Discussion of:

Optimal portfolio choice with health-contingent income products: The value of life care annuities

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Motivation

- **Stylised Facts:**

- Policymakers do not like 1. & 2. for reasons
- Economists do not like 1. & 2. for reasons

- Solution in many countries:
  - Social Security systems
Motivation

- Stylised Facts:
  1. People do not buy annuities for reasons

- Problems:
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- Stylised Facts:
  1. People do not buy annuities for reasons
  2. People do not buy long-term care insurance for reasons
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  1. People do not buy annuities \textit{for reasons}

  2. People do not buy long-term care insurance \textit{for reasons}

• Problems:
  – Policymakers do not like 1. \& 2. \textit{for reasons}
  – Economists do not like 1. \& 2. \textit{because their simple models suggest the opposite} \rightarrow \textbf{puzzles}

• Solution in many countries:
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● Stylised Facts:
   1. People do not buy annuities for reasons
   2. People do not buy long-term care insurance for reasons

● Problems:
   – Policymakers do not like 1. & 2. for reasons
   – Economists do not like 1. & 2. because they are worried about welfare

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Motivation

- **Stylised Facts:**
  1. People do not buy annuities **for reasons**
  2. People do not buy long-term care insurance **because of short-sightedness or other behavioural biases**

- **Problems:**
  - Policymakers do not like 1. & 2. because . . .
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- **Solution in many countries:**
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Motivation

- Stylised Facts:
  1. People do not buy annuities for reasons
  2. People do not buy long-term care insurance because Medicaid will eventually pay for LTC expenses

- Problems:
  - Policymakers do not like 1. & 2. because . . .
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- Solution in many countries:
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- **Stylised Facts:**
  1. People do not buy annuities for reasons
  2. People do not buy long-term care insurance because the sick will be rejected

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● Stylised Facts:
  1. People do not buy annuities because of high loading charges
  2. People do not buy long-term care insurance because the sick will be rejected

● Problems:
  – Policymakers do not like 1. & 2. because . . .
  – Economists do not like 1. & 2. because . . .

● Solution in many countries:
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Motivation

- **Stylised Facts:**
  1. People do not buy annuities because of liquidity needs (volatile medical expenses)
  2. People do not buy long-term care insurance because the sick will be rejected

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• Stylised Facts:
  1. People do not buy annuities because of adverse selection (the healthy buy, unattractive for the sick)
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● Suggested solution:
  – Combine 1. & 2. into one product
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• Problems:
  – Policymakers do not like 1. & 2. because . . .
  – Economists do not like 1. & 2. because they worry that the market might not provide products people would buy

• Suggested solution:
  – Combine 1. & 2. into one product
General points

- Usefulness of the exercise depends on explanations for non-purchase of annuities / long-term care insurance being correct – I would need more convincing (e.g., do we see healthy people buying long-term care insurance?)

Especially since standalone long-term care insurance is excluded from the analysis:
The investment menu consists of a standard life annuity, a LCA, a riskless asset, and a risky asset, where either the life annuity or the LCA is available at retirement. The unit of analysis is a single individual who has just retired at age 65 and has a maximum lifespan of 100 years.

Why focus on lump-sum at retirement? In your modelling framework, people would surely buy long-term care insurance earlier in the life-cycle if they had the choice, no?
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- What about persistence of health care expenses?
Modelling

• Time-to-death is certainly no good predictor for high health care expenses. Maybe a great postdictor.

$$\Theta_t = \{H_t, H_{t+1}\}$$

seems strange when health care expenses may be an investment in health
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- I do not really understand why this is necessary here in the first place – just to make health care expenses risky enough for everyone?
Complex products are always a good opportunity for insurance companies to hide fees – assumptions here?
Very minor

- Complex products are always a good opportunity for insurance companies to hide fees – assumptions here?

- Literature review is not useful in its current “Study X finds this, study Y finds that, . . .” form — would need a bit on mechanisms since cited papers are extremely heterogeneous.