

# What Makes Annuitization More Appealing?

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**Abstract:** We conduct and analyze two large surveys of hypothetical annuitization choices. We find that allowing individuals to annuitize a fraction of their wealth increases annuitization relative to a situation where annuitization is an “all or nothing” decision. Very few respondents choose declining real payout streams over flat or increasing real payout streams of equivalent expected present value. Highlighting the effects of inflation increases demand for cost of living adjustments. Frames that focus on flexibility, control, and investment risk significantly reduce annuitization. A majority of respondents prefer to receive an extra “bonus” payment during one month of the year that is funded by slightly lower payments in the remaining months. Concerns about later-life income, spending flexibility, and counterparty risk are the most important self-reported motives that influence the annuitization decision, whereas the desire to leave a bequest has little influence on this decision.

Keywords: annuity, pension, retirement income, framing

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## I. Introduction

Many households resist annuitization. In U.S. defined benefit (DB) pension plans that offer a lump-sum option, about half of households take their entire retirement benefit as a lump sum, even though the annuity is the default option and opting out requires time-consuming paperwork (Mottola and Utkus, 2007; Benartzi, Previtro, and Thaler, 2011; Previtro, 2012). In defined contribution (DC) savings plans, only 10% of participants who leave their job after age 65 annuitize their assets (Johnson, Burman, and Kobes, 2004). This resistance to annuitization is referred to as the “annuitization puzzle” (Modigliani, 1986), since the benefit of buying insurance against outliving one’s savings should create strong demand for annuities (Yaari, 1965).

In this paper, we identify some of the factors that influence consumer attitudes toward annuitization, focusing on product design and choice architecture. To study these issues, we fielded two large surveys in which we elicited hypothetical annuitization choices from individuals aged 50 to 75. We examine 1) what factors people say are important to their annuitization choices, 2) how offering “partial annuitization,” rather than an all-or-nothing choice, influences outcomes, 3) individual preferences over the intertemporal slope of annuity payouts, 4) whether altering the framing<sup>1</sup> used to describe options influences annuitization choices, and 5) whether there is demand for an annuity product that makes an extra “bonus” payment during one month of the year that is funded by slightly lower payments in the remaining months.

The use of surveys such as these has advantages and disadvantages. On the positive side, we can ask questions that directly measure specific preferences, including preferences for products not available on the market. We can also examine choices in economic environments that differ from the current one. On the negative side, the choices people make do not influence their actual life outcomes, so the results may not correspond to the choices people would make in real-life settings. Surveys like ours provide a starting point for designing field experiments with larger stakes.

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<sup>1</sup> We abuse the “framing” terminology slightly by using it to describe some treatments that not only present the choice in a different way, but also provide additional information.

Five findings emerge from our surveys. First, there are three considerations that respondents report being most important for their choices about annuitization: a desire to “make sure I have enough income later in life,” a desire for “flexibility in the timing of my spending,” and being “worried about [the] company not being able to pay me in the future.” This third factor suggests that policy makers could increase annuity demand if they adopt policies that reduce the fear of counterparty risk. For example, policy makers could make more salient *existing* institutions that mitigate counterparty risk, including back-stop state insurance funds. Current regulations ban insurance companies from mentioning back-stop funds in their marketing of annuity products. Although such bans are conceptually defensible—they reduce moral hazard problems by encouraging consumers to be selective in their choice of insurance companies—they may also have the perverse effect of decreasing annuity demand.

Second, we find that a substantial fraction of people choose partial annuitization when it is offered, and that offering partial annuitization rather than an “all-or-nothing” annuitization choice increases both the percentage of people choosing any annuitization and the average percentage of pension balances that are annuitized. Many DB pension plans offer individuals the choice between taking a lump sum and an annuity.<sup>2</sup> The U.S. Treasury Department recently proposed a new regulation to make it easier for DB plans to offer a combination of an annuity and a lump sum (Federal Register, 2012). Our findings suggest this proposal will increase annuitization in plans that already offer a lump sum withdrawal option.

Third, we find that holding the present value of expected payments fixed, very few respondents choose declining real income paths. Our respondents prefer flat or rising real income paths. This result underscores how puzzling the dearth of inflation-indexed annuities in the marketplace is. We find that highlighting the effects of inflation on real payout values increases the demand for cost of living adjustments (COLAs). This result also contrasts with the empirical fact that holding household composition fixed, real consumption declines by about 2% per year during retirement (Hurd and Rohwedder, 2011).

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<sup>2</sup> A 2011 Aon Hewitt survey of 227 DB plan sponsors found that over 40% offered a lump sum option, and over 20% more responded that they were “very likely to implement” or “somewhat likely to implement” a lump sum payment option in the future (Aon Hewitt, 2011). It is thought that many employees perceive the annuitization versus lump sum choice as being an “all-or-nothing” choice (<http://www.treasury.gov/press-center/press-releases/Documents/020212%20Retirement%20Security%20Factsheet.pdf>).

Fourth, we find that two framing changes significantly reduce demand for annuitization relative to a neutral frame: one that focuses on flexibility and control, and a second that focuses on investment risk. Four other framing changes do not have a significant effect on annuitization: explaining that the annuity being offered is a better deal than what could be purchased on the open market, presenting the total expected undiscounted lifetime payments from the annuity, explaining that the annuity provides insurance against outliving one's savings, and explaining that the annuity transfers money from states where one is dead and the marginal utility of money is low to states where one is alive and the marginal utility of money is high.

Finally, we find that 60% of our subjects prefer a product that pays an annual bonus in a month of their choosing over a product with a traditional uniform monthly payout. Annual bonuses expand annuitants' control over their high-frequency payout streams without jeopardizing the low-frequency withdrawal restrictions that make longevity insurance possible. The preference for such a product is consistent with subjects' responses that "want flexibility in the timing of my spending" is an important factor in their annuitization decision. Allowing more customization of payout streams may increase annuity demand. Other customization schemes are easy to imagine, such as multiple intra-year bonuses or age-contingent payout patterns.

This study contributes to a large existing literature on the determinants of annuity demand. For example, other authors have explored how annuity choices are affected by adverse selection (Mitchell et al., 1999; Finkelstein and Poterba, 2004), bequest motives (Friedman and Warshawsky, 1990; Brown, 2001; Inkmann, Lopes, and Michaelides, 2011; Ameriks et al., 2011; Lockwood, 2012), uncertain healthcare expenses (Pang and Warshawsky, 2010; Ameriks et al., 2011; Poterba, Venti, and Wise, 2011), recent stock market returns (Chalmers and Reuter, 2012; Previtero, 2012), means-tested government benefits (Pashchenko, 2010), Social Security and other forms of defined-benefit annuitization (Bernheim, 1991; Dushi and Webb, 2004; Beshears, Choi, Laibson, and Madrian, 2011), annuity prices (Warner and Pleeter, 2001; Fitzpatrick, 2012), incomplete markets (Davidoff, Brown, and Diamond, 2005), and framing (Brown, 2008; Brown et al., 2008; Agnew et al., 2008; Brown, Kapteyn, and Mitchell, 2012).

The remainder of the paper is structured as follows. In Section II, we describe our two surveys. In Section III, we present summary statistics on our sample, and in Section IV, we present our empirical results. Section V discusses the implications of our findings for the design of pensions and annuity products.

## II. Survey design

We designed two surveys and retained the online survey firm Toluna to administer them to 1,000 (Survey 1) and 4,130 (Survey 2) U.S. residents ages 50-75 in August 2011 and June 2012, respectively.<sup>3</sup> The median times taken to complete the surveys were 13 minutes (Survey 1) and 8 minutes (Survey 2). Participants in both surveys made hypothetical choices about pension income in retirement. They then ranked the importance of different reasons for their choices and answered a set of demographic questions. The full surveys are available in an online appendix.

### A. Survey 1

Survey 1 asked participants to make choices under the following hypothetical scenario: “Just before you retire at age 65, you are working for a company that will give you pension payments every month for the rest of your life after you retire. This income is guaranteed, but the payments will stop when you die. You will also receive Social Security benefits every month for the rest of your life after you retire.” Note that this scenario is like that of a traditional DB pension plan.

Respondents were told to assume that inflation would be 2% for the rest of their lives. We described inflation as follows: “With inflation, prices rise, so you get less for your money than you used to. For example, suppose a basket of groceries costs you \$100 today. A year later, the same groceries will cost you \$102. The price of the groceries has gone up because there has been inflation.” They were also told that “the interest rate will be 5% for the rest of your life.”

Participants made choices about the intertemporal slope of their annuity payouts, whether to receive intra-year “bonus” payments, and how much of their pension stream to cash out and receive as a lump sum. In each case, the present value of the options’ expected payouts was \$330,000, based on the stated interest rate and Social Security mortality tables (averaging male and female mortalities together).<sup>4</sup> We included no fees or markups for costs. In order to avoid having responses be influenced by any negative association participants might have with existing annuities, nowhere in the survey did we use the word “annuity” or “annuitization.”

