

Clive James and the annuity puzzle

In his last television interview, Australian critic and writer Clive James reflected on the relatively new phenomenon of prolonged ageing. People are living longer than ever, and in poorer health, too. So why aren't they planning for it?



Clive James – essayist, wit, TV presenter and [larrikin](#) – died on 24 November last year at the age of 80. A year earlier, James [recorded an interview](#) with fellow academic and TV presenter, Mary Beard. Death was expected anytime due to the leukemia that had affected him for several years. James noted experimental medicines had kept him alive longer than expected. At 24 minutes into the interview, James and Beard reflect that prolonged ageing is something new. In the past, they suggested people became ill and died reasonably quickly. Prolonged old age with illness was uncommon until the past few decades. Changing conditions and attitudes to ageing and death are also discussed in Atul Gawande's 2014 book ["Being Mortal"](#).

James and Beard discussed the philosophy of ageing. My thoughts, hardened by years studying economics and individual financial behaviour, have turned to the implications for pension planning and the annuity puzzle.

Living long and remaining prosperous

The annuity puzzle is based on an argument that, upon retirement, people should invest a

substantial proportion of their wealth in an annuity. An annuity is a product that guarantees an income from the date of purchase until a person dies. There are variations, including making allowance for a surviving partner. The objective of an annuity is to ensure a person does not run out of money before they die. This is especially important if a person should live a long time – and even more so if prolonged years are spent in poor health and the ability to work compromised. Think of it as an insurance against living a long life. The puzzle is that annuities are unpopular. People typically prefer other ways of funding their retirement.

The details of the annuity puzzle are more complicated than this and have been studied often since the [seminal paper by Menahem Yaari in 1965](#). If James and Beard were correct in their view that people are not only living longer but also while in poor health, the puzzle becomes more puzzling.

Information changes decisions – but not how you may expect

Given this dilemma, it may be reasonable to think that providing information on the financial risks associated with living long into old age, taking out an annuity would be high on the list of considerations when making financial decisions approaching retirement. Evidence from the UK, however, suggests it may have the opposite effect.

[A 2019 paper](#) in *Economica* by Jenny Robinson and David Commerford, reports on survey results of having people consider their life expectancy when choosing between an annuity and a cash payout.

Those taking the survey were split into four groups. Three groups were asked subtly different questions about how long they may spend in retirement. One group was asked how long they expected their retirement to last. A second was asked the age they expected to live to. A third was asked the age they expected to die. The fourth group was not asked a question about how long they expected to be in retirement. Instead, they were given a neutral question, which was not designed to prompt them about how long they expect to live. This group was asked how many years they spent in formal education. This fourth group was the control group and the answers from the other three groups were assessed against it.

The answers from each group showed that prompting thoughts about how long a person may live made them less likely to favour an annuity rather than taking a cash payment.

The control group was most likely to choose an annuity. Those prompted to think how long their retirement might be were somewhat less likely to choose an annuity. Those asked about the age they expected to live to lowered the choice of an annuity further. Prompted to think about the age of death made people least likely to choose an annuity.

Robinson and Commerford argue that making people consider the probability of death causes them focus on it. This may lead people to pay more attention to consider any bequest they wish to leave, rather than being aware of how long they need to make their money last. [Terror Management Theory](#) may help explain this behaviour. Others have drawn similar conclusions [calling on mortality salience](#) as a partial explanation for the annuity puzzle.

More details are discussed by Commerford in [The Conversation website](#).

It's never too late to learn

James and Beard may be right about prolonged periods in moderate health. Statistics on the number of years beyond 65 that we continue to live healthily have been gathered across Europe [for some time](#). No matter whether James and Beard are correct, people need to pay at least as much attention on how to use their money when retiring as to the accumulation of it while working. To use the jargon of the pension industry: the divestment decision is as important as the accumulation decision. Yet, it is talked about less.

Another lesson from the Robinson and Commerford paper is that people may behave in ways you cannot predict. As a result of their work, Robinson and Commerford recommended taking the link to the life expectancy calculators from websites guiding people's retirement decisions. It may be considered a nudge too far. Or you could cite the colloquial saying from the north of England "There's nowt so queer as folk."

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