University finance professor, author and annuity consultant suggests that academics focus less on trying to solve the 'annuity puzzle' and more on 'normative advice.'*

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I enjoyed the [article](#) in RIJ (July 26, 2018) on “why” people don’t annuitize, as well as the additional explanations not included by the academics and their Behavioral Finance handbook.

What I found interesting is that most of the reasons—and perhaps even all of them—can be placed squarely in the neoclassical (rational) economic framework developed almost 50 years ago.

In fact, if you read the original papers that first advocated full annuitization, they all made explicit assumptions on “preferences” and “frictions.” They all made it very clear that in the real world it would be violated. It’s a toy model.

To me this is no different than the (famous) Modigliani-Miller theorems about the irrelevance of capital structure or of dividend policy. Nobody in his or her right mind would advocate that companies ignore either of these decisions, or that both financial decisions don’t matter.

Likely you have not heard of the “corporate finance puzzle” about why some companies are both borrowing and/or paying dividends. Rather, the M-M theorem is a baseline for discussion about what matters most in the real world and who should finance with debt or who should pay higher dividends, etc.

The same holds with annuities. The focus of the discussion should be on:

- Who would benefit from more annuities
- How much they should own
- What types should be purchased
- How to explain this to people

This is especially important for the academic research agenda. Stop looking for puzzles to

solve and start offering normative advice. That's what the industry needs.

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