Annuities and Individual Welfare

Thomas Davidoff

Jeffrey R. Brown

Peter A. Diamond

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Article Information

Abstract

Advancing annuity demand theory, we present sufficient conditions for the optimality of full annuitization under market completeness which are substantially less restrictive than those used by Menahem E. Yaari (1965). We examine demand with market incompleteness, finding that positive annuitization remains optimal widely, but complete annuitization does not. How uninsured medical expenses affect demand for illiquid annuities depends critically on the timing of the risk. A new set of calculations with optimal consumption trajectories very different from available annuity income streams still shows a preference for considerable annuitization, suggesting that limited annuity purchases are plausibly due to psychological or behavioral biases.

Citation

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D91 Intertemporal Household Choice; Life Cycle Models and Saving

G22 Insurance; Insurance Companies; Actuarial Studies