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Household Demand for Variable Annuities

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Jeffrey R. Brown (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=155077)

University of Illinois at Urbana-Champaign - Department of Finance; National Bureau of Economic Research (NBER); University of Illinois College of Law; University of Illinois at Urbana-Champaign - Institute of Government and Public Affairs (IGPA); University of Illinois at Urbana-Champaign - Department of Economics

James M. Poterba (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=21561)

Massachusetts Institute of Technology (MIT) - Department of Economics; National Bureau of Economic Research (NBER)

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Abstract

Between 1990 and 2000, total sales of variable annuities in the U.S. grew from just over \$5 billion to nearly \$140 billion. These products now account for approximately half of all private market annuity sales. Variable annuities resemble mutual funds, but they qualify for special tax treatment as insurance products because they provide an option to convert to a life annuity. This paper describes the tax treatment of variable annuities and presents summary information on the ownership patterns for variable annuities. It also explores the relative importance of several distinct motives for household purchase of variable annuities. We use household data from the 1998 and 2001 waves of the Survey of Consumer Finances to examine ownership patterns and to test for the importance of tax and insurance considerations in variable annuity demand. We find that variable annuity ownership is highly concentrated among high income and high net wealth sub-groups of the population, although the concentration is lower than for several other categories of financial assets. We find mixed support for the role of tax considerations in generating variable annuity demand, and we outline a set of research issues that focus on household annuity purchases.

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