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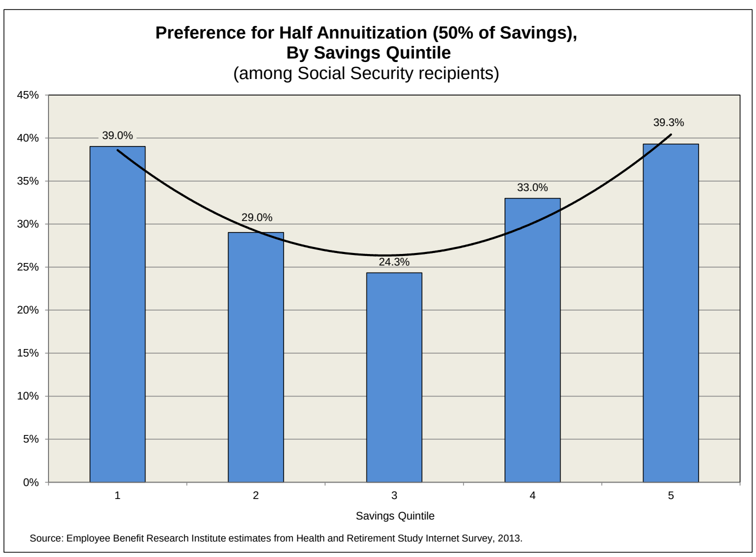
New Research from EBRI:

Who Likes Immediate Annuities?

WASHINGTON—Which groups of people prefer immediate annuities? A new analysis by the nonpartisan Employee Benefit Research Institute (EBRI) finds that it's those at the lowest and highest ends of the wealth spectrum, because those with inadequate assets might value a regular stream of income very highly and those with the most might expect to live longer and can also afford it even after leaving a bequest.

The EBRI analysis also suggests a possible reason why demand for annuities is so low. "A large majority—more than 70 percent—of households that are currently receiving Social Security benefit already get at least three-quarters of their income in the form of annuities, from Social Security, employer-provided pensions, and other annuity contracts," said Sudipto Banerjee, EBRI research associate and author of the study. "The fact that most retirees are already highly annuitized might help explain the lack of demand for additional annuity income."

With the decline of defined benefit (DB) pension plans, there has been some renewed interest in providing other options for guaranteed income flows to American workers. But demand for annuities has remained low in the United States, and the EBRI analysis was undertaken to understand the public's preferences for such products, with a focus on how savings affect preferences for immediate annuities (which begin paying out a regular stream of income as soon as they are purchased).

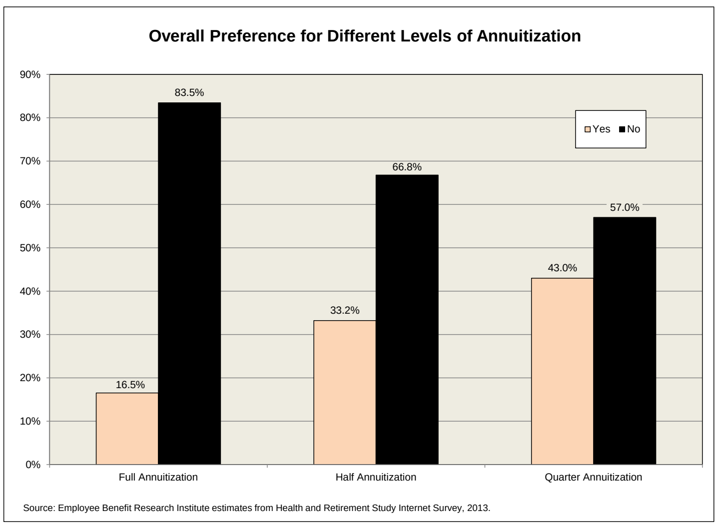


EBRI used a unique experiment from the Health and Retirement Study (HRS) to assess the effect of savings on the preference for immediate annuities among retirees (ages 65 and above). Regression results show that effect of savings on annuity preferences follow a U-shaped pattern, meaning that people at the bottom- and top-ends of the savings distribution (those with the least and most assets) have a stronger preference for such annuities than people in the middle of the savings distribution. But, savings has a large positive effect on preference for annuities only for those in the highest-savings quintile (the top 20 percent in the wealth distribution).

The study notes that 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 have a stronger preference for 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 with their current financial situation, only 16.5 percent of retirees (ages 65 and above) preferred full annuitization of their assets, compared with 43.0 percent who preferred a one-quarter annuitization.



The full report, "How Does Level of Savings Affect Preference for Immediate Annuities?" is published in the Feb. 8, 2017 *EBRI Issue Brief*, online at www.ebri.org

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