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Without any bequest motive…

- Yaari (1965): Full *variable* annuitization is optimal. It allows retirees to protect against outliving their assets while enhancing expected returns through
  - The “mortality credit”;
  - The equity premium.
- This should be complemented by insurance devices against liquidity shocks (unforeseen expenses, health care,…). Otherwise, gradual annuitization is optimal, and the equity exposure should be reduced.
- Compulsory annuitization to escape
  - The adverse selection problem;
  - The crowding-out problem with public solidarity schemes.

With a bequest motive…

- People dislike life annuity because of the “expropriation problem”.
  - Annuitizing is perceived as an anti-social behaviour, thereby deteriorating self-image and self-esteem;
  - But people underestimate the risk to outlive their assets.
- Partial annuitization is optimal. Equity should be favored because of
  - The long horizon induced by the intergenerational risk sharing within the family;
  - The low protection of bonds for the inflation risk.
- Retirement age should be flexible, within an actuarially fair system.

Mean reversion (Bec-Gollier, France)