How Does the Level of Household Savings Affect Preference for Immediate Annuities?

By Sudipto Banerjee, Ph.D., Employee Benefit Research Institute

A T A G L A N C E

With the decline of defined benefit (DB) pension plans, there has been some renewed interest in providing other annuity income options to American workers, but demand for annuities has remained low in the United States. To develop future annuity income solutions, it is important to understand the public’s preferences for such products.

This Issue Brief uses a unique experiment in the Health and Retirement Study (HRS) to assess the effect of savings on the preference for immediate annuities (which begin paying out a regular stream of income as soon as they are purchased). Regression results show that people at the bottom- and top-ends of the savings distribution (those with the least and most assets) are more likely to buy annuities than people in the middle of the savings distribution. Also, savings has a large positive effect on preference for annuities only for those in the highest savings category.

Possible explanations for such behavior could be:

- People at the bottom of the savings distribution are very likely to run out of money in retirement and thus are inclined to select annuities.
- People at the top end of the savings distribution expect longer lifespans and can afford annuities even after leaving a financial legacy for their heirs.
- People in the middle generally face more uncertainty about their retirement adequacy and so they are more likely to hold on to their savings for precautionary purposes and perhaps also for some hope of leaving a financial legacy for their heirs.

The results also show clear preference for annuitizing smaller shares of assets or partial annuitization. When compared to their current financial situation, only 16.5 percent of retirees (ages 65 and above) preferred full annuitization compared to 43.0 percent who preferred a one-quarter annuitization.

A large majority (70.2 percent) of the current Social Security recipient households receive at least three-quarters of their income in annuities from Social Security, employer-provided pensions, and other annuity contracts. The fact that most retirees are already highly annuitized might help explain the lack of demand for additional annuity income.
Sudipto Banerjee is a research associate at the Employee Benefit Research Institute (EBRI). This Issue Brief was written with assistance from EBRI’s research and editorial staffs. Any views expressed in this report are those of the author and should not be ascribed to the officers, trustees, or other sponsors of EBRI, Employee Benefit Research Institute-Education and Research Fund (EBRI-ERF), or their staffs. Neither EBRI nor EBRI-ERF lobbies or takes positions on specific policy proposals. EBRI invites comment on this research.

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How Does the Level of Household Savings Affect Preference for Immediate Annuities?

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Introduction
Annuitization rates in retirement plans are pretty low in the United States. Banerjee (2013) studied 84 defined benefit (DB) plans qualified under the Employee Retirement Income Security Act of 1974 (ERISA)—including cash balance (CB) plans—and showed that in plans where employees were free to choose between an annuity and a lump-sum distribution, just over one-quarter (27.3 percent) chose the annuity. Previously, Utkus and Mottola (2007) studied two Fortune 500 DB plans (one final-average-pay (FAP) plan and one CB plan), and reported an annuitization rate of 27 percent for the FAP plan and 17 percent for the CB plan. Schaus (2005) used a survey of 450 large 401(k) plans and reported an annuitization rate of only 6 percent.1

Annuities provide a number of benefits. First, they provide longevity insurance, which guarantees people will not run out of money if they exceed their expected life span. Second, annuities can minimize, at least partially, the complex and continuous decision-making process of retirement withdrawals. Finally, people get used to monthly income payments throughout their working life, so an annuity can become a replacement paycheck in retirement.

In spite of these benefits, the annuitization rate of retirement assets remains pretty low. Some economists find this puzzling; as a result, it has been termed “the annuity puzzle” in the economic literature (Davidoff, Brown, and Diamond, 2005; Brown, 2007).

There are a number of possible reasons why people might find pensions or annuities unattractive. These include availability of Social Security as an existing source of annuity income; a bequest motive; fear of early death and loss of benefits; a need for liquid assets for health and other emergencies in late life; the high upfront costs of annuitization; lack of trust in the financial strength of insurance companies that issue annuities and fear of their default risk; and lack of financial sophistication and myopic decision making.

Over the years—and particularly as roughly 10,000 Baby Boomers2 have begun to turn 65 every day—more emphasis has been placed on retirement income strategies and the role of annuities. For example, product variations, including joint and survivor annuities; deferred annuities; period-certain guarantees; annuities with settlement or withdrawal options; and inflation-protected annuity payments, have been tried to make annuities more attractive. But their success has been very limited. Some commentators recently have characterized low annuitization rates as a public policy issue that puts many retirees and their dependents at retirement-income-adequacy risk, which has resulted in a range of policy proposals that would encourage or even mandate at least partial annuitization of assets held in retirement accounts.

