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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 pricing raises women's risks under a phased withdrawal program.

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