Death-related thoughts discourage consumers from purchasing annuities

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Thinking about death isn't doing the annuity industry any favors, but it could be the missing piece of a puzzle that has vexed economists for decades. That's according to a new study by two Boston College marketing professors who say "mortality salience" is one reason why consumers shy away from buying annuities.

"When you think about an annuity, you have to think about how long you have left to live, how many years you need to finance," says Gergana Nenkov, Associate Professor of Marketing with the Carroll School of Management at Boston College and co-author of the study, "Solving the Annuity Puzzle: The Role of Mortality Salience in Retirement Savings Decumulation Decisions." "You have to think about dying—that's part of the annuity process, and when people do that, it turns them away."

Economists say annuities are attractive because they reduce the risk of outliving one's income, a critical concern given Americans are living longer and are more likely to run out of money before they die. Yet less than 9% of assets are held as annuity reserves, a level that seems to lend credence to the research, part of which reads: "By forcing consumers to consider their own death, the annuity decision makes mortality salient, motivating them to avoid the annuity option as a proximal defense against the death-related thoughts triggered by considering an annuity."

"Demand for annuities is much lower than economists expected it to be," says Linda Court Salisbury, Associate Professor of Marketing with the Carroll School of Management at Boston College and co-author of the study, which is published in the *Journal of Consumer Psychology*. "They have been trying to figure out this annuity puzzle—why won't people do it when they should see that it's good for them?"

Some of the explanations have been blamed on low retirement savings, unfair annuity pricing, and decreased flexibility in accessing one's money. But by bringing psychological theory to inform economic theory, Salisbury and Nenkov offer another reason—the more people think about death, the less they want to prepare for it.

"Nobody has ever looked at it from the psychology of making the decision and going through with the decision," says Salisbury. "Our idea was the averseness of thinking about your own death is enough to make you use what we call 'mortality salience defense strategy,' which is to avoid it."

In another words, by not thinking about annuities and pushing them off to the side, one avoids having to think about death. The hypothesis was supported during the course of four studies that included 748 adult participants. One study asked participants whether they would rather roll their retirement savings in an Individual Retirement Account, or purchase an annuity.

"When people considered an IRA, very few thought about dying or how long they have left to live," says Nenkov. "But when the people considered an annuity, a big proportion of them had those kinds of thoughts related to death."

Two other studies presented participants with annuity descriptions that contained subtle differences. One description indicated the annuity 'guaranteed payments for as long as you live,' while another 'guaranteed payments for as long as you live until you die.' Whenever an annuity mentioned death, interest plummeted.

"We showed that even those subtle mentions of death decreased further the rate of choosing an annuity and made people stay away from the product even more than if we just talked about years left to live," says Nenkov.

But what if, instead, the disinterest in annuities is a result of consumers being more aware of other financial products, or feeling those products are a better fit for their portfolio?

"We are saying this helps explain the lower than expected demand for annuities but not necessarily that alone explains it," says Salisbury. "We think it contributes to people avoiding them."

The researchers point to how the financial industry has incorporated solutions to help solve the annuity puzzle, such as more flexible options for annuities, and the ability to bequeath annuity money to heirs. Despite that, the rate of annuity choice is low.

"Part of it is preference, part of it is maybe people don't know about that product, but we also think the issue of forcing you to think about death and death being aversive also comes into play, so that's one more explanation and one psychological explanation that we offer," says Nenkov.

"The concept of death related aversion, mortality salience, it adds to the explanations."

Salisbury and Nenkov say marketers and policy makers will need to find ways to de-emphasize death or help consumers deal with the anxiety triggered by thinking about death if they want to increase interest in these products. Both say their findings have implications for other late-life decisions that are being avoided.

"Wills, life insurance, estate planning—all of those decisions are sometimes put off, and we think this issue of not wanting to think about death has a role," says Nenkov. "Maybe finding ways to deal with that anxiety could help consumers overcome it and make the important decisions because if they don't, there are devastating consequences later in life."

Provided by Boston College

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