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Our Research Suggests Financial Literacy, Debt and Liquidity Are Key Drivers of Annuity Purchases for Older Americans

GFLEC's newest research, which was funded by the Alliance for Lifetime Income's Retirement Income Institute, shows a close link between the decision of older Americans to purchase annuities and four factors—financial knowledge, leveraged assets, debt obligations, and liquidity constraints.

The findings within the paper, [*Examining the Barriers to Annuity Ownership for Older Americans*](#), provide significant new insights for helping solve what economists have termed “the annuity puzzle” – the financially irrational under-utilization of annuities that could provide greater retirement security to millions of Americans.

“Simple economic models argue that annuities are beneficial for almost all retirees,” says Annamaria Lusardi, academic director of the Global Financial Literacy Excellence Center and University Professor of Economics and Accountancy at the GW School of Business. “But what our latest research shows is that higher levels of debt, less access to liquidity and a lack of basic financial knowledge can lead to poor decision making when it comes to retirement income planning. For the retirement industry, solving the annuity puzzle must start with financial education.”

The findings—which examined data from pre-retirees (ages 40-61) and retirees (62 and over) in the FINRA Foundation's 2018 National Financial Capability Study—suggest that financial literacy may also lead to improved annuity take-up rates by improving individuals' money management practices which may result in increased access to liquidity.

Understanding financial strategies is key to developing a successful retirement plan. Policy makers, financial professionals, employers and academic institutions need to prioritize and invest in financial education so consumers can fully grasp fundamental financial concepts and can make better informed retirement planning and saving decisions.

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For more information about becoming a corporate member, please contact Kristen Burnell at kburnell@gwu.edu or +1 (202) 731-9926.