To evaluate the extent to which low annuitization rates are a retirement-income-adequacy problem and the pros and cons of various policy recommendations, one of several first-order tasks is to study and understand preferences for annuities.

Much of the work on annuity preferences reflects a behavioral economics perspective, focusing on framing and mental accounting considerations. For example, Hu and Scott (2007) argue that people frame the question about whether to purchase a life annuity more like a gamble rather than insurance. Brown, Kling, Mullainathan, & Wrobel (2008) find that consumers prefer annuities more when they are presented in a consumption framework (using words such as “spend” and “payment”) rather than in an investment framework (using words such as “invest” and “earnings”). Also, Shu, Zeithammer, and Payne (2016) find that people undervalue the inflation protection aspect of annuities and overvalue the duration of a period-certain annuity. Such behavior could flow from a strong loss-aversion bias as shown by Tversky and Kahneman (1992) in their pioneering paper on prospect theory.
This Issue Brief focuses on how preferences for immediate annuities are linked to household savings levels. From a public policy perspective, any effort to encourage annuitization, particularly among low- and middle-income households that generally have lower levels of savings, will not produce desirable outcomes if these households prefer to hold on to their assets. Also, to the extent savings might positively affect the demand for immediate annuities (contracts that start payments right away), the study identifies the segment of the population likely to respond to such encouragement.

The primary finding of the study is that the effect of savings on annuity preferences generally follows a U-shaped pattern. This means that people at the bottom- and top-ends of the savings distribution (those with the least and the most savings) are more likely to buy annuities than people in the middle of the savings distribution. Not surprisingly, those with the highest savings are the most interested. In all the different annuitization scenarios examined in this study (i.e., annuitizing all, half, or one-quarter of one’s savings), there’s a significant positive demand for annuities only among those in the top quintile of the savings distribution. By comparison, the effect of savings on demand for annuities (except full annuitization) is significantly negative for those in the middle (the second and third quintiles) of the savings distribution. The study also shows strong preferences for partial annuitization.

Data
The data for the study comes from the 2013 Internet Survey component of the Health and Retirement Study (HRS). HRS is a study of a nationally representative sample of U.S. households with individuals over age 50. It is the most comprehensive survey of older Americans in the nation and covers topics such as health, assets, income, and labor-force status. It is a biennial longitudinal survey with questionnaire waves in even-numbered years beginning in 1992. The initial sample consisted of individuals born between 1931 and 1941 and their spouses, regardless of their birth year. Newer cohorts have been added in the following years. The study is sponsored by the National Institute on Aging (NIA) and the Social Security Administration (SSA) and administered by the University of Michigan Institute for Social Research (ISR).

During the odd or off years, HRS conducts a number of surveys based on sub-samples of the full HRS sample. These surveys are often focused on more specific topics. HRS internet surveys, which started in 2003, are part of these off-year studies. The most recent HRS internet survey was done in 2013 with 5,813 respondents who had completed the 2012 even-year, core HRS interviews and indicated they had internet access.

The Annuity Preference Experiment
In the 2013 HRS Internet Survey, an experimental module was introduced to elicit preferences for immediate annuities. The core HRS survey collects data on income from various sources including wages, pension, and Social Security. It also collects data on different types of assets including (1) tax-advantaged assets such as 401(k)s and individual retirement accounts (IRAs), and (2) assets such as stocks, bonds, and certificates of deposit (CDs) held in non-tax-advantaged accounts. Finally, information about the current market price of the respondent’s primary residence and their outstanding mortgage debt is also collected. Using all this information from the 2012 wave of HRS, four different household-level variables were constructed to conduct this experiment. These were:

- A measure of current monthly earned income.
- Annuity income: lifetime monthly income from Social Security and pensions (if any).
- Value of total savings (including retirement assets).
- Net value of the house.

