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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 supports the preference for annuitization. The annuity is plausible due to psychological or behavioral biases.

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[Replication Package \(78.45 KB\)](#)

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## JEL Classification

**D64** Altruism; Philanthropy

**D91** Intertemporal Household Choice; Life Cycle Models and Saving

**G22** Insurance; Insurance Companies; Actuarial Studies

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