

Does buying an Annuity, Make you Happier?

Yes, according to research by the RAND Corporation's Constantijn Panis, buying an annuity can buy you a degree of happiness in retirement that you don't get without one. Panis's research looked at the Social Security Administration's Health and Retirement Study (HRS) to compare the reported happiness of retirees who had guaranteed streams of income (pensions and/or annuities, not counting Social Security) with those who did not have the guaranteed streams of income.

Even those retirees who had a small amount of guaranteed income – between 1% and 25% of their total income – were, on average, 24.1% happier than those who did not have guaranteed income. They were also less prone to depression and they maintained a higher level of happiness throughout retirement, compared to their guaranteed income-less peers, whose retirement satisfaction decreased over time.

Panis even isolated retirees who had the same amounts of income, since, naturally, people with more income would be happier than people with less income. Even in the same income brackets, regardless of income, retirees with guaranteed sources of income were happier than those without. They were slightly less inclined to be depressed, too.

A study of British citizens confirmed the RAND findings; the only factor that increased satisfaction and happiness and decreased anxiety among retirees was having a steady source of income.

If we can achieve the same financial results by doing it ourselves that we can by purchasing annuities, why, then, are we happier when we buy annuities?

It's because personal finance isn't just about numbers.

Psychology and our friend Monkey Brain play a large role in the actual implementation of money strategies in our lives. Let's look at a few of the reasons why we might be happier.

Loss aversion. Whenever we lose a dollar, we feel a lot more pain than we feel happiness when we win a dollar. This is known as prospect theory, and it can affect our overall happiness. So, while, in constructing a DIY equivalent of an annuity, we may wind up at the same destination, we have to suffer from ups and downs along the way, causing us stress and unhappiness. Your portfolio will go up and down every year; an inflation-adjusted annuity provides you the same, steady purchasing power each and every year.

Fear of risk. No annuity is 100% safe and guaranteed, but a SPIA purchased from a solid provider will be as close to certain as you can get without being the U.S. government. However, even though the market generally goes up over time, there's no guarantee that it won't completely tank. The chances of falling off the tightrope are fairly slim, but you have no safety net when you roll your own retirement.

Cognitive decline over time. We've previously discussed in the article "Are Your Parents Losing the Ability to Deal With Money?" how, after age 60, people start to suffer from cognitive decline, and the first skill that shows a noteworthy reduction is the ability to do math. Trying to figure out how much of your money should be in bonds versus stocks is not a calculation a lot of centenarians want to be making.

Knowing an income number makes you happy. As we discussed previously in the article "Why You Shouldn't Obsess Over Your Net Worth," people who know how much income they're going to have in

retirement are happier than those who focus on the amount of money they have in the portfolio. Since Monkey Brain is bad at math, he's happier when he has a simpler mental calculation to make.

Retirees have better things to do with their time than to mess with their money. Face it, those who reach retirement by choice (rather than by being forced to retire due to ailments) scrimped and saved and invested wisely to get to a point of security, and they just don't want to have to fool with the **** thing anymore!

The older you get, the happier you become by focusing on the present, and not the future. Having a guaranteed stream of income for life takes away the need to think about how safe and secure the future is, allowing retirees to think more about the present, which leads to more happiness.

Sourced: article by Huff financial based on RAND (Reasonable and Non-Discriminatory) Research and Development study of Happiness after retirement = Permanent income streams

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