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<sup>3</sup> Participants were part of a large panel maintained by Toluna who are paid for their participation in each survey.

<sup>4</sup> The mortality data came from the “Life Tables for the United States Social Security Area 1900-2100,” Actuarial Study No. 120, which can be found at <http://www.socialsecurity.gov/OACT/NOTES/as120/TOC.html>.

### *Slope of annuity payouts*

In the first question, participants were told: “Suppose the company lets you choose between the following two retirement income options. The total cost to the company of providing these lifetime payments to you is expected to be the same under either option.” The two options were the following:

A) Match-Inflation Income: “Your first year of monthly payments will sum to \$24,200. Your monthly payments will rise by 2% each year for the rest of your life. The increase in your payments will match the increase in prices (inflation).”

B) Steady Income: “Your first year of monthly payments will sum to \$29,000. Your monthly payments will stay the same for the rest of your life. Because inflation is 2% each year, the amount you can buy with your income will fall by 2% each year.”

Below these descriptions and before participants were asked to make their choice, subjects were shown three graphs. The first (see Figure 1) was a graph depicting the likelihood that a person aged 65 today will live to at least age 70, 75, 80, 85, 90, 95, and 100. The graph’s mortality probabilities were the average of male and female mortalities. The second was a graph showing how much something that costs \$1 today would cost in the future, from ages 65 to 100 (see Figure 2). The third graph (see Figure 3) showed the yearly nominal amount received under each option from ages 65 to 100.

Participants were then asked to make another choice between two options:

A) Match-Inflation Income, as described in the previous question

B) High-Growth Income: “Your first year of monthly payments will sum to \$19,900. Your monthly payments will grow by 4% every year. The increase in these payments will be larger than the increase in prices (inflation).”

Between the description of the options and where participants were to indicate their choice, we showed a graph depicting the yearly nominal amount received under each option from age 65 to 100, and we provided hyperlinks to the previously shown graphs of mortality probabilities and inflation in case participants wished to review them.

### *Bonus payments*

Participants were asked two questions about the addition of bonus payments to their income options. The first question asked participants to choose between the following two options:

- A) Match-Inflation Income: “In the first year, you will receive \$2,000 every month. This monthly payment will grow by 2% every year for the rest of your life, matching the increase in prices.”
- B) Match-Inflation Income with Bonuses: “In the first year, you will receive \$1,900 in every month except for one, when you will get *\$1,900 plus an extra \$1,200*. You can choose in which month the \$1,200 bonus is paid. This month might be a time when you often want to spend extra. For example, you might like to travel somewhere warm or spend extra money during the December holiday season. The regular monthly payments and the bonus will each grow by 2% every year for the rest of your life.”

Participants were told, “The total cost to the company of providing these lifetime payments to you is expected to be *the same* under either option.” Participants who chose Match-Inflation Income with Bonuses were asked to choose in which month they would like the bonus to be paid.

Participants were then asked to choose between the Match-Inflation Income plan and an income stream with an annual bonus that declined at the end of each decade of life. Again, both payment paths had the same expected present value. We wished to see whether a declining intertemporal payout slope would be more appealing if the decline were justified as a declining travel bonus. The description of the declining bonus was as follows:

- B) Match-Inflation Income with Travel Bonuses: “You will receive \$1,800 every month in the first year. These monthly payments will grow 2% each year for the rest of your life. From age 65 to 69, you will receive an extra \$3,000 every June to use for traveling (or whatever else you want). During your 70s, you will receive an extra \$2,000 every June. During your 80s, you will receive an extra \$1,000 every June. Because you probably won’t be doing much traveling in your 90s, there is no travel bonus after age 89.

### *Lifetime income stream versus a lump sum*

We included three questions asking participants to choose what percent of their annuity benefit to cash out as a lump sum. The first question asked participants about the “Match-Inflation” income stream, offering three cash-out options: A) “0% Cash Out,” which gave participants monthly payments that summed to \$24,200 in the first year and increased 2% annually, but no lump sum payout, B) “50% Cash Out,” which gave participants \$165,000 immediately plus monthly payments that summed to \$12,100 in the first year and increased 2% annually, and C) “100% Cash Out,” which gave participants \$330,000 immediately and no other payment for the rest of their lives. Participants were told the three options had the same expected costs to the company. Participants were then shown a graph (see Figure T4) of the nominal annual payouts they would receive (excluding any lump-sum payment) under each option, from ages 65 to 100.

The second and third questions asked about cash-out rates for the “Steady Income” and “High-Growth Income” annuities described above, letting participants choose in each case among “0% Cash Out,” “50% Cash Out,” and “100% Cash Out” options after seeing a graph of the nominal yearly payout amounts (excluding any lump sum) they would receive from ages 65 to 100 under each option.

### *Exit questions*

After answering all of the annuity choice questions, participants were asked to rate on a six-point Likert scale (0 for not important, 5 for very important) the importance of eleven potential reasons for their cash-out choices. Participants were also asked about their life expectancy relative to the average person of their age and a set of demographic questions. The survey concluded with two questions related to the clarity of the survey. The first asked whether respondents thought the questions were clear or confusing on a scale between 0 (completely clear) and 5 (completely confusing). The second question had an open-response box for respondents to explain what, if anything, they found unclear or confusing. 87% of Survey 1 participants reported that the survey was “clear” or “mostly clear,” whereas less than 1% reported the survey to be “mostly confusing” or “completely confusing” (see Table 1).

## *B. Survey 2*

In Survey 2, participants were also asked to make annuitization choices based on a hypothetical retirement scenario. This scenario, which is different than the one presented in Survey 1, was described in the first page of the survey:

“Suppose that you are 65 years old. You are about to retire and have accumulated \$500,000 in the pension plan at your current employer. Your employer wants to know whether you prefer to receive this balance as a lump sum payment right now (in other words, a single \$500,000 payment) or as a stream of fixed payments over your lifetime, which your employer calls the guaranteed lifetime income option. This stream of fixed payments is based on current market interest rates. The fixed payments won’t change in the future even if market interest rates do change.”

This wording describes the pension benefit as a dollar accumulation rather than as an accrued income stream. Thus, Survey 2 puts the respondent in a setting more like that of a cash balance or DC pension plan, rather than the traditional DB setting of Survey 1.

In Survey 1, we provided only single life annuities, regardless of marital status. In Survey 2, we offered single life annuities to unmarried respondents, and joint and 100% survivor annuities to married respondents. As in Survey 1, nowhere in Survey 2 was the word “annuity” or “annuitization” used. The annuity option was described throughout the survey as a “guaranteed lifetime income option.”

We based Survey 2’s annuity payouts on actual price quotes from Western National Life Insurance as of March 1, 2012 for a \$500,000 annuity.<sup>5</sup> For participants who were single, we averaged the monthly payout for the male single life annuity (\$2,790.74) and the female single life annuity (\$2,627.87) and multiplied the average by 110%. For participants who were married, we multiplied the joint and 100% survivor annuity monthly payout of \$2,378.20 by 110%. We multiplied the monthly payouts by 110% to account for the likelihood that an annuity purchased through an employer charges lower fees and to ensure that the annuity we were offering would be more generous than anything available on the open market—a feature necessary for the Good Deal treatment described below. The final monthly payout offered for somebody annuitizing

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<sup>5</sup> At that time, this was the most competitive quote on the Hueler Income Solutions website, [incomesolutions.com](http://incomesolutions.com).

100% of his or her balances was \$2,981 per month for single survey participants and \$2,616 for married participants.

Participants were randomly assigned to one of eight different treatment arms:

- *Minimal Framing baseline*: Participants could choose to take 0%, 25%, 50%, 75%, or 100% of their \$500,000 balance as a lump sum. They indicated their annuitization choice by clicking one of five buttons that were ordered from 0% cash-out on the far left to 100% cash-out on the far right. A horizontal axis with an arrow on each end was shown above the buttons. The left end of the axis was labeled “Lower lump sum/More guaranteed income” and the right end of the axis was labeled “Higher lump sum/Less guaranteed income.” (See Figure 4.) The remaining treatments were identical to the Minimal Framing baseline except in the ways described below.
- *All or Nothing treatment*: Participants were only allowed to choose to annuitize their entire \$500,000 balance or receive a \$500,000 lump-sum payment. This treatment showed no horizontal axis.
- *Good Deal treatment*: This treatment was designed to overcome any reluctance to annuitize due to the fear of foregoing a better deal elsewhere. The following text was added to the description of the annuity: “The guaranteed lifetime income option gives you higher payments than you would get by buying an identical product from an insurance company because your employer will not charge you fees.”
- *Total Payments treatment*: The motivation for this treatment was the hypothesis that the reluctance to annuitize may partly be due to the contrast between the large size of the lump sum and the small size of the monthly annuity payment. If this is the case, highlighting the undiscounted expected total payments from complete annuitization, which are larger than the \$500,000 lump sum amount, may increase annuitization. We added the text, “The average individual who chooses 100% guaranteed income will receive total lifetime payments of \$ $x$ .” The number  $x$  was the expected undiscounted total

lifetime payments of a 100% annuitization choice, which was \$695,765 for single participants and \$775,382 for married participants.<sup>6</sup>

