

# Decision Processes Colloquia

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**Monday, January 28, 2013**

**Where:** JMHH 240

**When:** 12:00 noon to 1:20 PM

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## **Annuity Preferences, Information Framing, and Life Expectations**

*ABSTRACT:* Consumer decumulation of retirement wealth is an important problem with large stakes, multiple sources of uncertainty, and difficult tradeoffs that is relatively unexplored in the decision making literature. One solution for decumulation is the life annuity; however, purchase of annuities by retirees is consistently below its theoretical potential, leading to the so-called annuity puzzle. In a series of projects, we measure and model individual preferences for simple life annuities using choice-based conjoint analysis. Our model of preferences allows each attribute to influence utility beyond its influence on the actuarial present value of the annuity, i.e. the NPV of the expected payments. In our first study, we find that attributes influence preferences beyond their impact on NPV, consistent with behavioral models, and we discuss the implication of such preferences for marketers and policy makers. In a second study, we test seven different annuity information presentations and find that 1) cumulative payout information increases overall liking for annuities, 2) cumulative payout information shifts emphasis from period certain guarantees toward annual increases, and 3) explicit information on life expectations also increases annuity liking. We also show how annuity preference, as well as other related retirement decisions, are affected by individual-level characteristics such as predicted life expectancy, gender, numeracy, loss aversion, and perceived fairness.