Medical Xpress

Seniors less likely to buy longevity insurance despite value, study finds

September 8 2016

As life expectancy for American seniors continues to rise, many aging Americans face problems outliving the amount of money they have saved for retirement. Annuities are one type of financial product that could help insure seniors never run out of money. Yet, despite their benefits, many older Americans do not buy annuities. The federal government has begun touting a new type of annuity, called longevity insurance, to try to increase the use of these products by seniors who could benefit from them. Now, a researcher at the University of Missouri has determined the types of people who are more likely to buy longevity insurance. This will help financial advisers identify these people as well as sell the products to those who would most benefit from them.

Longevity insurance is a specific type of annuity that requires an upfront payment in exchange for monthly payouts later in life. The insurance does not begin monthly payouts to the customer until they reach a certain age, usually between 80-85 years old. Once those payouts begin, they continue in perpetuity until the policyholder dies. Because longevity insurance payouts begin so late in life, those payouts are much larger each month than typical annuities.

For his study, Michael Guillemette, an assistant professor of personal financial planning at MU, examined demographic data to determine characteristics of consumers who are more likely to purchase longevity insurance in the future. He found the people who bought longevity insurance primarily were younger women, those with higher levels of risk tolerance and people with less home equity. Guillemette says in some cases those more likely to buy longevity insurance are not necessarily those who will benefit from it the most.

"Longevity insurance is designed to insure that older adults never run out of money," Guillemette said. "In many cases, it makes sense for healthy older adults to buy longevity insurance when they are approaching retirement. This insurance can help seniors with lower risk tolerance as they prefer greater certainty in advanced age."

Guillemette says it is important to understand what types of people choose to buy and not to buy longevity insurance so that financial advisers can find ways to convince people who need this insurance that it a wise financial choice. He says it also is valuable so that financial advisers can direct people who will not be helped by longevity insurance toward other options that are better suited for their specific goals.

The study "Determinants of the Stated Probability of Purchase for Longevity Insurance," was published in Geneva Papers on Risk and Insurance—Issues and Practice. It was coauthored by Terrance Martin from the University of Texas-Rio Grande Valley, Ben Cummings from The American College and Russell James from Texas Tech University.

More information: Michael A Guillemette et al. Determinants of the Stated Probability of Purchase for Longevity Insurance, *The Geneva Papers on Risk and Insurance Issues and Practice* (2015). DOI: 10.1057/gpp.2015.26

Provided by University of Missouri-Columbia