

Discussion of: *Competition, Asymmetric Information,
and the Annuity Puzzle*

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November 1, 2018

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 - ▶ *Public option*: Individuals *choose* between private options and a governmental plan (PW) [\neq social security]
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- **Research question**: What would the Chilean market look like if it adopted a US-like Social Security system?

Comment 1: Competition in the exchange

Markup: $(W - NPV(z))/NPV(z)$

MODALIDAD RENTA VITALICIA INMEDIATA

Annualize full wealth, 0 guarantee, 0 deferral

RENDA VITALICIA INMEDIATA SIMPLE

N° Oferta	Compañía de Seguros de Vida <i>Brand Name</i>	Pensión final Mensual en Retiro de Excedente UF	Pensión final Mensual en UF Considerando un retiro de excedente de 0,00 UF	Pensión con retiro de Excedente Máximo		Clasificación de riesgo de la Compañía de Seguros (2)
				Pensión final Mensual UF	Excedente UF	
43872093	CRUZ DEL SUR	26,61	- Monthly payment		Risk rating ->	AA-
43872098	RENTA NACIONAL	26,58				BBS-
43872083	METLIFE	26,52				AA
43872100	CORPSEGUROS	26,34				AA-
43872094	PRINCIPAL	26,29				AA
43872097	CORPVIDA	26,20				AA-
43872084	EURAMERICA VIDA	26,25				AA-
43872090	PENTA VIDA	26,25				AA-
43872091	OHIO NATIONAL	26,24				AA
43872098	SURA	26,21				AA
43872095	CN LIFE	25,90				AA
43872092	BICE VIDA	25,86				AA+
43872085	CHILENA CONSOLIDADA	25,59				AA
43872086	CONSORCIO VIDA	25,36				AA+

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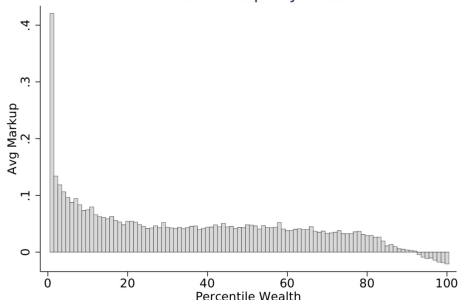
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Offered Markups by Wealth



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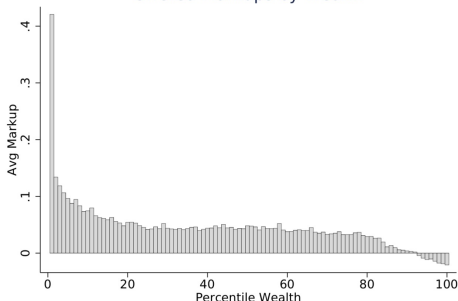
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- Markup differences more likely explained by: (i) binding reserve price, and/or (ii) lack of competition.