Figure 1 shows a screen shot of the experiment. At the outset, each respondent is shown the values of these four variables for their household. Their current situation is in column A and three alternative scenarios are shown in columns B, C, and D. Column B shows how their annuity income and level of savings would change if their entire
Figure 1
Screen Grab of the Immediate Annuity Experiment

**Table:**

<table>
<thead>
<tr>
<th></th>
<th>A Current</th>
<th>B Convert all savings</th>
<th>C Convert 50% of savings 6500</th>
<th>D Convert 25% of savings 3250</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current monthly earned income</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
</tr>
<tr>
<td>Lifetime monthly income from Social Security and pensions</td>
<td>2150</td>
<td>2224</td>
<td>2187</td>
<td>2159</td>
</tr>
<tr>
<td>Savings</td>
<td>13000</td>
<td>0</td>
<td>6500</td>
<td>9750</td>
</tr>
<tr>
<td>House value</td>
<td>100000</td>
<td>100000</td>
<td>100000</td>
<td>100000</td>
</tr>
</tbody>
</table>

K040_Grid
Our records indicate that you receive Social Security benefits and benefits from an employer-provided pension plan. Suppose the total of the two is $2150/month and that you will continue to receive this amount for as long as you live. Suppose that you also have savings (including IRA and 401(k) accounts) that add up to $13000 and the net value of your house is $100000.

Now suppose that you could increase your lifetime monthly income by giving up some of your savings. Several possibilities are shown in columns A, B, C and D below. For each please indicate which option you would prefer.

Choice A would leave your current savings and monthly income the same as they are now. Choices B, C and D convert all or some percentage of your savings which would increase your lifetime monthly income.

savings were annuitized (henceforth referred to as “full annuitization”). Column C shows how their savings and annuity income would change if 50 percent of their savings were converted (“half annuitization”) into an immediate annuity. Finally, column D shows the similar numbers if only 25 percent of their savings were annuitized (“quarter annuitization”).

In the hypothetical example shown in Figure 1, the household initially has a monthly annuity income of $2,150 and savings of $13,000. If they choose full annuitization, savings go from $13,000 to zero and the monthly annuity income increases from $2,150 to $2,224. If they select half annuitization, savings go to $6,500 but the monthly annuity income increases only to $2,187. Finally, if they choose to annuitize only 25 percent of the savings, they will have savings of $9,750 and the monthly annuity income will be $2,169.

Next, the respondent is asked to separately compare their current situation (column A) with each of the scenarios presented in columns B, C, and D and identify their preferences. The experiment does not ask them to directly compare columns B, C, and D with each other, but since each of these is separately compared to a common alternative (column A, or the current situation), their responses can be used to derive relative preferences for full, half, and quarter annuitization.

<table>
<thead>
<tr>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SS&gt;0, DB&gt;0, Home Equity&gt;0</td>
<td>27.3%</td>
<td>$1,922</td>
<td>$1,745</td>
<td>$376</td>
<td>$197,939</td>
<td>$419,218</td>
<td>$260,000</td>
</tr>
<tr>
<td>SS&gt;0, DB&gt;0, Home Equity&lt;=0</td>
<td>4.5%</td>
<td>1,336</td>
<td>1,272</td>
<td>486</td>
<td>(2,552)</td>
<td>234,033</td>
<td>95,000</td>
</tr>
<tr>
<td>SS&gt;0, DB=0, Home Equity&gt;0</td>
<td>52.4%</td>
<td>1,814</td>
<td>0</td>
<td>660</td>
<td>226,547</td>
<td>480,621</td>
<td>229,000</td>
</tr>
<tr>
<td>SS&gt;0, DB=0, Home Equity&lt;=0</td>
<td>11.9%</td>
<td>1,610</td>
<td>0</td>
<td>480</td>
<td>(4,170)</td>
<td>319,748</td>
<td>115,000</td>
</tr>
</tbody>
</table>

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study Internet Survey, 2013.

Sample Description

Some restrictions were imposed on selection of the sample for the experiment. For example, respondents had to be older than 65 and hold at least $1,000 in combined savings. This reduced the sample size from 5,813 to 950.

Figure 2 shows the descriptive statistics for the sample. The sample is divided into two groups—those currently receiving Social Security income (shown in Panel A on top) and those currently not receiving any Social Security income (shown in Panel B at the bottom). Each of these panels includes four separate subgroups based on whether they receive any employer-provided pension and if they have positive home equity. The descriptive statistics include the share of each subgroup in the overall sample, the average monthly household income from Social Security, average monthly DB pension income for the household, average monthly earned income for the household, average home equity for the household, and mean and median savings (including retirement savings) for the household. These statistics are weighted by the 2012 HRS household level sampling weights.
Panel A included 96.1 percent of the sample, while Panel B included just 3.9 percent. The subgroup with the largest percent of the overall sample (52.4 percent) had Social Security income, no DB pension income, and positive home equity. More specifically, this subgroup had an average monthly Social Security income of $1,814 and an average home equity of $226,547. The median (midpoint) savings for this subgroup was $229,000. The next-largest subgroup in the sample (27.3 percent) had Social Security income, a positive DB benefit, and positive home equity; the median savings for this group was $260,000. Also, except for Figure 2, the analysis below is based on the sample of Social Security recipients shown in Panel A of Figure 2.

