

HOW MUCH DOES ANNUITY DEMAND REACT TO A LARGE PRICE CHANGE?

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ABSTRACT

In this paper, we present new evidence for the effect of changes in annuity prices on the decision to annuitize. We exploit an unprecedented change in policy in several Swiss occupational pension plans. There is an implied 8 percent reduction in the rate at which retirement capital is translated into an annuity, and this represents a net present value loss of CHF18,500 (around US\$20,000). To estimate the impact of this change, we use data from companies that changed their prices and from one large company that did not. We find that the price change reduces the propensity to annuitize among affected individuals by 16.8 percentage points.

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