

[Home](#) > [Ageing, Financial Markets and Monetary Policy](#) > Conference paper

Developments in Decumulation: The Role of Annuity Products in Financing Retirement

Conference paper

pp 97–125 | [Cite this conference paper](#)



[Ageing, Financial Markets and Monetary Policy](#)

[Olivia S. Mitchell](#)

 245 Accesses  24 Citations

Abstract

Driven by the prospect of a global ageing boom, researchers and policy-makers throughout the developed world have devoted substantial effort to exploring what motivates household-asset *accumulation* patterns. It is during the accumulation phase that a society seeks to build up resources adequate to finance retirement. More remains to be learned about this process, but even less is known about what happens to people later in life, during which they are confronted with the need to *decumulate* their resources in an orderly manner in retirement. To understand this decumulation process better, along with the factors that influence it, this paper explores a particular financial tool that helps protect against key financial risks at the end of life. Specifically, I examine the role of the *life annuity*, a financial contract in which the purchaser exchanges a certain sum of money for a

continuous stream of benefits until he dies. The insurer, or annuity provider, pools longevity risk across all contract-holders and is thus able to offer longevity insurance for the customer population.

Research support was provided by the Pension Research Council at the Wharton School, the National Bureau of Economic Research, the Wharton-SMU Research Center at Singapore Management University and the Economic and Social Research Institute of the EPA of Japan. Helpful comments were provided by Alan Auerbach. Much of the research referenced draws on material appearing in Jeffrey Brown, Olivia S. Mitchell, James Poterba and Mark Warshawsky (2001). Opinions and errors are solely those of the author and not of the institutions with which she is affiliated.

 This is a preview of subscription content, [log in via an institution](#)  to check access.

Access this chapter

[Log in via an institution](#) →

Subscribe and save

Springer+

from €37.37 /Month

- Starting from 10 chapters or articles per month
- Access and download chapters and articles from more than 300k books and 2,500 journals
- Cancel anytime

[View plans](#) →

Buy Now

^ **Chapter**

EUR 29.95

Price includes VAT (Poland)

^ **eBook**

EUR 117.69

Price includes VAT (Poland)

- Available as PDF
- Read on any device
- Instant download
- Own it forever

[Buy Chapter →](#)

- Available as PDF
- Read on any device
- Instant download
- Own it forever

[Buy eBook →](#)

^ **Softcover Book** **EUR 160.49**
Price includes VAT (Poland)

- Compact, lightweight edition
- Dispatched in 3 to 5 business days
- Free shipping worldwide - [see info](#)

[Buy Softcover Book →](#)

^ **Hardcover Book** **EUR 160.49**
Price includes VAT (Poland)

- Durable hardcover edition
- Dispatched in 3 to 5 business days
- Free shipping worldwide - [see info](#)

[Buy Hardcover Book →](#)

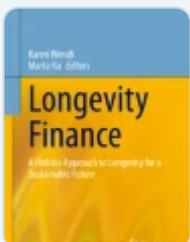
Tax calculation will be finalised at checkout
Purchases are for personal use only

[Institutional subscriptions →](#)

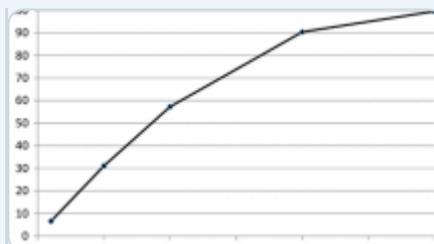
Preview

Unable to display preview. [Download preview PDF.](#)

Similar content being viewed by others



Financial Planning for Longevity.



Facing Up to Longevity with Old Actuarial Methods: A Comparison of Pooled Funds



Holistic Goals-Based Investing Framework for Analyzing

Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

[Actuarial Mathematics](#)

[Ageing](#)

[Cellular Senescence](#)

[Eschatology](#)

[Gerontology](#)

[Neural ageing](#)

[Economic Analysis of Aging and Retirement Behavior](#)

References

Blake, D. 1999. Annuity Markets: Problems and Solutions. *The Geneva Papers on Risk and Insurance*. July: pp. 359–375.

[Google Scholar](#)

Blake, D., W. Burrows and J. M. Orszag. Forthcoming. Survivor Bonds and Compulsory Annuity: Helping Reduce the Cost of Pension Provision. In Z. Bodie, B. Hammond and O. S. Mitchell, eds. *Innovations in Retirement Financing*. Pension Research Council. Philadelphia, PA: University of Pennsylvania Press.

[Google Scholar](#)

Bodie, Z., B. Hammond and O. S. Mitchell, Ed.. Forthcoming. *Innovations in Retirement Financing*. Pension Research Council. Philadelphia, PA: University of Pennsylvania Press.

[Google Scholar](#)

Brown, J. 2000. *How Should We Insure Longevity Risk in Pensions and Social Security?* Issue in Brief, Center for Retirement Research, Boston College, Boston, MA.