- *Investment Framing treatment*: Brown et al. (2008) find that an investment frame discourages annuitization relative to a consumption frame. In this treatment, we included a discussion of how the rate of return would vary with longevity: “Under the guaranteed income option, you get a higher return on your \$500,000 investment if you die old and a lower return if you die young. Under the lump sum, you get the same return whether you die young or old.” We relabeled the axis to show “Higher return if you die old/Lower return if you die young” on the left side, and “Same return whether you die young or old,” on the right side. This frames the annuity as risky, rather than emphasizing its role in providing insurance.
- *Flexibility and Control treatment*: Annuities may be unattractive because they require giving up control of one’s investments and the timing of one’s spending. We added the following language about flexibility and control: “Choosing a bigger lump sum gives you more control over your investments and more flexibility over the timing of your spending.” We changed the axis labels to “You have less control and less flexibility” on the left side and “You have more control and more flexibility” on the right side.
- *Longevity Insurance treatment*: The Investment Framing treatment framed annuities as a risky choice. The Longevity Insurance treatment framed annuities as a risk-reducing choice. We added the following text: “Choosing more guaranteed income gives you more assurance that you will not outlive your savings, since the monthly payments will continue as long as you live.” We changed the axis labels to “Less risk of outliving your savings” on the left side and “Greater risk of outliving your savings” on the right side.
- *Mortality Credits treatment*: Reluctance to annuitize may be driven by a failure to realize that annuities have the attractive property of transferring money from low marginal utility states to high marginal utility states. We added the following language to explain this: “The monthly payment from the guaranteed lifetime income option is much higher than

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<sup>6</sup> We used the average of male and female mortality rates to calculate this expectation for singles, and assumed that married spouses were both 65 years old.

the interest you would receive from investing the lump sum. The guaranteed income option stops payments when you are no longer alive. In return, the guaranteed income option delivers very high pay-outs as long as you live. You are giving up payments when you are no longer alive (and don't need the money) and receiving extra-large payments as long as you are alive (and need the money).”

After making an annuitization choice, participants were shown a graph of the likelihood that a person aged 65 today would live to at least age 70, 75, 80, 85, 90, 95, and 100. They were asked to again elect how to receive their pension payment, with the qualification that it was fine to give the same answer as the previous question. The purpose of this second elicitation was to see whether unrealistic longevity expectations were affecting the annuitization choice.

Participants in every treatment arm were then asked about a cost-of-living-adjustment provision. We presented the following scenario: “Now suppose that your employer only offers a guaranteed lifetime income option. But you can choose whether you want a cost-of-living adjustment (COLA) to your payments.” Each participant was randomly assigned (independent of their assignment to the previous treatments) to one of three versions of the COLA question:

- *Minimal Inflation Information baseline*: Unmarried participants were told, “If you don't choose a cost-of-living adjustment, then your monthly pension payment will be \$2,981 a month for the rest of your life. If you do choose a cost-of-living adjustment, then your first monthly pension payment will be \$2,033 a month, but this amount will increase over time at a rate equal to the inflation rate (as measured by the Consumer Price Index).” Married participants had the two dollar figures replaced with \$2,616 and \$1,784. Participants were then asked whether they preferred a COLA over no COLA.
- *Inflation Compounding treatment*: Some people may not fully understand what inflation is. In addition, many people underestimate how quickly exponential series grow (Eisenstein and Hoch, 2005). Therefore, they may be unaware how much low levels of annual inflation will erode the purchasing power of a dollar over long horizons. In this treatment, we added to the Minimal Inflation Information baseline text a slightly fuller explanation of inflation and a calculation illustrating the long-run power of inflation. The following text was appended to the description of the no-COLA option for unmarried participants: “This means that as the cost of living increases, \$2,981 per month will buy

fewer goods and services. For example, if the cost of living increases by 2% per year for the rest of your life and you don't have a cost-of-living adjustment, your monthly pension payment will buy 33% fewer goods and services at age 85 than it does at age 65." The text for married participants was analogous. The COLA option had the following additional sentence: "So your monthly payment will buy about the same amount of goods and services at every age in the future as it does at age 65."

- *Inflation Compounding With Graph treatment*: This treatment was identical to the Inflation Compounding treatment, except we also included a graph of what nominal payments would be from age 65 to 100 for the annuity with and without the COLA.

We set the initial monthly payment amount for the annuity with a COLA in the above questions to be 68.2% of the non-COLA annuity's monthly payment. We computed this ratio using June 6, 2012 quotes from the Principal Life Insurance Company for a \$500,000 joint and 100% survivor annuity with and without an inflation adjustment based on changes in the Consumer Price Index for All-Urban Consumers (CPI-U).<sup>7</sup>

After answering the annuity choice questions, Survey 2 participants were asked to rate the importance on a six-point Likert scale (0 for not important, 5 for very important) of ten reasons for their lump sum versus annuity choices. Participants were also asked questions about their life expectancy and demographics. Survey 2 concluded with questions on the clarity of the survey. As with Survey 1, the vast majority (93%) of Survey 2 participants reported that the questions were understandable and clear, and less than 1% found the survey to be "mostly confusing" or "completely confusing" (Table 1).

### III. Summary statistics

Table 2 presents summary statistics on participant demographics and relative life expectancy in Surveys 1 and 2. The two survey populations are very similar.<sup>8</sup> The mean age is

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<sup>7</sup> The annuity monthly payouts (obtained via the Hueler Income Solutions web site) were \$2,232.42 per month with no COLA and \$1,524.44 per month with a COLA, giving a ratio of 68.2%. The CPI-U rider had no cap on the increase, and the monthly payment would be adjusted annually on the contract anniversary date. If the CPI-U were negative, the periodic benefit would not decrease. Future years' monthly payments would not increase until CPI-U exceeded its previous high.

<sup>8</sup> There is no overlap in the individuals included in Survey 1 and Survey 2.

59.5 years for Survey 1 and 59.6 years for Survey 2. In both surveys, 50% of participants are male, 55% are married, and the average number of children is 2. Somewhat more Survey 2 respondents are retired than Survey 1 respondents: 40% versus 36%. Almost 40% of participants had a DB pension, and about 70% own a home. The median net worth for participants is \$162,500 in Survey 1 and \$150,000 in Survey 2, and the respective means are \$298,217 and \$286,594.<sup>9</sup> College graduates comprise about 40% of both samples, and 12 to 13% of the sample had a post-graduate degree.

We asked respondents how much longer they expected to live relative to others their age. In Survey 1, 36% of participants said they expected to live longer than the average person their age, 54% said they expected to live about the same amount of time as the average person their age, and 10% said they expected to die sooner than the average person their age. Responses to Survey 2 were similar: 34% of participants anticipated a relatively long life, 54% anticipated a life about as long as that of an average person of the same age, and 12% anticipated a relatively short life. Consistent with the importance of adverse selection in annuity markets, the average percent of balances annuitized was significantly lower for respondents with lower self-reported life expectancy. Averaging the five lump sum versus annuity decisions in the two surveys, those who expected to die sooner annuitized 47% of their balances, those who expected to live about the average length annuitized 57%, and those who expected to live longer than average annuitized 58% (not shown in tables). The difference between the lowest life expectancy group and the others is significant at the 1% level.

#### **IV. Results**

We present five sets of findings: 1) obstacles to and motivations for annuitization, 2) the effect of offering partial annuitization, 3) the desired intertemporal slope of retirement income and the demand for COLAs, 4) framing effects, and 5) the demand for “bonuses” (uneven intra-year payments).

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<sup>9</sup> Out of the 1,000 participants in Survey 1 and 4,130 participants in Survey 2, there were 752 and 3,169, respectively, who responded to all of the questions necessary to calculate net worth. Only these participants are included in the sample for producing net worth summary statistics. The surveys had participants give interval responses for the components of net worth. To calculate total net worth, we map each interval to its midpoint except in the case of intervals without an upper bound, which we map to a value equal to 150% of the lower bound of the upper interval.

### *A. Obstacles to and motivations for annuitization*

In Figure 1, we present the average importance individuals reported placing on various factors when making their lump sum versus annuitization choices. Ratings are similar across the two surveys on factors whose importance rating was elicited on both surveys. The factor with the highest average importance is the desire to “make sure I have enough income later in life,” with an average rating of 3.9 to 4.0 out of 5. The next highest category is “flexibility in the timing of my spending,” with an average rating of 3.5 in both surveys, closely followed by “worried about company not being able to pay me,” with an average rating of 3.4 in both surveys. The desire for flexibility manifests itself in the 3.2 rating placed on “I might have a big spending need sometime during retirement” (asked only on Survey 2). The low rating of 1.6 on “I have a big spending need right after retirement” (asked only on Survey 1) suggests that respondents do not have a specific spending need in mind.

