

Examining the Barriers to Annuity Ownership for Older Americans

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As a hedge against longevity risk, economic theory indicates that annuitization is optimal for retirees. Yet, annuities have largely been underutilized. We investigate possible barriers to this lower take-up rate. Using data from the 2018 National Financial Capability Study, we analyze individuals in the retirement-planning phase of the lifecycle (ages 40-61) and individuals of retirement age (age 62 and over). We examine individuals' assets and debt, financial situation, knowledge, and retirement planning to understand the potential barriers to annuity ownership. Moreover, we investigate current annuity owners and analyze their socioeconomic and financial characteristics to further derive what factors influence investing in an annuity.

Our analysis shows that debt obligations, lack of access to liquidity, and low financial literacy are all likely barriers that keep individuals from purchasing annuities. Illiquid assets and extensive debt obligations likely contribute to a lack of access to and high need of liquidity for many individuals saving for and living in retirement. Low levels of financial literacy indicate individuals lack the necessary knowledge to understand complex investment products, such as annuities.

Annuity owners are more likely to have greater access to liquidity, higher incomes, and report higher levels of financial satisfaction than non-owners. Further, despite showing low levels of financial literacy, annuity owners may be able to substitute their lack of knowledge with consulting with a professional advisor. Thus, for equitable access to annuities, improving financial knowledge is central to future annuity owners. Additionally, higher financial literacy is linked to greater access to liquidity. Hence, financial literacy may lead to improved take-up rates through (1) an increased understanding of the workings and benefits of annuities and (2) better money management practices leading to improved access to liquidity. Greater efforts to improve the levels of financial literacy among individuals may lead to enhanced retirement planning and security.