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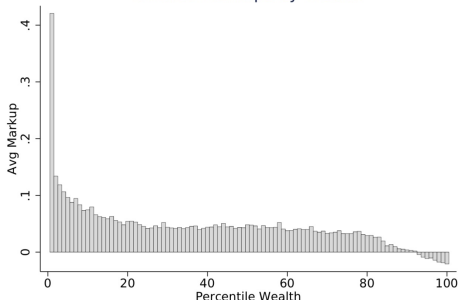
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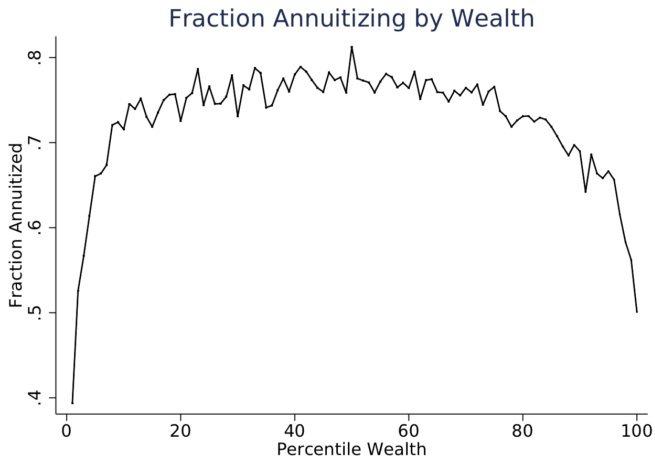
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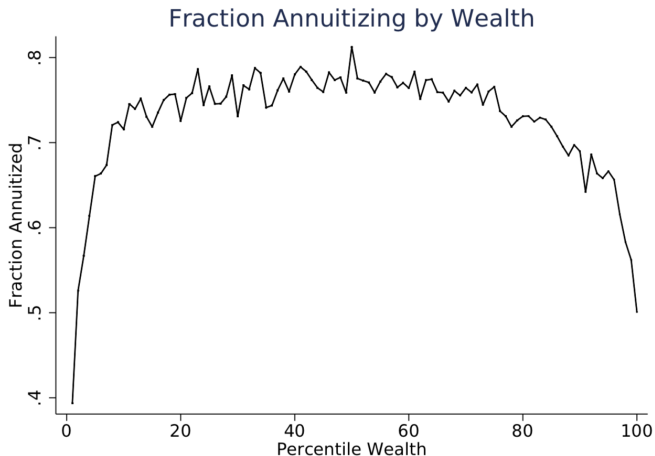


- Price discrimination? Probably not... unless less-wealthy individuals have low price elasticity.
- Markup differences more likely explained by: (i) binding reserve price, and/or (ii) lack of competition.
- What is the role of agents? Offers are “renegotiated” by 2% on average. More likely for agent-based transactions?

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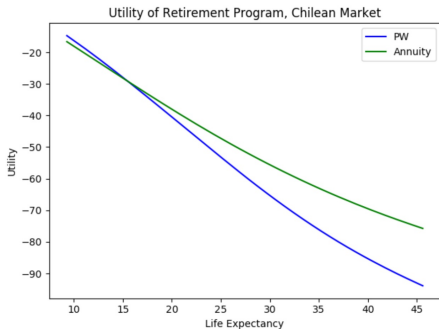
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- Why do we see a decline for wealthy individuals?

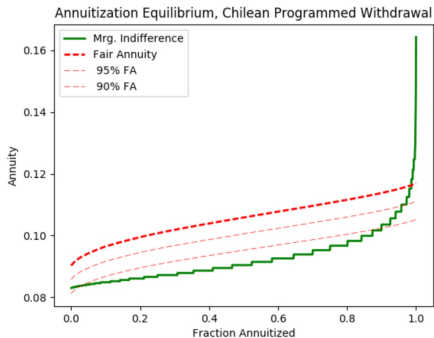
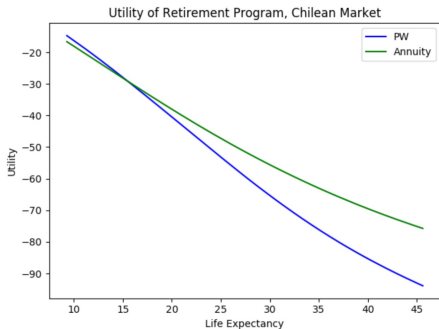
Comment 2: “WTP” and adverse-selection