Preference for Partial Annuitization
The responses show a clear preference for annuitizing a smaller share of assets. Figure 3 shows the preferences for different levels of annuitization for the entire sample. Only 16.5 percent were in favor of full annuitization compared with their current situation. However, 33.2 percent favored annuitizing half of their savings relative to their current situation. Even more (43.0 percent) favored annuitizing a quarter of their assets compared with their current situation. Clearly, households tended to prefer annuitizing smaller shares of their assets.

To understand if this is true across subgroups facing different financial conditions, Figure 4 shows the preferences for full, half, and quarter annuitization among the four different subgroups in panel A of Figure 2. The four subgroups are characterized as follows: (A1) SS>0, DB=0, Home Equity <=0; (A2) SS>0, DB=0, Home Equity>0; (A3) SS>0, DB>0, Home Equity<=0; and (A4) SS>0, DB>0, Home Equity>0.

Across all four of these subgroups, the preference for partial annuitization is clear. Also, for each subgroup, half annuitization is preferred to full annuitization and quarter annuitization is preferred to half annuitization. In each subgroup, at least 3 in 10 favor annuitizing half of their assets. These numbers go up for quarter annuitization, reaching the peak with 46.9 percent for those in subgroup (A2) with SS>0, DB=0, and Home Equity>0.

Preference for Annuities Goes Down With Age for Retirees
Banerjee (2013) showed that the preference for annuities rises until about age 70 but falls after that. The findings presented here are consistent with that.

More specifically, Figure 5 shows the preferences for each of the three types of annuities for the following three age groups: 65‒74, 75‒84, and 85 and above. Figure 5 includes only Social Security recipients or those included in Panel A of Figure 2.

First, for each of these age groups, quarter annuitization is preferred to full annuitization, which in turn is preferred to full annuitization. Second, across these three age groups, preferences for each of the three types of annuitization decrease with increasing age, and the decline for full annuitization is least.

For example, 16.4 percent of 65‒74 year olds preferred full annuitization, and this percentage went down to 13.7 percent for those ages 85 and older—a 16.5 percent drop. The preference for quarter annuitization dropped at a faster rate across age groups, although in absolute terms quarter annuitization was consistently the most-preferred option for each group. Specifically, quarter annuitization was preferred by 46.1 percent of the 65‒74 age group and 31.7 percent for the 85+ age group—a 31.2 percent drop.

The drop in preference for annuities as people age makes sense: (1) as people age and their mortality risk increases, annuities become less attractive as more people might think they won't live long enough for an annuity purchase to be profitable, and (2) as people age and their retirement savings shrink, liquidity concerns relating to health, long-term care, and other significant expenses may also prohibit more people from purchasing annuities.
Figure 3
Overall Preference for Different Levels of Annuitization

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study Internet Survey, 2013.

Figure 4
Preference for Different Levels of Annuitization
(Among Social Security Recipients)

Relationship Between Savings and Preference for Annuities

The rest of this study focuses on the relationship between household savings and annuity preferences. In particular, two questions are investigated. First, how does the preference for annuities relate to the level of household savings? And, second, what's the marginal effect of household savings on annuity preferences?

Correlation Between Savings and Annuity Preferences: The “U” Curves

Figures 6, 7 and 8 show how the preferences for full, half, and quarter annuitization, respectively, change across the different household savings quintiles. All three figures generally show a U-shaped relationship between the preference for annuities and the level of savings.

More specifically, Figure 6 shows that, for the bottom savings quintile, only 16.2 percent preferred full annuitization relative to their current situation, this preference dropped to 12.2 percent for the middle (third) savings quintile, and then it increased for the top savings quintile to 20.8 percent.

