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Pricing annuities: The role of taxation in retirement decisions

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Abstract

This paper investigates the role of taxation in individual annuitization decisions by exploiting differences in relative taxation between the one-off lump sum payment and the life-long annuity. In a first step taxes are imputed for both the lump sum and the annuity for each individual whose retirement choice is recorded in an administrative dataset from a large Swiss pension fund. Using a variety of measures of taxation we show that taxes can explain a significant part of the variation in annuity rates. Furthermore, exploiting kinks in the tax schedule within a regression discontinuity framework we find evidence for tax optimization strategies by individuals. The results of this paper suggest that individuals react strongly to tax incentives when making retirement choices.

Jel-Classification: D81, D91, H24, J26 *Keywords:* Annuity Puzzle, Taxation, Occupational Pension.

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1 Introduction

Understanding the determinants and consequences of individual retirement choices is paramount in an increasingly aged society. People entering retirement can choose between cashing out their pension wealth or obtaining a life-long annuity. This decision has become a major policy issue since annuities are one of the best ways to insure against poverty risk in old age. The choice between taking a lump sum or a life-long annuity is among the economically most important decisions in life: it involves a large sum of money, is irreversible and has long-lasting consequences for individuals. Moreover, through its feedback to social insurances (for example, via means-tested social assistance and medical insurance), it impacts public expenditures and hence, society as a whole.

As clearly demonstrated by the literature an annuity's value is one of the important determinants of the demand for annuities. Variations in the value of an annuity (or its price) largely stem, among other things, from the economic and regulatory environment, such as interest rates and conversion rates. The present paper investigates a hitherto neglected factor of an annuity's value: differential taxation of the lump sum and the annuity. Our research takes advantage of the highly decentralized tax system in Switzerland in which tax schedules not only depend on income and wealth, but also differ between cantons and municipalities. More importantly, there are sizeable differences in the tax treatment of retirement wealth depending on whether its drawn down as a lump sum or as an annuity.

Switzerland is an ideal laboratory to analyse how individuals within a relatively homogeneous region react to differential taxes and take advantage of them to optimize their after-tax wealth or income. Nonetheless, the consequences of taxation for annuitization decisions have not yet been addressed in the literature.

We study the impact of taxation on individual annuitization choices using administrative records from a large Swiss insurance company. The dataset includes 14,620 individual cash-out decisions made between the years 2007 and 2015. We develop a tax model that allows imputation of different tax measures for all individuals in our dataset. We use several approaches to study the relationship between taxation and annuitization choices: descriptive statistics, OLS regressions and a regression discontinuity design.

Our tax imputation model reveals that there are substantial differences between taxation of the lump sum and taxation of the annuity. Furthermore, tax schemes and resulting tax loads vary a lot across cantons and municipalities in Switzerland. Taken together, this leads to large differences in the annuity's value: for a given wealth level, a low tax on the lump sum, relative to the annuity, makes the annuity less attractive. Our empirical estimates show that taxes are an important determinant of individual annuitization choices: an increase in the tax rate on the lump sum is associated with a significant increase in the annuity rate, on average, while an increase in the tax rate on the annuity leads to a significant decrease in the annuity rate, on average.

But individuals can not only optimize their after-tax wealth by choosing one of the polar options: if there are sizeable jumps in the marginal tax rate on the lump sum, a carefully chosen mix between the two options can reduce the tax burden for the retiree. Using a regression discontinuity design we find evidence for tax optimization strategies by individuals: individuals sort into more favorable tax brackets by annuitizing part of their pension wealth and taking the rest as a lump sum. This tax optimizing behaviour is only observed among the wealthy.

Our results suggest that individuals react to tax incentives with regards to retirement choices. This has important policy implications. On top of mandates and nudges a more preferential tax treatment of annuities relative to the taxation of lump sum payments could induce individuals to annuitize a larger share of their pension wealth. As a consequence, the prevalence of low incomes in old age as well as means-tested social assistance to those who run out of assets would be reduced.

