

# **Can the Longevity Risk Alleviate the Annuitization Puzzle? Empirical Evidence from Dutch Data**

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## SHORT SUMMARY

This paper provides new evidence on individual preferences over annuities and lump sum payments based on hypothetical questions posed in the DNB Household Survey in 2005. Contrary to the majority of papers in the annuitization puzzle literature, this study allows to control explicitly for the subjective survival probability (SSP), a key driver of the decision about whether to annuitize or not as a perceived measure of longevity risk.

We find that SSPs convey reasonably meaningful information on individual longevity, and relate relatively well with a number of background and socio-economic characteristics, on average. When confronting SSPs with the actuarial survival probability derived from official life tables by age and gender we find that individuals (especially women) tend to systematically underestimate their life expectancy. In addition, we find that people expecting to live longer do claim to prefer the annuity. This finding is very robust to controlling for bequest motives.

The relevance of this paper is twofold. First, it delivers an important empirical result on the role of the SSP that is still not directly tested in the literature. Second, combined with the empirical evidence that on average individuals tend to systematically underestimate their life expectancy, the findings have strong policy implications. The annuitization puzzle may be alleviated by helping individuals in better assessing their longevity risk, rather than forcing their actions.