Figure 7 shows a similar U-shaped relationship for half annuitization, with the primary difference (relative to Figure 6) being a higher overall preference for half annuitization and the more symmetric U-shape with half annuitization. More specifically, for the bottom savings quintile, 39.0 percent preferred half annuitization, while this preference dropped to 24.3 percent for the middle (third) savings quintile, and then it increased to 39.3 percent for the top savings quintile. So there isn't much difference between the top and bottom household savings quintiles in terms of preference for half annuitization, but those in the middle have a significantly lower preference for such annuities.
Figure 6
Preference for Full Annuitzation (100% of Savings),
By Household Savings Quintile
(Among Social Security Recipients)

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study Internet Survey, 2013.

Figure 7
Preference for Half Annuitzation (50% of Savings),
By Household Savings Quintile
(Among Social Security Recipients)

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study Internet Survey, 2013.
Finally, Figure 8 shows the preferences for quarter annuitization. A primary difference between Figure 8 and the two previous figures is that with both full (Figure 6) and half (Figure 7) annuitization, preferences bottomed out at the middle (third) savings quintile, but for quarter annuitization, the preferences bottomed out at the second savings quintile. In particular, 42.2 percent in the bottom savings quintile prefer to annuitize a quarter of their savings, and that percent dropped to 30.6 percent for the second savings quantile, then rose steadily to 56.9 percent for the top savings quintile.

### Correlation Between Share of Current Annuitized Income and Preference for Annuities

Next, the correlation between share of current annuity income and preference for additional annuity income is examined. Current annuity income can come from three sources: Social Security benefits, employer pension benefits, and other annuity contracts. The share of annuity income in the total income of the household is derived as the sum of these three components divided by total household income from all sources. Figure 9 shows the percentage of households with different levels of annuity income.

The key finding is that most of the households in the sample (Social Security recipients only) are already highly annuitized. More specifically, 7 in 10 households have 75 percent or more of their total household income already annuitized, and 82.4 percent of the households have 50 percent or more of their total income annuitized. This is not surprising, as Social Security (and to a lesser degree employer pension benefits) provide most of the income for this sample of those ages 65 and older.
Figure 9
Percentage of Households With Different Levels of Annuitized Income
(Social Security, Pension, and Other Annuities)

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study Internet Survey, 2013.

Figure 10
Preference for Different Levels of Annuitzations Among People With Different Levels of Current Annuitized Income

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study Internet Survey, 2013.
Figure 10 shows the relationship between the level or share of annuity income and the preference for additional annuities. A couple of observations stand out. First, households with the highest share of annuity income (75 percent or more annuitized income) prefer annuities the least. This doesn't mean there's a causal relationship between the two, as other factors not being measured may be affecting preferences. But common sense suggests it wouldn't be a surprise, as people might need liquid assets for emergencies or want to leave a bequest, so more highly annuitized households are likely to have lower preferences for more annuities. Because these households comprise a vast majority of older households, a general lack of demand for annuity products is seen.

**Marginal Effects of Savings on Annuity Preferences: Persistence of the “U” Curves**

Although the correlations described above are informative, the nature of the relationship between savings and annuity preferences cannot be fully assessed based on these correlations alone. Many factors other than level of savings, such as, age, health status, marital status, and other sources of annuity income, can also affect the preference for annuities. To isolate the precise relationship between savings and annuity preferences, these various factors should be controlled for.

Thus, this analysis undertakes regressions to estimate the effect of savings on preference for annuities. Since the annuity choice outcome is binary (yes or no), logistic regressions are used instead of a linear regression model. Also, the following factors are controlled for in the estimation: continuous controls for age; self-reported probability of leaving any bequest; share of annuity income in total income; self-reported probability of surviving to age 80 over the next 10 years; and indicator variables for gender; race; level of education; having children; couple household; self-reported health status; having pension income; positive home equity; and household savings quintile. The variable of primary interest is the savings quintile. Separate regressions estimate the effect of savings on full, half, and quarter annuitization.

**Full annuitization:** Figure 11 shows the average marginal effect of household savings on full annuitization. The bottom quintile is the omitted category, and the margins are calculated with respect to the bottom quintile, so the interpretation of the marginal effects is as follows: All else equal, households in the top savings quintile are 8.2 percentage points more likely to prefer a full annuity than households in the bottom savings quintile. After controlling for the various factors, the U-shaped relationship between household savings quintile and preference for full annuitization has slightly changed. Households in the second savings quintile are slightly (2.4 percentage points) more likely than those in the bottom savings quintile to prefer full annuitization. But from the second quintile onwards, the “U” curve can be observed, as the effect of household savings on full annuitization drops for the third quintile and then goes up. Although all the average marginal effects are statistically significant, it should be noted that having savings in the top savings quintile has a much larger effect on full annuitization than savings in any other quintile.