Worries about inflation (average rating of 3.0 to 3.3), the desire to invest the money on one’s own (average rating of 3.0 to 3.1), and the desire to prevent overspending (average rating of 2.7 to 3.0) are intermediate-level concerns. In contrast, two other motives that are commonly discussed in the annuities literature are reported to have little absolute importance by participants. The desire to give money to children or others garners an average rating of 2.1 to 2.4, and worries about dying early receive an average rating of 2.3. The factor rated least important is the desire to keep money away from children or others, which has an average rating of 1.4. In Survey 1, the annuity offered did not have a survivor benefit, and the fact that lifetime payments would not provide for one’s spouse after one’s death has a 3.5 importance rating among married participants in this survey.

How do these factor ratings correlate with annuitization choices? Table A1 in the appendix shows results from regressing the percent of balances subjects choose to annuitize in Survey 2 before seeing the mortality chart on the subjects’ factor ratings.<sup>10</sup> Annuitization is significantly increasing in the importance placed on having enough income later in life, worries about inflation, and the desire to prevent overspending, while it is significantly decreasing in the importance placed on flexibility in the timing of spending, worries about counterparty risk, the

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<sup>10</sup> The regression results from using Survey 1 annuity choices are broadly similar.

desire to invest money on one's own, the desire to give money to one's children or others, and worries about dying early. We report this regression in the appendix (rather than with our other results) because it only tells us how cross-sectional variation in these factor ratings correlates with cross-sectional variation in annuitization within a given product offering set. From the perspective of the planner (conceived as an annuity designer/seller/regulator), what matters most is the overall importance of these factors (the sample *levels* reported in Figure 1), as opposed to the predictive power of inter-individual variation in these factors (Table A1).

### *B. Partial annuitization*

Mark Iwry, senior adviser to the Secretary of the Treasury and deputy assistant secretary for retirement and health policy, has stated that the U.S. Treasury Department would like to see DB plans move away from offering an “all-or-nothing” choice between an annuity and a lump sum to offering a variety of choices combining annuity and lump-sum payouts (Steverman, 2012). To assess the effect of such a change, we compare annuitization choices under two treatments in Survey 2: i) the All or Nothing treatment, in which the only options were 0% Annuitization and 100% annuitization, and ii) the Minimal Framing baseline which contained five annuitization options (from 0% to 100% in increments of 25%.)

Figure 2 shows the distribution of annuitization percentages chosen under each condition prior to seeing the mortality chart. We find that a majority of individuals (59%) choose partial annuitization when given the opportunity to do so. These partial annuitants represent shifts from both the full annuitization and full lump-sum outcomes under the All or Nothing treatment. The fraction of individuals who fully annuitize falls from 50% to 21%, and the fraction of individuals who choose a full lump sum similarly falls from 50% to 20%. Correspondingly, allowing for partial annuitization increases the fraction of people choosing a positive amount of annuitization from 50% to 80%. Finally, allowing partial annuitization raises the average percent of pension wealth annuitized from 50% to 57%. These last two differences are significant at the 1% level and do not qualitatively change if we additionally control for age, gender, having a college degree, marital status, retirement status, number of children, and home ownership (regression results in Online Appendix Table A2). Our findings suggest that expanding the use of partial annuitization in DB settings where total cash-outs are already allowed might lead to higher annuitization rates.

### *C. Slopes of annuity payments and COLAs*

We can use our survey results to measure subjects' preferences with respect to the slope of the annuity payout stream. We infer whether Survey 1 respondents preferred real annuity payments that decline 2% per year, stay flat, or increase 2% per year by using their responses to the two questions with a binary choice between annuities with differently sloped payout streams and identical present value. Among respondents with single-peaked preferences over payout streams,<sup>11</sup> 19% preferred the declining real annuity (-2% per year), 32% preferred the flat real annuity, and 50% preferred the rising real annuity (+2% per year). In other words, our respondents overwhelmingly preferred flat or rising real retirement payment paths rather than falling real paths, holding the present value of the payments fixed.<sup>12</sup>

By comparison, Hurd and Rohwedder (2011) find that, holding household composition fixed, real consumption *declines* by about 2% per year during retirement. How can we reconcile our survey respondents' reported preference for rising payments with the declining actual consumption streams of retired households? Several complementary explanations are plausible.<sup>13</sup> Annuities enable agents to shift resources from death states to survival states. This has the effect of lowering the implied rate of return in death states (when the value of the annuity is lost) and raising the implied rate of return in survival states (since the annuitant receives the normal market rate of return plus an implicit survivorship bonus, a transfer from the decedents in the annuity pool). Because of this state-dependent rate of return, an agent with access to an annuity should choose a higher rate of consumption growth relative to an agent without access to an annuity. The Appendix contains a formal (Euler equation) derivation of this familiar result. If individuals in the real world do not have access to fairly priced annuities while those in the survey do, this could potentially reconcile the different patterns.

Second, households may have biased expectations. For example, households may underestimate the frequency of transitory spending needs, such as home repairs, out-of-pocket

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<sup>11</sup> By this, we mean excluding the 11% who both chose real payments that decline 2% per year over flat real payments and real payments that increase 2% per year over flat real payments.

<sup>12</sup> However, the percent of balances annuitized rather than cashed out is not very responsive to the annuity's payout slope, averaging 61.4%, 60.4%, and 62.5% for the decreasing, flat, and increasing annuities, respectively. Only the difference between the flat and increasing annuities is significant at the 5% level.

<sup>13</sup> Recall that in the binary choices over payout path slopes, not annuitizing was not an option.

healthcare expenses, etc. This will cause them to spend more than the annuity value of their wealth, resulting in a realized consumption path that declines over time due to the budget constraint. Households may be overly optimistic about their asset returns, which would also cause their realized consumption path to decline faster than they anticipated.

Third, households may have money illusion and set their early retirement spending at a level that allows them to sustain a flat nominal spending trajectory, not fully appreciating that a flat nominal path is a real path that falls at the rate of inflation. We leave a fuller discussion of money illusion in the annuity market to future work.

In practice, annuity and pension payouts change over time through cost of living adjustments (COLAs). Note that a typical COLA has two features: it changes the expected slope of payouts, and it provides a hedge against surprise inflation. While in principle these two features could be separated, they are actually almost always bundled together. The prevalence of inflation-adjusted payouts differs dramatically across institutions. Contractual COLAs of some sort are almost universal in state and local government DB pension plans (Novy-Marx and Rauh, 2011). In private DB plans, contractual COLAs are relatively rare; these plans tend to instead have either ad-hoc adjustments (occasional and less than the inflation rate) or no adjustments (Allen, Clark, and Sumner, 1984, 1986a, 1986b). The vast majority of single-premium immediate annuities (SPIAs) purchased are not indexed to inflation.

In Survey 2, we asked respondents whether they wanted to add a COLA to their annuity. Doing so led to an initial monthly payment that was 32% lower than the no-COLA monthly payment. When this question was asked in the Minimal Inflation Information condition, 44% of participants chose the COLA. Adding a short description of inflation and explaining how much 2% annual inflation erodes purchasing power over two decades in the Inflation Compounding treatment raised the demand for a COLA from 44% to 67%, a 23 percentage point increase that is significant at the 1% level.<sup>14</sup> This result suggests that an insufficient awareness of inflation's effects might depress the demand for COLAs in pension and annuity settings, and that enhancing

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<sup>14</sup> We also administered the Inflation Compounding With Graph treatment, which included a graph showing nominal annuity payments by age. We find that 62% of participants chose the COLA, a fraction that is significantly higher (at the 1% level) than the COLA take-up rate in the Minimal Inflation Information condition but significantly lower (at the 1% level) than the COLA take-up rate in the Inflation Compounding treatment (without graph). It is possible that the nominal payments graph was a visual distraction that made participants less attentive to the text explaining inflation, but there are several alternative potential interpretations.

the information about inflation's impact that is provided to retirees making a decision about a COLA could substantially raise COLA take-up rates.

#### *D. Framing*

How do alternative frames influence annuitization choices? Figure 3 shows the distribution of annuitization choices made by respondents in the main framing treatments of Survey 2. We examine the impact of these framing treatments on two outcomes: whether respondents chose to annuitize any balances before seeing the mortality graph, and the fraction of those balances annuitized. The key explanatory variables in the regressions are six framing treatment dummies (the Minimal Framing treatment is the excluded category); the regressions also include a set of demographic controls.<sup>15</sup>

The first column of Table 3 reports the results from a linear probability regression where the dependent variable is a dummy for the respondent annuitizing a positive amount. None of the demographic controls are significant in this regression. The only framing treatment effect that is significant at conventional levels is that of the Flexibility and Control treatment, which told participants, "Choosing a bigger lump sum gives you more control over your investments and more flexibility over the timing of your spending." This treatment decreased the probability of annuitizing any balances by 7.8 percentage points relative to the Minimal Framing baseline (significant at the 1% level). The Investment Framing treatment—which told participants that the annuity's return would be high if they died old and low if they died young, whereas the lump sum would give them the same return regardless of longevity—reduced the probability of any annuitization by 4.8 percentage points, an effect that is marginally significant at the 10% level.

