
Academics propose solution to “annuity puzzle”

By Editor Test *Wed, Oct 26, 2011*

Low sales of individual income annuities "should not be viewed as an indicator of underlying preferences but rather as a consequence of institutional factors about the availability and framing of annuity options," Shlomo Benartzi and Richard Thaler asserted.

“The notion that consumers are simply not interested in annuities is clearly false,” write Shlomo Benartzi, Alessandro Previtero and Richard H. Thaler in “[Annuitization Puzzles](#),” a forthcoming paper in the *Journal of Economic Perspectives*.

The paper was distributed by the Allianz Global Investors Center for Behavioral Finance, of which Benartzi, a professor at UCLA’s Anderson School of Management, is Chief Behavioral Economist and Thaler, a professor at the University of Chicago Booth School of Business, is a member of the Center’s Academic Advisory Board.

In the paper, the academics argue that the popularity of Social Security and of corporate defined benefit pensions suggest that Americans would be more likely to buy private annuities if the annuity purchase decision were properly framed and if more Americans saved enough to make the purchase of an annuity worthwhile.

Annuity sales are low in part because “people simply have not saved up enough to make buying an annuity a viable option” and because “few defined contribution plans offer annuities,” the paper said.

“The tiny market share of individual annuities should not be viewed as an indicator of underlying preferences but rather as a consequence of institutional factors about the availability and framing of annuity options,” the authors concluded.

“A substantial proportion of retirees choose an annuity when they are presented with that option at an appropriate age and have accumulated enough of a stake to make annuitization sensible,” they wrote. “We believe that many participants in defined contribution retirement plans would prefer to annuitize as well, but not if they have to do all the work of finding an annuity to buy, as well as bear the risk and responsibility for having picked the annuity supplier.”