Average cost (fair annuity): $W = \sum_t \frac{h(t)}{(1+r)^t} \bar{z}$



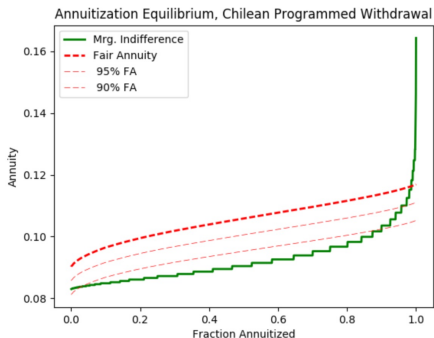
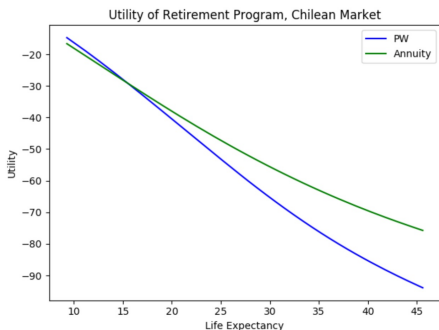
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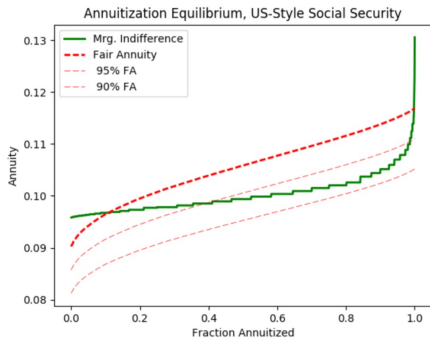
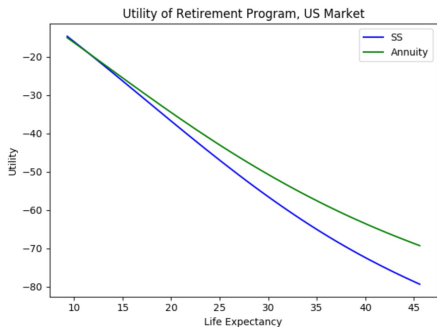
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- Illustration question: Is it possible to draw **downward** sloping demand and average cost curves?

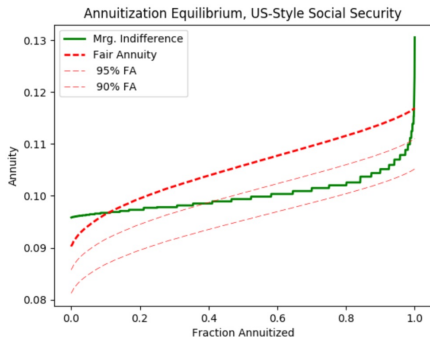
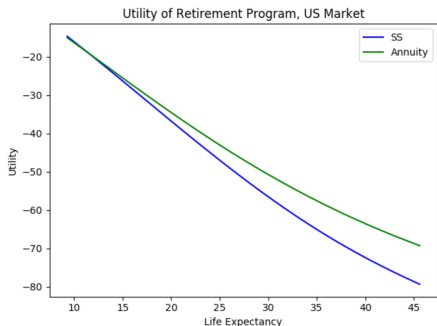
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US Social Security: Mandatory annuitization \downarrow WTP for private annuities



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- Shouldn't the indifference point move right? (not left)
- How would advantageous selection change this intuition?

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- **Identification:** *Loosely speaking, this [rank condition] requires that different types make different choices when faced with the same annuity contract offers.*
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- **Suggestion:**
 - ▶ Contrast finite-mixture results with parametric models.
 - ▶ Example: Joint normal, or two dimension of heterogeneity as in Cohen and Einav.

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 - ▶ Two observationally identical individuals accept different prices: Unobserved heterogeneity in taste preference or mis-measured prices?
 - ▶ If renegotiation is correlated with how people shop (e.g. agents or not), this could be correlated with types.

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 - ▶ *Suggestion (robustness check):* Replace transaction payments with lowest bid, or lowest payments + risk adjustment (e.g. hedonic)
- **Suggestion:** Provide more details+intuition on the identification of the relative importance of adverse/advantageous selection
 - ▶ Better summarize the correlations across types and implications for WTP and Average Cost
 - ▶ Connect identification of unobserved heterogeneity with reduced-form tests for adverse/advantageous selection (e.g. Chiappori and Salanié test + Fan et al.)