The second column of Table 3 reports results from a regression whose dependent variable is the fraction of balances annuitized. The only demographic variable that is significantly associated with the level of annuitization is marital status; married participants annuitize 4.1 percentage points more of their balances than those who are single (significant at the 1% level). Both the Flexibility and Control and Investment Framing treatments decrease the level of annuitization relative to the Minimal Framing baseline at the 1% significance level; those in the Flexibility and Control treatment have an 8.7 percentage point lower level of annuitization, while

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<sup>15</sup> The All or Nothing treatment recipients are excluded from the regression sample.

those in the Investment Framing treatment have a 6.0 percentage point lower level of annuitization.

Brown et al. (2008) find that an investment frame discourages annuitization relative to a consumption frame, but Brown, Kapteyn, and Mitchell (2012) do not find an investment framing effect in the context of Social Security claiming age. Our results fall in the middle, finding a negative effect of investment framing that is significant but smaller in magnitude than the results of Brown et al. (2008).

The remaining four framing treatments have coefficients that are closer to zero and not statistically significant in either regression in Table 3. These null effects cast some doubt on the hypotheses that motivated these treatments: that annuity demand is suppressed by the fear of foregoing a better deal elsewhere, by the large contrast between the magnitude of the lump sum and the magnitude of the monthly annuity payment, by the failure to recognize the longevity insurance embedded in an annuity, or by the failure to recognize the attractive state-contingent payment properties of an annuity.

As a final framing experiment, we asked Survey 2 participants to make their annuitization choice again after seeing a graph of the probabilities of surviving to different ages, conditional on living to age 65. Figure 4 shows the average annuitization rates for participants before and after seeing this mortality chart. The average annuitization rate in every experimental condition is lower after seeing the mortality graph; the percent of balances annuitized across all conditions drops from 55.4% to 52.2%, a difference that is significant at the 1% level. The systematic drop could indicate that our respondents were on average over-optimistic about their expected relative longevity, and the mortality chart mitigated some of this bias, reducing annuity demand.<sup>16</sup> Recall that 34% of participants said they expected to live longer than the average person their age, while only 12% said they expected to die sooner than the average person their age, indicating some optimistic bias in relative longevity expectations.

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<sup>16</sup> There is a vast empirical literature on how subjective survival expectations relate to objective survival expectations. See, for example, Hamermesh (1985), Hurd and McGarry (1995), Hurd, McFadden, and Merrill (2001), Smith, Taylor, and Sloan (2001), Smith et al. (2001), Hurd and McGarry (2002), Gan, Hurd, and McFadden (2005), and Ludwig and Zimper (2012).

### *E. Annuities with “bonuses”*

Survey participants cited the desire for “flexibility in the timing of my spending” as one of the most important factors in their annuitization decision. Our ex ante expectation that this consideration would be important motivated exploring the demand for an annuity that offered a higher “bonus” payment in one month of each year, funded by lower payments in the remaining months. We find that 60% of Survey 1 respondents preferred a Match-Inflation Income with Bonuses annuity over a Match-Inflation Income annuity without a bonus. Among those choosing the bonus, 58% wanted the bonus to be paid during the winter holiday season—November, December, and January (see Figure 5). However, our explanation of the bonus used “the December holiday season” as an example of when a bonus might be received, so some of the concentration in these months could be due to the explanation itself. Another caveat to keep in mind is that we did not measure the willingness to pay for this bonus feature, so we do not know the strength of the preference for bonuses.

The Match-Inflation Income with Travel Bonuses annuity proved to be less popular, although it still appealed to a significant fraction of the population. Forty-five percent of respondents preferred the Match-Inflation Income with Travel Bonuses annuity over the Match-Inflation annuity without bonuses. The lesser appeal of the travel bonuses may be due to the fact that they are paid in June, the fact that their size declines with each decade of life, and/or the fact that their declining size creates an overall declining real path for yearly annuity payments. Our previously discussed results showed that people usually prefer their bonuses to be paid in November, December, or January and that people dislike downward-sloping real payment paths.

## **V. Implications for product design and choice architecture**

This paper’s results have several implications for annuity product design and choice architecture. To increase annuity demand, annuity providers could design products that give beneficiaries more flexibility and control. Our bonus annuity is an example of personalization that increases flexibility and control without compromising longevity insurance. Another example is an annuity with multiple annual bonuses. Such bonuses could either be pre-selected at the time the annuity was purchased or selected at the beginning of each calendar year. In fact, the payout stream for a given year could be made completely flexible without creating a substantial adverse selection problem. Problematic adverse selection would only arise if inter-year

reallocations were allowed, so that a beneficiary could drain his entire annuity following a significant adverse health event.

Other forms of personalization and flexibility could also be adopted, such as limited penalty-free early withdrawals and even asset allocation flexibility (adopting some features of the variable annuity market). Of course, there is a tradeoff between greater flexibility/control and greater complexity. Too much flexibility may drive some consumers away from annuities (cf. Iyengar and Kamenica, 2010). Finding the sweet spot in product design space is a significant challenge but one that is worth taking on because of the scope for large potential welfare benefits.

Framing changes may also increase the appeal of annuities, especially frames that highlight the availability of partial annuitization. Our results imply that most consumers prefer partial annuitization of their retirement nest egg over either 0% or 100% annuitization. We find that the availability of partial annuitization also raises the average fraction of wealth that ends up annuitized. In addition, frames that downplay investment risk may increase annuitization rates. Regarding choices about COLAs, discussing the implications of inflation for purchasing power over longer horizons may increase demand for rising nominal payment paths.

Finally, participants report that fears of counterparty risk play a large role in their annuitization choice. Policy makers could increase annuity demand by adopting regulations that reduce this fear.

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## Appendix: Optimal Consumption Path With and Without Annuitization Contracts

In this appendix, we study the rise in the slope of the optimal consumption path when a fair annuity is introduced.

We consider a two period problem of an agent with constant relative risk aversion  $\gamma \in (0, \infty)$ , pure (conditional on survival) discount factor  $\delta = \exp(-\rho)$ , and survival rate  $s = \exp(-\mu)$ . So the discount rate is  $\rho$  and the mortality rate is  $\mu$ . For simplicity, we assume that all variables are real. The objective of the agent is given by

$$u(c_1) + s \times \delta u(c_2) + (1-s) \times 0 = u(c_1) + s\delta u(c_2).$$

Note that there are effectively two sources of discounting in this model: pure time discounting and mortality discounting.

If the gross interest rate is  $R = \exp(r)$  and the agent does *not* have access to an annuity contract, then the first order condition (Euler equation) is

$$\begin{aligned} u'(c_1) &= s\delta R u'(c_2) \\ c_1^{-\gamma} &= s\delta R c_2^{-\gamma} \end{aligned}$$

Taking logs yields,

$$\ln(c_2) - \ln(c_1) = \frac{1}{\gamma}(r - \rho - \mu).$$

In other words, the growth rate of the optimal consumption path is  $\frac{1}{\gamma}(r - \rho - \mu)$ .

Now assume that the agent *does* have access to a fair annuity contract. To buy  $R$  dollars of consumption in the survival state costs  $s$  dollars in period 1. In other words, the price of the annuity is  $s$ . The Euler equation is now

$$\begin{aligned} su'(c_1) &= s\delta R u'(c_2) \\ c_1^{-\gamma} &= \delta R c_2^{-\gamma}. \end{aligned}$$

Now, the growth rate of the optimal consumption path is  $\frac{1}{\gamma}(r - \rho)$ .

Hence, the introduction of the annuity *raises* the growth rate of the optimal consumption path by  $\mu / \gamma$ . Intuitively, this effect arises because the annuity raises the effective rate of return for claims on consumption in the survival state from  $R$  to  $R/s$  (a substitution effect).