**Half annuitization:** Figure 12 shows the average marginal effect of household savings on half annuitization. Here the “U” relationship between the two still holds pretty well, even after controlling for all the other factors. The marginal effect of household savings on these preferences goes down until the third savings quintile, which shows that households in this quintile are 7.9 percentage points less likely to buy a 50 percent annuity than those in the bottom savings quintile. But after that the marginal effect goes up. And, just like full annuitization, here also the marginal effect of savings in the top quintile is much larger than savings in any other quintile.

**Quarter annuitization:** Finally, Figure 13 shows the average marginal effects of household savings on quarter annuitizations. In Figure 8, which shows the correlation between savings and quarter annuitizations, the preference for such annuities bottomed out in the second quintile and then moved up. The marginal effects in Figure 13 show exactly the same pattern. The households in the second savings quintile are 17.2 percentage points less likely to annuitize a quarter of their savings than those in the bottom savings quintile. From there the marginal effects go up and, just like full and half annuitization, the marginal effect of savings in the top savings quintile is much larger. Households in the top savings quintile are 14.4 percentage points more likely to annuitize a quarter of their savings than those in the bottom savings quintile.
Figure 11
Average Marginal Effects* of Savings Quintile on Full-Annuitization Decisions (100% of Savings)

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study Internet Survey, 2013.
* Calculated from logistic regression coefficient estimates. All marginal effects are statistically significant at 5 percent level of significance.

Figure 12
Average Marginal Effects* of Savings Quintile on Half-Annuitization Decisions (50% of Savings)

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study Internet Survey, 2013.
* Calculated from logistic regression coefficient estimates. All marginal effects are statistically significant at 5 percent level of significance.
Discussion

So what does a “U”-shaped relationship between household savings and preference for annuities mean? Or what is the explanation for this “U”-shaped relationship? This study doesn’t provide any direct evidence for or against any particular explanation.

Nevertheless, the following points would appear to be plausible reasons for why people in the middle of the savings distribution generally have a weaker preference for annuities than people at the bottom and people at the top of the savings distribution.

- People at the bottom (i.e., less than $50,000 is savings) are more likely to be concerned about running out of money at some point, and so the marginal value of a guaranteed stream of income is high for them. Also, they probably don’t expect to leave behind a financial legacy.

- People in the middle are more likely to think they have just enough money to last their retirement and they could possibly leave a financial legacy. The pressure to hold precautionary savings for uncertain end-of-life expenses might also be highest on this group. These factors might explain their relative aversion to annuities.

- People at the top of the savings distribution might expect to live longer than others. Also, they can afford to spend a part of their assets on annuities even after leaving a financial legacy for their heirs. So, a stronger preference (combined with greater affordability) probably supports a higher demand for annuities among this group.

Figure 13

Average Marginal Effects* of Savings Quintile on Quarter-Annuitization Decisions (25% of Savings)

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study Internet Survey, 2013.
*Calculated from logistic regression coefficient estimates. All marginal effects are statistically significant at 5 percent level of significance.
Conclusion
This study analyzes how household savings affect demand for immediate annuities. Using data from an experimental module in the 2013 HRS Internet Survey it estimates the marginal effects of household savings in each savings quintile on the demand for such annuities. Both the bivariate correlations and the multivariate analysis (logistic regression) show that the relationship between savings quintiles and demand for annuities follows a “U” pattern; i.e., people in the middle of the savings distribution are less likely to buy such annuities than are people in the bottom and top groups of the savings distribution. However, the positive effect of savings on demand for annuities has a significant magnitude only for the top savings quintile.

Among other results, the study clearly shows that there is a much stronger preference for partial annuitization than full annuitization.

Finally, the study finds that a large majority (70.2 percent) of the current Social Security recipient households receive at least three-quarters of their income in annuities from Social Security, employer-provided pensions, and other annuity contracts. In that sense, most of the current retirees are already highly annuitized, so a lack of demand for private annuities may not necessarily indicate aversion to annuities in general.
References


Endnotes
1 The Schaus (2005) study did not make any corrections for low account balances.


3 HRS sample weights are structured to match the Current Population Survey (CPS), which represents the non-institutionalized population of United States.

4 Break points for savings quintiles (nearest thousands): $50,000 (20th percentile), $152,000 (40th percentile), $295,000 (60th percentile), and $684,000 (80th percentile).
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