

The Utility of Illiquidity

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Abstract

It is often assumed that because individuals have a strong emotional desire for control of and access to retirement assets, they have little or no use for illiquidity in retirement, that is, that illiquid vehicles—in particular annuitization—would therefore be a less desirable component of a retirement plan.

This paper debunks this as a result perpetuated due to reasons that have less to do with emotions than with misperceptions and lack of an appropriate context within which to appreciate the value of annuitization. An example is used to demonstrate the value of including annuitization as part of a retirement plan from an analytical perspective, but also from an emotional perspective, suggesting that individuals may have a high, but untapped, utility for illiquidity.

Based on the reasons identified for lack of widespread acceptance of annuitization, the paper suggests several catalysts, most of which are within the control of insurance manufacturers, and some external catalysts, such as economic and tax policy factors that could spark a dramatic reversal of the current situation.

Finally, the paper suggests that some of these catalysts may already be at work and that we may be witnessing the dawn of a new era where annuitization becomes a more commonly exercised option in retirement income solutions alongside other retirement vehicles that are more widely used today.