The paper proceeds as follows: Section 2 reviews the literature and Section 3 presents key features of the Swiss pension system and the Swiss tax scheme. Chapter 4 discusses the data and descriptive statistics and chapter 5 outlines the identification strategies. Section 6 presents the results. Section 7 summarizes and concludes.

2 Related Literature

A large literature analyses the determinants of individual annuitization choices. Brown (2001) constructs a utility-based measure of an annuity's value which accounts for differences between marital status, mortality, risk aversion and social security receipts. He finds that this measure of an annuity's value is significantly positive related to annuitization decisions, thus providing empirical evidence that the predictions of life-cycle models are consistent with annuitization behaviour.

As the first paper to use actual second pillar payout decisions, Bütler and Teppa (2007) study the determinants of annuitization choices in Swiss pension funds. Women are found to be significantly more likely to cash out pension wealth than men. The difference can be explained by the availability of alternative sources of income through their husband or partner, thereby decreasing the willingness to pay for taking the annuity. Lower retirement wealth is strongly associated with choosing the lump sum. A possible explanation is the existence of means-tested benefits which act as an insurance, inducing low-wealth individuals to take the lump sum for consumption. This has been investigated by Bütler, Staubli, and Zito (2013) who find that means-tested benefits are indeed associated with a decrease in demand for annuities, especially for individuals at the lower end of the wealth distribution.

Bütler, Staubli, and Peijnenburg (2013) take advantage of a large policy change in Switzerland to analyse how the annuitization decision is affected by an exogenous variation in the value of the annuity: the policy change led to an 8% reduction in the rate at which retirement capital is translated into a lifelong annuity - equivalent to a net present value loss of around US\$ 18,500 for the average affected retiree. A decline in the annuity value by 1 percentage point leads to a decline in the annuitization rate by 2.1 percentage points for the average retiree.

Chalmers and Reuter (2012) study payout decisions in the Oregon Public Employees Retirement System. While they find no evidence that retirees respond to small changes in annuity prices they provide evidence that people do respond to large, salient changes in an annuity's value. Moreover, in contrast to the papers cited above (as well as Bütler and Ramsden (2015)), the demand for the lump sum option does not fall when interest rates fall (i.e. when the 'price' on the annuity decreases). The authors attribute this surprising finding to a lack of financial literacy.

The estimation of the impact of an annuity's relative value is challenging because of a lack of exogenous variation in annuity prices, explaining why only few studies have analysed the role of the relative value of an annuity in annuity demand. We add to this literature by investigating how changes in the relative price of an annuity, compared to the lump sum, induced by differential taxation affect the decision to annuitize: taxes affect the relative prices of different retirement options and are thus bound to impact individual decision making on retirement savings, the age of retirement and - as in this paper - the drawdown pattern of retirement wealth.

401(k) pension plans in the US, for example, subsidize savings through an income tax deferral and through investment accrual at the pre-tax interest rate. Cunningham and Engelhardt (2002) investigate the responsiveness of savings of 401(k) plans to taxation. Using data from the Health and Retirement Study (HRS), they find that the limit on the tax deductibility of individual retirement account contributions, which were enacted with the Tax Reform Act of 1986, led to an increase in 401(k) savings of 6 percent.

A number of other papers find evidence for the distortionary nature of taxation in individual

retirement decisions, e.g. Michel and Pestieau (2002/2003), Pech (2004) and Pech and Brunner (2006). Hagen (2015) who calculates the value of an annuity both gross and net of taxes finds that the present value of a 5-year payout (an option similar to cashing out one's pension wealth) could fall by more than 20% relative to the life annuity when taxes are accounted for. The negative tax effect on the present value of the fixed-term payout is particularly large for high-income individuals with large capital stocks.

While it is easy to establish a relationship between taxes and retirement decisions in theory, it is more difficult to find variations in tax rates to isolate the effect of taxes. Switzerland provides an excellent setting to study the effects of differential taxation within a relatively homogeneous region. The majority of this literature studies the effect of the decentralized tax system on income sorting, such as Brülhart and Parchet (2014), Schaltegger et al. (2009), Liebig and Sousa-Poza (2006), Schmidheiny (2004) and Feld (2000).

