

## Health Shocks, Defaults, and Annuity Choices

### **Abstract**

This study examines the impact of a severe health shock on annuity demand. Utilizing a quasi-experimental design with Swedish administrative data, we find that a first-time malignant cancer diagnosis near retirement age lowers annuitization rates by 5%.

This corresponds to a 33% reduction in the present value of life annuities due to decreased life expectancy, indicating a suboptimal response.

Our analysis shows that this effect is primarily shaped by the presence of a default option, suggesting that default-based policies can disadvantage vulnerable individuals. Additionally, we demonstrate that inattention and limited experience further explain the muted response to the health shock.