Brown, J. 2001. *Redistribution and Insurance: Mandatory Annuitization with Mortality Heterogeneity*, JFK School, Harvard, Cambridge, MA.

[Google Scholar](#)

Brown, J., O. S. Mitchell and J. Poterba. 2000 [BMP2000]. The Role of Real Annuities and Indexed Bonds. In an Individual Accounts Retirement Program. In *Risk Aspects of Investment-Based Social Security Reform*. Ed. J. Y. Campbell and M. Feldstein. NBER: University of Chicago Press: pp. 321–360.

[Google Scholar](#)

Brown, J., O. S. Mitchell and J. Poterba. Forthcoming [BMP forthcoming]. Mortality Risk, Inflation Risk, and Annuity Products. In Z. Bodie, B. Hammond and O. S. Mitchell, eds. *Innovations in Retirement Financing*. Pension Research Council. Philadelphia, PA: University of Pennsylvania Press.

[Google Scholar](#)

Brown, J., O. S. Mitchell, J. Poterba and M. Warshawsky. 2001 [BMPW 2001]. *The Role of Annuity Markets in Financing Retirement*. MIT Press.

[Google Scholar](#)

Brown, J., O. S. Mitchell, J. Poterba and M. Warshawsky. 1999. Taxing Retirement Retirement Income: Nonqualified Annuities and Distributions from Qualified Accounts. *National Tax Journal*. LII,3, September: pp. 563–592.

[Google Scholar](#)

Brown, J. R. and J. M. Poterba. 1999. *Joint Life Annuities and Annuity Demand by Married Couples*. NBER Working Paper No. 7199.

[Google Scholar](#)

Brown, J. R. and M. J. Warshawsky. 2000. *Longevity-Insured Retirement Distributions from Pension Plans: Market and Regulatory Issues*. Working Paper prepared for the Brookings/SIEPR/TIAA-CREF Institute Conference on Public Policies and Private Pensions. Washington, D.C: September, pp. 21-22.

[Google Scholar](#)

Brynjolfsson, J. B. and F. J. Fabozzi, eds. 1999. *The Handbook of Inflation-Indexed Bonds*. F.J. Fabozzi Associates. New Hope, PA.

[Google Scholar](#)

Caplin, A. Forthcoming. Turning Assets into Cash Problems and Prospects in the Reverse Mortgage Market. In Z. Bodie, B. Hammond and O. S. Mitchell, eds. *Innovations in Retirement Financing*. Pension Research Council. Philadelphia, PA: University of Pennsylvania Press.

[Google Scholar](#)

Diaz, A. and S. Edwards. 1999. *Benefits of the Social Security System: Critical Examination and Proposals*. Paper presented at the Pensions Conference, Santiago, Chile, August.

[Google Scholar](#)

Disney, R. 2000. Crises in Public Pension Programmes in OECD: What are the Reform Options? *Economic Journal* 110, 461. pp. F1-F41.

[Article](#) [Google Scholar](#)

Disney, R. and P. Johnson. 2000. *Pension Systems and Retirement Incomes Across OECD Countries*. Institute for Fiscal Studies Working Paper. London.

[Google Scholar](#)

Doyle, S., O. S. Mitchell and J. Piggott. 2001. *Annuity Values in Defined-contribution Retirement Systems: The Case of Singapore and Australia*. NBER Working Paper No. W8091.

[Google Scholar](#)

European Commission. 1997. *Supplementary Pensions in the Single Market: A Green Paper*. http://eitropa.eu.int/comm/mtemal_market/eii/finances/pem

[Google Scholar](#)

Feldstein, M. and E. Rangelova. 2000. *Accumulated Pension Collars: A Market Approach to Reducing the Risk of Investment-Based Social Security Reform*. NBER Working Paper No. W7861.

[Book](#) [Google Scholar](#)

Finkelstein, A. and J. Poterba. 2000. *Adverse Selection in Insurance Markets: Policyholder Evidence from the U.K. Annuity Market*. NBER Working Paper No. W8045.

[Google Scholar](#)

Gale, W. G. and J. B. Slemrod. Forthcoming. Rethinking the Estate and Gift Tax: Overview. In *Rethinking Estate and Gift Taxation*. Eds. W. Gale, J. Hines and J. Slemrod. Washington, D.C.: Brookings.

[Google Scholar](#)

Hurd, M. D. and K. McGarry. 1995. Evaluation of Subjective Probability Distributions in the HRS. *Journal of Human Resources*. 30(0), pp. 268-92.

[Article](#) [Google Scholar](#)

James, E. and D. Vitas. 1999. *Annuities Markets in Comparative Perspective*.

Presented at the World Bank Conference on New Ideas About Old Age Security, Washington, D.C.

