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Annuities and Individual Welfare

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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 suggests a preference for annuitization. This preference is robust to uncertainty due to psychological or behavioral biases.

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