

Dissertation draft

Tobias Leigh-Wood

Lent 2023

Standard economic theory suggests that retirement annuities should be highly prized by individuals as a way to insure against the risk of late death. However, in developed countries rates of annuitization are far below the levels that theory predicts. In this paper I test two competing hypotheses for the annuity problem: bequests and pessimistic life expectancy. Under the coalition government in the UK the law regarding the use of private defined contribution pensions changed. Individuals were no longer forced to annuitise their pension pots and could access them in a variety of ways such as lump sum withdrawals or income drawdown and subsequently the number of annuities sold in the UK dropped precipitously.

Depending on the reason for the lack of annuitization in the UK, the consumption response of retirees to the pension reform will differ. If individuals do not annuitise because of pessimistic life expectancy I will show that their consumption should increase. If, on the other hand, individuals do not annuitise because of a bequest motive, consumption should not change much as a result of the reform. I will solve lifecycle models for both of these cases and simulate consumption decisions with, and without, forced annuitisation. I will then use a variety of empirical models to measure the consumption change in early retirement that resulted from the policy reform. The size and magnitude of this change will be indicative of the mechanism causing the annuitization problem.

The number of individuals over the age of 65 is expected to increase dramatically in the 21st century.

0.1 Rough plan

- Intro
- Lit review
- Models
- Empirical

1. Diff in diff
 2. RDD
 3. Matching?
 4. can I use anything I learnt in panel? In some sense the decision to annuitise is a discrete choice problem so I could use something from there.
- Conclusion

References