**Table 1. Survey clarity assessment by survey participants**

Assessment of clarity	Survey 1	Survey 2
Clear	53.0%	64.3%
Mostly clear	33.8%	28.2%
Sometimes clear	4.7%	3.2%
Sometimes confusing	7.8%	3.2%
Mostly confusing	0.1%	0.4%
Completely confusing	0.3%	0.2%
Decline to answer	0.3%	0.4%
Total	100%	100%

Source: Authors' calculations

**Table 2. Participant characteristics**

	Survey 1	Survey 2
Age (mean)	59.5	59.6
Male	50.2%	49.7%
Married	55.4%	54.5%
Number of children (mean)	2.1	2.0
Retired	35.6%	40.3%
Have a DB pension	39.3%	37.6%
Own home	71.3%	69.5%
Net worth (among respondents)		
Median	\$162,500	\$150,000
Mean	\$298,217	\$286,594
Highest education attained		
No high school diploma	1.9%	1.7%
High school diploma	22.9%	23.8%
Some college	35.0%	35.8%
College degree	27.1%	26.6%
Graduate degree	12.8%	11.8%
Decline to answer	0.3%	0.3%
Life expectancy		
Longer than the average person my age	36.4%	33.9%
About the same as the average person my age	54.1%	54.3%
Shorter than the average person my age	9.5%	11.8%

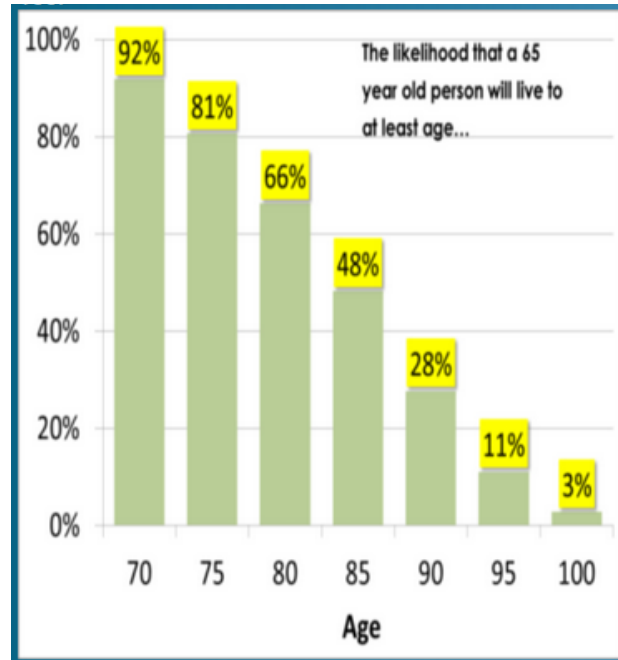
Source: Authors' calculations

**Table 3. Effect of framing on annuity choices before seeing mortality graph in Survey 2**

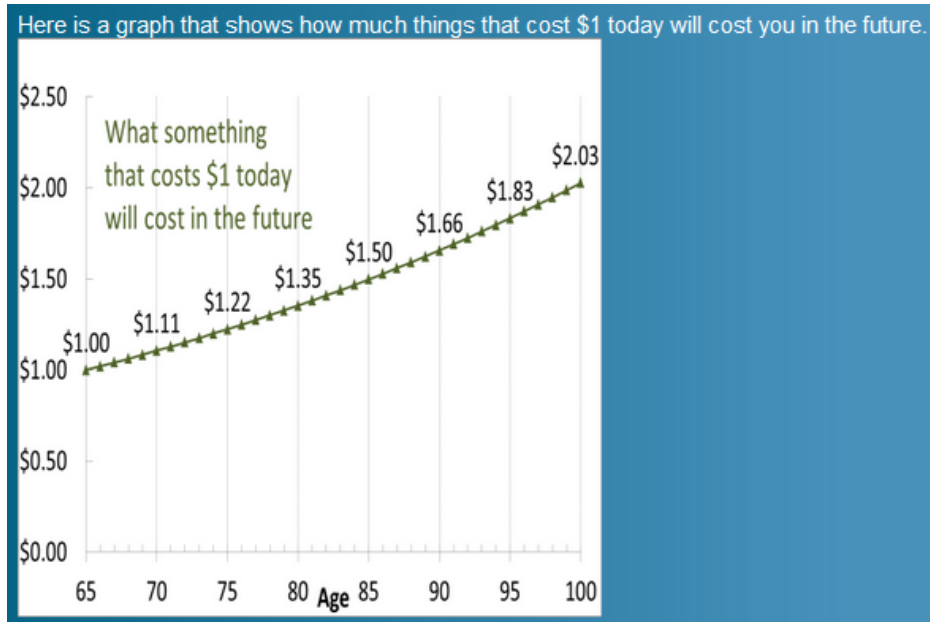
	Annuity outcome	
	Any balances annuitized (0/1)	Percent of balances annuitized
Framing treatments		
Minimal framing treatment (omitted)	--	--
Good Deal treatment dummy	0.020 (0.025)	-0.002 (0.022)
Total Payments treatment dummy	0.017 (0.025)	0.019 (0.022)
Investment Framing treatment dummy	-0.048 (0.026)	-0.060** (0.022)
Flexibility and Control treatment dummy	-0.078** (0.026)	-0.087** (0.022)
Longevity Insurance treatment dummy	0.004 (0.025)	0.017 (0.022)
Mortality Credits treatment dummy	0.010 (0.026)	0.014 (0.022)
Other controls		
Age	-0.002 (0.001)	0.000 (0.001)
Male dummy	-0.023 (0.014)	-0.019 (0.012)
Has college degree dummy	-0.000 (0.014)	0.003 (0.012)
Married dummy	0.002 (0.015)	0.041** (0.013)
Retired dummy	0.013 (0.017)	0.025 (0.014)
Number of children	-0.001 (0.004)	-0.003 (0.003)
Homeowner dummy	0.010 (0.016)	0.010 (0.014)
Constant	0.899** (0.072)	0.546** (0.062)
N	3,547	3,547
R <sup>2</sup>	0.009	0.017

Source: Authors' calculations. The dependent variable in first column is an indicator variable (0/1) for whether any balances were annuitized. The dependent variable in the second column, the percent of balances annuitized, takes values of 0, 0.25, 0.50, 0.75, or 1.0. The sample excludes participants in the All or Nothing treatment. Standard errors are in parentheses. \* Significant at the 5% level. \*\* Significant at the 1% level.

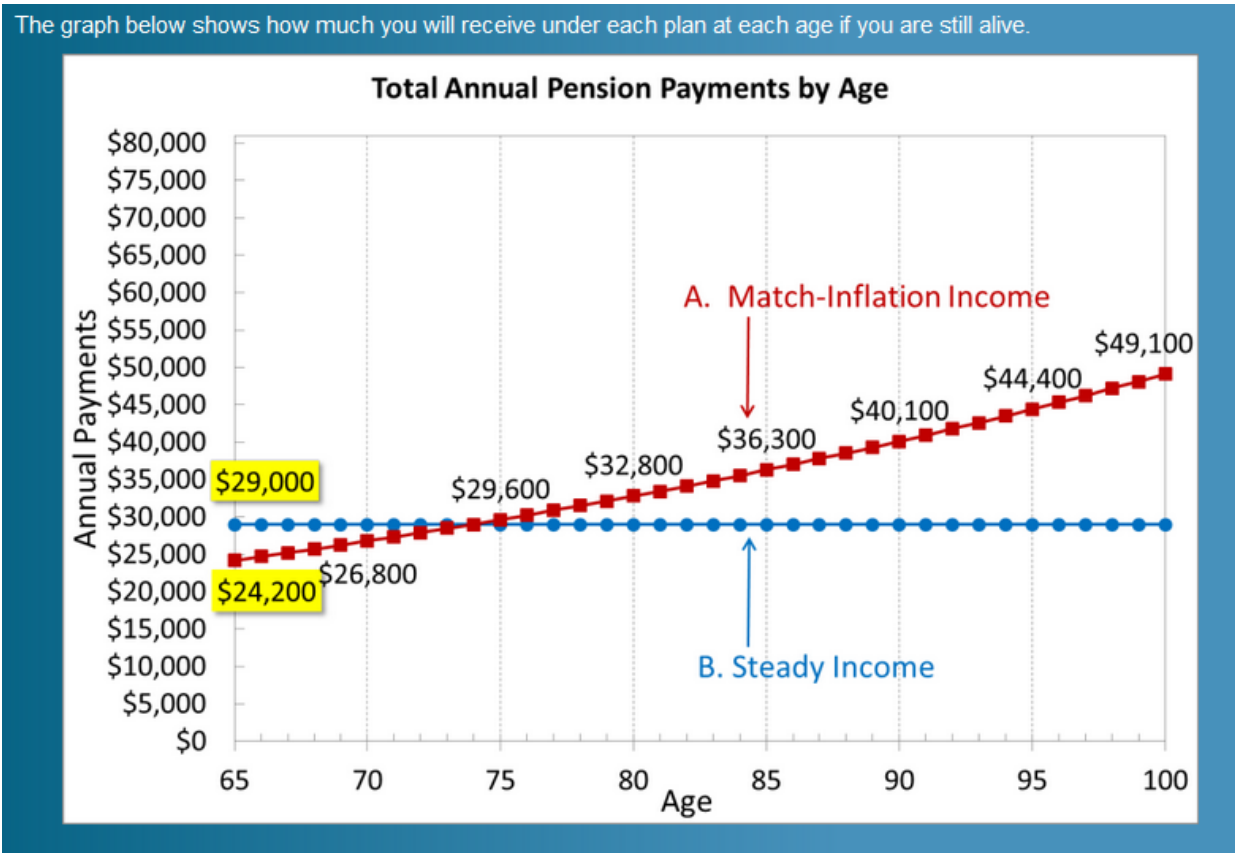
**Figure 1. Mortality graph in Survey 1**



