Stock Market Returns and Annuitzation: 
a Case of Myopic Extrapolation*

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Abstract
Managing retirement wealth is one of the major financial decisions that individuals face. In this setting, I document a strong negative relationship between stock market returns and annuitization. Using a novel dataset with more than 103,000 actual payout decisions, I find that positive stock market returns decrease the likelihood of employees choosing an annuity over a lump sum, and vice versa. More precisely, only recent market performance drives annuitization with almost no weight assigned to returns two years before the decision date. Several explanations can account for these findings: wealth effects generated by movements of the stock market; endogenous timing of retirement; volatility of stock market returns and time varying risk aversion; and expectations about labor income or inflationary periods. After addressing these explanations, I present evidence consistent with employees extrapolating from recent stock market returns. I conclude showing that this myopic extrapolation – based on very recent stock market performance – can bear serious welfare consequence and significantly reduce retirement wealth if, for example, individuals annuitize too early because of a market drop.

Keywords: Household Finance, Annuities, Myopic Extrapolation, Wealth Effects

JEL Classifications: D14, G11, G22, H55

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