[Google Scholar](#)

Jennings, R. M. and A. P. Trout. 1982. *The Tontine: From the Reign of Louis XIV to the French Revolutionary Era*. Huebner Foundation Monograph Number 12. Wharton School, University of Pennsylvania. Philadelphia, PA.

[Google Scholar](#)

Lemaire, J. with the assistance of K. Subramanian. 1997. *Insurance Regulation in Europe and the United States*. Huebner Foundation Monograph Number 16. Wharton School, University of Pennsylvania. Philadelphia, PA.

[Google Scholar](#)

Mitchell, O. S. 2000a. Building an Environment for Pension Reform in Developing Countries. In *Foundations of Pension Finance*. Eds. Z. Bodie and E P. Davis. London: E. Elgar. pp. 480-503.

[Google Scholar](#)

Mitchell, O. S. 2000b. Developments in Pensions. *Handbook of Insurance*. Ed. G. Dionne. Kluwer Academic Publishers, Boston, pp. 873-899.

[Chapter](#) [Google Scholar](#)

Mitchell, O. S. 1999. *New Trends in Pension Benefit and Retirement Provisions*. NBER Working Paper No. W7381.

[Google Scholar](#)

Mitchell, O. S. and F. Barreto. 1997. After Chile, What? Second-Round Social Security Reforms in Latin America. *Revista de Analisis Economico*, 12(2)

November 1997, pp. 3-36.

[Google Scholar](#)

Mitchell, O. S., B. Hammond and A. Rappaport. 2000. *Forecasting Retirement Needs and Retirement Wealth*. Pension Research Council. Philadelphia, PA: University of Pennsylvania Press.

[Google Scholar](#)

Mitchell, O. S. and D. McCarthy. 2001. *Estimating International Adverse Selection in Annuities*. Pension Research Council Working Paper. Wharton School. Philadelphia, PA: University of Pennsylvania.

[Google Scholar](#)

Mitchell, O. S., J. Poterba, M. Warshawsky, J. Brown [MPWB]. 1999. New Evidence on the Money's Worth of Individual Annuities. *American Economic Review*. December, pp. 1299-1318.

[Google Scholar](#)

Moore, J. and O. S. Mitchell. 2000. Projected Retirement Wealth and Saving Adequacy. In *Forecasting Retirement Needs and Retirement Wealth*. Eds. O.S. Mitchell, B. Hammond and A. Rappaport. Pension Research Council. Philadelphia, PA: University of Pennsylvania Press, pp. 68-94.

[Google Scholar](#)

Murthi, M., M. Orszag and P. Orszag. *The Value for Money of Annuities in the UK*. Economics Department Working Paper, Birkbeck College. August 1999.

[Google Scholar](#)

Poterba, J. M. and M. J. Warshawsky. 1999. *The Costs of Annuitizing Retirement*

Ward, P. 1996. *The Great British Pensions Robbery*. Waterfall Books, 2nd ed.
Lancashire, UK.

Warshawsky, M., J. B. Spillman and C. Murtaugh. Forthcoming. Integrating the Life Annuity and Long-term Care Insurance: Theory, Evidence, Practice, and Policy In: Z. Bodie, B. Hammond and O. S. Mitchell, eds. *Innovations in Retirement Financing*. Pension Research Council. Philadelphia, PA: University of Pennsylvania Press.

Editor information

Editors and Affiliations

Department of Economics, University of California, 549 Evans Hall, 94720-3880, Berkeley, CA, USA

Alan J. Auerbach

Deutsche Bundesbank, Wilhelm-Epstein-Straße 14, 60431, Frankfurt am Main, Germany

Heinz Herrmann

Rights and permissions

[Reprints and permissions](#)

Copyright information

© 2002 Springer-Verlag Berlin Heidelberg

About this paper

Cite this paper

Mitchell, O.S. (2002). Developments in Decumulation: The Role of Annuity Products in Financing Retirement. In: Auerbach, A.J., Herrmann, H. (eds) Ageing, Financial Markets and Monetary Policy. Springer, Berlin, Heidelberg. https://doi.org/10.1007/978-3-662-04779-8_7

[.RIS↓](#) [.ENW↓](#) [.BIB↓](#)

DOI	Publisher Name	Print ISBN
https://doi.org/10.1007/978-3-662-04779-8_7	Springer, Berlin, Heidelberg	978-3-642-07661-9

Online ISBN	eBook Packages
978-3-662-04779-8	Springer Book Archive

Keywords

[Risk Aversion](#)

[Adverse Selection](#)

[NBER Working Paper](#)

[Annuity Market](#)

[Mortality Table](#)

These keywords were added by machine and not by the authors. This process is experimental and the keywords may be updated as the learning algorithm improves.

Publish with us

[Policies and ethics](#) [↗](#)

Search

Search by keyword or author



Navigation

[Find a journal](#)

[Publish with us](#)

[Track your research](#)