**Figure 2. Inflation graph in Survey 1**



**Figure 3. Nominal payment graph in Survey 1**



**Figure 4. Minimal Framing initial choice screen for unmarried subjects in Survey 2**

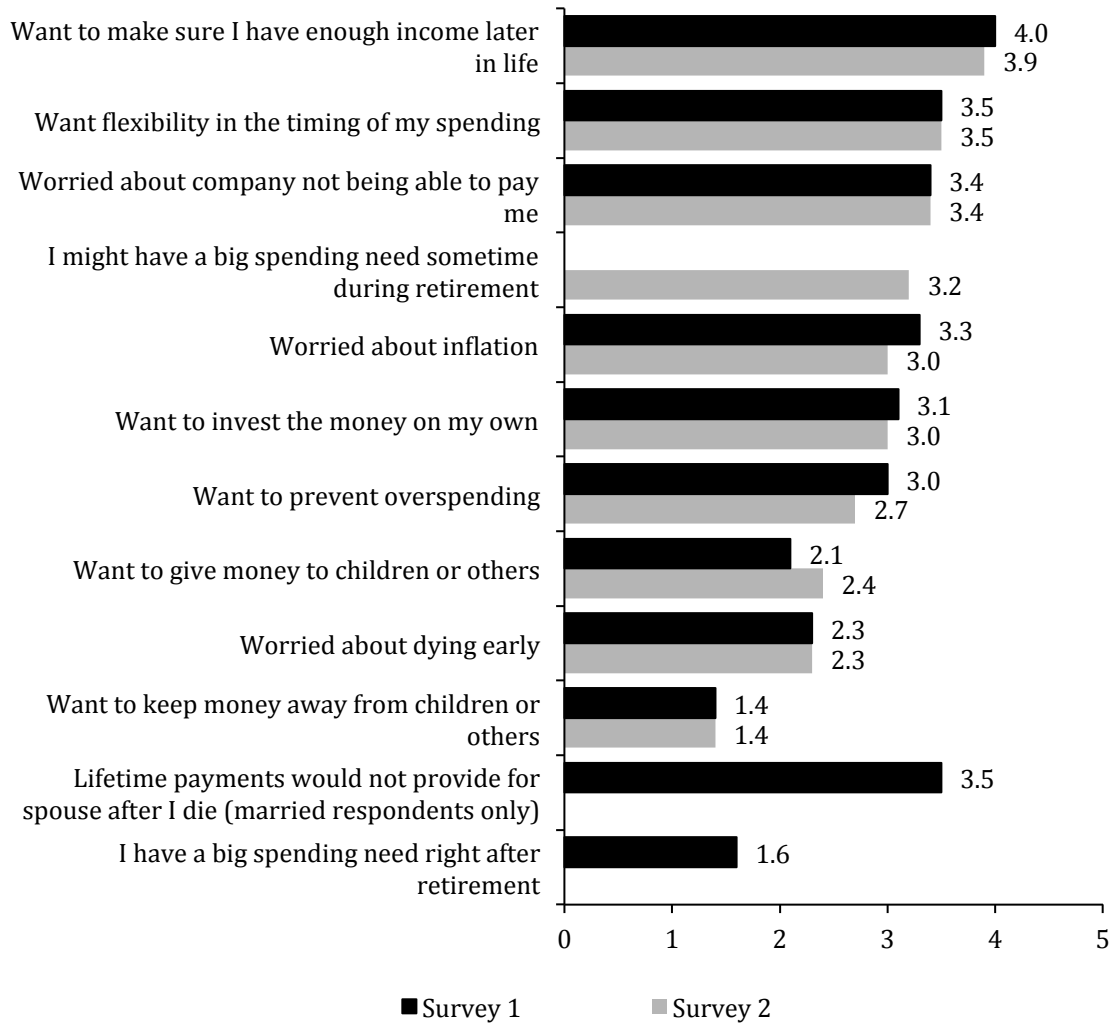
How would you choose to receive your pension payments?

Lower lump sum/  
More guaranteed  
income

Higher lump sum/  
Less guaranteed  
income

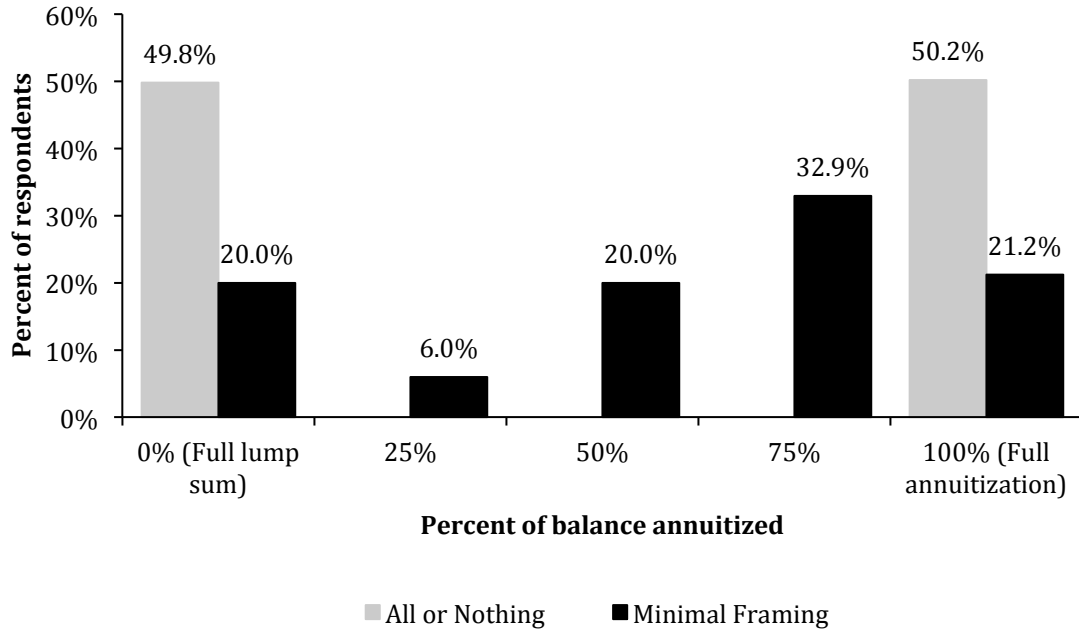
<p>0% lump sum, 100% guaranteed income (\$0 up front, \$2,981 monthly payment)</p> <input type="radio"/>	<p>25% lump sum, 75% guaranteed income (\$125,000 up front, \$2,235.75 monthly payment)</p> <input type="radio"/>	<p>50% lump sum, 50% guaranteed income (\$250,000 up front, \$1,490.50 monthly payment)</p> <input type="radio"/>	<p>75% lump sum, 25% guaranteed income (\$375,000 up front, \$745.25 monthly payment)</p> <input type="radio"/>	<p>100% lump sum, 0% guaranteed income (\$500,000 up front, \$0 monthly payment)</p> <input type="radio"/>
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**Figure 5. Average reported importance of motives for lump sum vs. annuity choices**



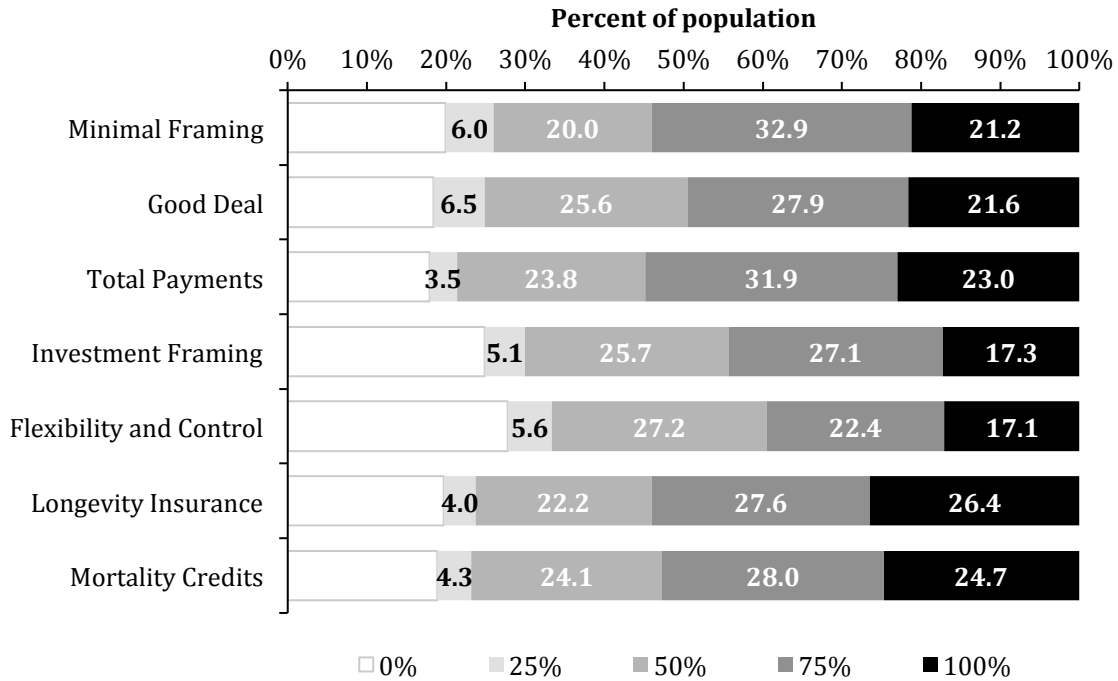
Source: Authors' calculations

**Figure 6. Distribution of percent of balance annuitized in Survey 2 before seeing mortality chart under the All or Nothing treatment and Minimal Framing baseline**



