Betting on Death and Capital Markets in Retirement: A Shortfall Risk Analysis of Life Annuities

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Retirees must draw down their accumulated assets in an orderly fashion, so as not to exhaust their funds too soon. We compare alternative phased withdrawal strategies to a life annuity benchmark using German data; one particular phased withdrawal rule seems attractive, as it offers relatively low expected shortfall risk, good expected payouts for the retiree during his life, and some bequest potential; results are similar for the US case. Delayed annuitization may also appeal, as it offers higher expected benefits with lower expected shortfalls. Requiring unisex mortality tables in annuity pric-ing raises women's risks under a phased withdrawal program.

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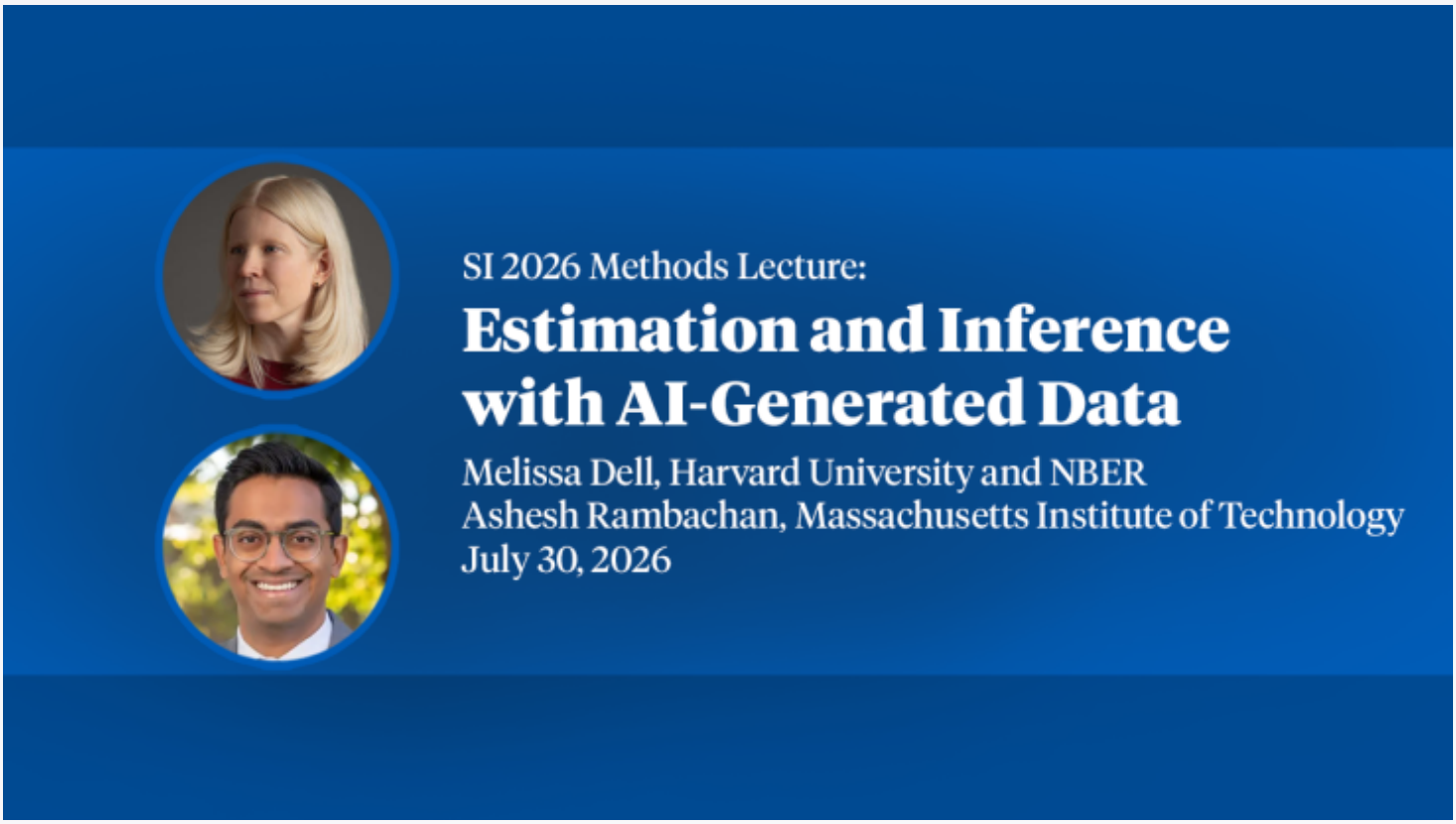


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