RETIREMENT INCOME INSTITUTE
Alliance for Lifetime Income

Who Should Read This Insight:
Retirement investors, financial professionals, policymakers, annuity manufacturers, annuity distributors

Institute Research Agenda Topic:
Understanding differences in consumer behavior and decision-making

Definitions of **bold key terms** are at the end of this article.

PAUL M. SECUNDA,
is a Partner at Walcheske & Luzi, LLC, in Milwaukee, Wisconsin, where he practices employee benefits and labor law. He is a member of the American College of Employee Benefits Counsel, former Chairman of the ERISA Advisory Council, and has written numerous books, chapters, and articles on retirement security issues and cognitive bias in legal decision-making.

Authors, Titles and Publication Dates of the Articles Addressed in the Insight
Salisbury, Linda Court, and Gergana Y. Nenkov. 2016. "Solving the Annuity Puzzle: The Role of Mortality Salience in Retirement Savings Decumulation Decisions." 26 Journal of Consumer Psychology *417–25*

Linda Court Salisbury is Associate Professor of Marketing in the Carroll School of Management at Boston College. She is best known for her research on consumer decision-making, with a primary focus on financial decisions. Gergana Y. Nenkov is Associate Professor of Marketing in the Carroll School of Management at Boston College. She focuses on understanding the motivations behind irrational consumer choices, with the ultimate goal of developing methods to improve the consumer decision-making process.

Insight: THE IMPORTANCE OF DE-EMPHASIZING DEATH OR DYING WHEN PROMOTING ANNUITIES

IDEAS IN THIS INSIGHT YOU CAN PUT INTO ACTION

Policymakers and **annuity manufacturers** and **annuity distributors** can make simple changes to the description of their immediate life annuities that will increase the likelihood that **retirement investors** will purchase their products. Research shows that de-emphasizing death or dying when promoting annuities can lead to substantial uptake in individuals' willingness to purchase **annuity products.** For instance, stating in an annuity brochure that you will "receive a series of regular monthly payments each year *you live*," is more likely to convince consumers to purchase annuities than saying you will "receive a series of regular monthly payments each year *until you die*." In short, avoiding thoughts of death or dying in consumers when suggesting they purchase annuities significantly increases the chance they will purchase annuities.

PRINCIPAL INSIGHTS

The annuity puzzle refers to the low rate at which retirees buy annuities even though economists and financial planners recommend annuities as an optimal decision. Many explanations for the annuity puzzle have been forwarded, including low retirement savings, unfair annuity pricing, **annuitization framing,** decreased flexibility in accessing one's money, the possibility of default by the financial company, and the inability to bequeath assets that are invested in the annuity. Yet none of these explanations, nor the adjusted products that have been offered as a result of these concerns, have put much of a dent in the annuity puzzle. Annuities as a share of overall retirement wealth are still very small in the United States.

Rather than focusing on rational economic theory, Salisbury and Nenkov turn to behavioral economics and psychological studies of the choice whether to invest in annuities as part of one's retirement strategy. Their principal insight is that the task of buying annuities causes anxiety because it evokes thoughts of one's own death. They refer to this phenomenon as **mortality salience,** or the increased accessibility of thoughts related to one's death. The professors write, "When the problem of death enters current focal attention and death-related thoughts enter consciousness, proximal defenses that serve to remove death-related thoughts from consciousness are activated" (418; emphasis added). Through four studies, Salisbury and Nenkov show that people seek to suppress their death-related thoughts by avoiding the purchase of annuity products.

The first study tests whether the annuity choice evokes spontaneous, death-related thoughts. More specifically, this study asked whether the annuity decision triggers thoughts of death more than does setting up an individual retirement accounts (IRA). The professors asked study participants to jot down the first thoughts that came to their mind when considering setting up an annuity or an IRA. Consistent with predictions made prior to the study, participants were more likely to list thoughts of death when considering annuities as opposed to when thinking about IRAs.

In the second study, the authors sought to determine whether, when individuals were asked to write about their own deaths, they were less likely to select an annuity. The way the experiment worked was that after writing an essay on their own deaths, the same individuals were asked about their desire to buy an annuity. Those responses were compared to another set of individuals who were asked to write about dental surgery and then asked to consider buying annuities. As expected, participants who wrote essays on death were less likely to buy annuities than those who wrote about dental surgery.

Third, participants were shown two different annuity descriptions. In the first, the language referred to one's death, while in the second there was no such reference. Again, the results show that individuals subject to the language about death were much less likely to choose the annuity as compared to the language that did not discuss death.

Fourth, and finally, the authors sought to replicate a real-world example by talking to random participants in airports and on university campuses. Two different annuity brochures were handed out and individuals were asked if they would choose to buy annuities. Consistent with the other three studies, those who received brochures with death language were significantly less likely to select annuities as compared to those who did not.

Salisbury and Nenkov then combined the results of their four studies into one meta-analysis. The overall impact of increasing mortality salience, or thoughts about death, during the annuity-buying process was to reduce the likelihood of individuals choosing an annuity product by 11.5%. This conclusion thus supports the professors' intuition that emphasizing thoughts of death when describing annuity products induces people to escape thinking about their own deaths by avoiding annuities. Thus, mortality salience does seem to play an important role in solving the annuity puzzle.

Based on the studies' results, the authors suggest that policymakers and annuity providers consider developing approaches that decrease the number of times consumers have to consider their own deaths, such as by altering the annuity description so that death is not mentioned as it is in studies 3 and 4. Although this psychological approach gives new insight on the annuity puzzle, additional studies will need to be completed with different types of annuities or with annuity products that use language that makes consumers confident about living for a long time.

To learn more, visit the Retirement Income Institute at
www.allianceforlifetimeincome.org/retirement-income-institute

KEY TERMS ARE SOURCED FROM THE ALLIANCE FOR LIFETIME INCOME'S ANNUITIES LANGUAGE GLOSSARY AND INVESTOPEDIA

Annuitization: *The process of converting an investment into a series of periodic income payments by buying an annuity or beginning an income flow from an annuity.*

Annuity: *A financial product that can offer protected lifetime income and even potentially grow your money.*

Annuity distributor: *An annuity distributor is anyone who is involved in the sale of an annuity to a consumer.*

Annuity manufacturers: *The insurance companies that produce annuities.*

Annuity products: *The types of annuities available.*

Frame, framing: *Framing is how financial products are presented to consumers.*

Mortality salience: *Mortality salience refers to an individual's awareness of the possibility of their own death.*

Retirement investor: *Someone who invests his or her own retirement savings, regardless of type.*

For industry use only.