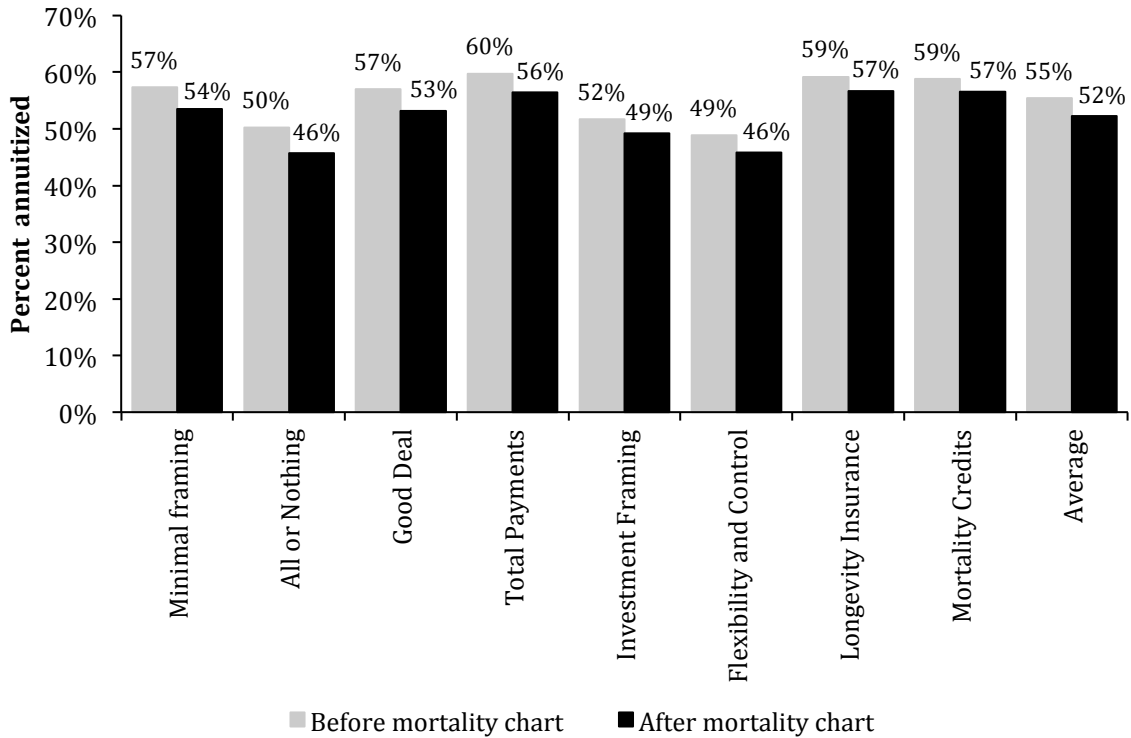
Source: Authors' calculations

**Figure 7. Distribution of percent of balance annuitized before seeing mortality chart in Survey 2 across frames**



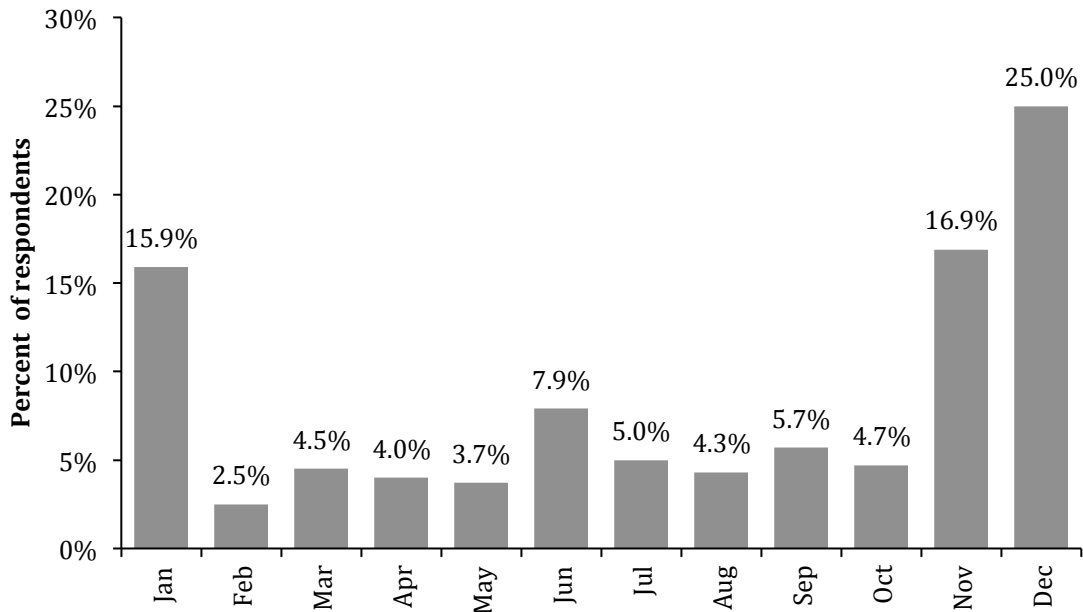
Source: Authors' calculations

**Figure 8. Average percent of balances annuitized in Survey 2 before and after seeing mortality chart**



Source: Authors' calculations

**Figure 9. Month chosen for bonus payment in Survey 1**



Source: Authors' calculations

**Table A1. Association between annuitization percentage before seeing mortality chart and factor importance ratings in Survey 2**

	(1)	(2)	(3)	(4)	(5)
Income later in life	0.05** (0.01)	0.05** (0.01)	0.05** (0.01)	0.05** (0.01)	0.04** (0.01)
Flexibility in spending timing	-0.04** (0.01)	-0.04** (0.01)	-0.04** (0.01)	-0.04** (0.01)	-0.04** (0.01)
Company might not pay me	-0.07** (0.01)	-0.07** (0.01)	-0.06** (0.01)	-0.06** (0.01)	-0.06** (0.01)
Spending need sometime during retirement	-0.00 (0.01)	-0.01 (0.01)	-0.00 (0.01)	-0.01 (0.01)	-0.00 (0.01)
Worried about inflation	0.01* (0.01)	0.02* (0.01)	0.01 (0.01)	0.01* (0.01)	0.01 (0.01)
Want to invest money on my own	-0.11** (0.01)	-0.11** (0.01)	-0.11** (0.01)	-0.11** (0.01)	-0.11** (0.01)
Prevent overspending	0.06** (0.01)	0.06** (0.01)	0.06** (0.01)	0.06** (0.01)	0.06** (0.01)
Give money to children or others	-0.01* (0.01)	-0.01* (0.01)	-0.02** (0.01)	-0.01 (0.01)	-0.02** (0.01)
Worried about dying early	-0.04** (0.01)	-0.04** (0.01)	-0.03** (0.01)	-0.04** (0.01)	-0.04** (0.01)
Keep money from children or others	0.00 (0.01)	0.00 (0.01)	0.00 (0.01)	0.01 (0.01)	0.01 (0.01)
All or Nothing		-0.07** (0.02)	---	-0.07** (0.02)	---
Good Deal		-0.01 (0.02)	-0.01 (0.02)	-0.01 (0.02)	-0.01 (0.02)
Total Payments		0.02 (0.02)	0.02 (0.02)	0.02 (0.02)	0.02 (0.02)
Investment Framing		-0.05** (0.02)	-0.05** (0.02)	-0.05** (0.02)	-0.05** (0.02)
Flexibility and Control		-0.07** (0.02)	-0.07** (0.02)	-0.07** (0.02)	-0.07** (0.02)
Longevity Insurance		0.01 (0.02)	0.02 (0.02)	0.01 (0.02)	0.01 (0.02)
Mortality Credits		-0.01 (0.02)	-0.01 (0.02)	-0.01 (0.02)	-0.01 (0.02)
Constant	0.55** (0.01)	0.58** (0.01)	0.58** (0.01)	0.64** (0.05)	0.64** (0.05)
N	4,130	4,130	3,618	4,052	3,547
R <sup>2</sup>	0.262	0.271	0.259	0.272	0.262

Source: Authors' calculations. Each factor importance rating is standardized to have mean zero and variance one. The samples for regressions (3) and (4) exclude recipients of the "All or Nothing" treatment. Regressions (4) and (5) also control for age, a married dummy, a college degree dummy, a male dummy, number of children, a homeowner dummy and a retired dummy. Standard errors are in parentheses.

\* Significant at the 5% level. \*\* Significant at the 1% level.