Brülhart and Parchet (2014) study the effects of bequest taxes on the mobility of elderly, wealthy tax payers in Switzerland. They exploit a number of reforms in the taxation of bequests between the years 1973 and 2008 within a panel regression framework. The tax cuts did not have a statistically significant impact on migration of high-income retirees: the compositional changes are not large enough to translate into significant effects on the overall size of the tax base concerned. Yet, their findings suggest that if taxes were higher, they could potentially have an effect on migration patterns of wealthy retirees.

Using municipality-level data from the Swiss canton of Zürich, Schaltegger et al. (2009) analyse the effect of income taxes on the distribution of households according to their taxable income. The findings of Schaltegger et al. (2009) support the income segregation hypothesis, thus, they suggest that individuals react to differential taxation within a federal system with their choice of residence. On the other hand, Liebig and Sousa-Poza (2006), using data from the Swiss Household Panel for the years 1999 to 2001, do not find large effects of income taxation on individual migration choices. Migration decisions are strongly influenced by factors related to housing, but individual responses to taxation are rather inelastic. Feld (2000) and Schmidheiny (2004) confirm a limited impact of taxation on within-country migration for the full population. Only individuals with very high incomes choose their place of residence according to fiscal incentives (Feld, 2000). Schmidheiny (2004) uses administrative tax data from the canton of Basel City from the year 1997 to show that rich households are significantly more likely to migrate to low-tax municipalities than poor households. The preference of rich households for low-tax municipalities, however, can only partly be explained by the progressivity of the tax scheme. Evidence on the impact of taxes on individuals moving decisions is thus not conclusive.

A recent paper by Schmidheiny and Slotwinski (2015) investigates behavioural responses of foreigners around the threshold where the special tax regime which only applies to foreigners, the so-called source tax, changes to the ordinary ordinary tax regime which applies to all individuals in Switzerland. They find that foreigners from high-tax municipalities push their income just below the threshold of CHF 120,000 where the tax regime changes, while foreigners from low-tax municipalities shift their income above the threshold. This paper thus provides evidence for strategic bunching of individuals around the tax threshold.

3 Institutional Background

3.1 The Swiss Pension System

The first and the second pillar are the core of Switzerland's three pillar pension system and account for the bulk of retirement income.

The first pillar is a pay-as-you-go universal system which aims to provide a subsistence level of income to all retirees. The benefits depend on the amount of income earned during one's

work life as well as the number of years contributed to the work force. The minimum is CHF 1,175 per month and the maximum CHF 2,350 per month (as of 2014).

In case first pillar income is not enough to cover basic needs, means-tested supplemental benefits are paid. As such, means-tested benefits may create incentives to cash out second pillar pension wealth because they guarantee a minimum income at retirement and thus act as an implicit insurance against financial consequences of longevity (see Section 2 for a discussion). The third pillar constitutes a voluntary, private pension plan. The statutory retirement age is 65 for men and 64 for women.

The second pillar, which is the focus of our analysis, is a fully funded occupational pension scheme, mandatory for all employees whose annual income exceeds a pre-defined threshold (CHF 24,675 in 2015). Its goal is to maintain pre-retirement living standards. An employer can choose from different organizational structures for his occupational pension plan. These range from setting up a completely autonomous pension fund to outsourcing the scheme entirely to an insurance company. The latter is relatively common, particularly for small and medium sized companies. Almost all pension plans are based on defined contributions, but carry extensive guarantees.

At retirement workers withdraw the accumulated second pillar retirement capital as a monthly lifelong annuity, a lump sum, or a mix of the two options. People who receive full disability insurance cannot opt for the lump sum, and at most a partial lump sum if they claim partial disability insurance. Annuities are strictly proportional to accumulated retirement assets: second pillar pension wealth W is translated into a yearly nominal annuity A using the conversion rate γ , hence $A = \gamma W$. The conversion rate varies with retirement age and gender (see Table 8 in the Appendix). The law stipulates a minimum conversion rate for the mandatory part, which is currently 6.8%.¹

The accumulation and decumulation phase of occupational pensions are organized by the same provider. It is possible to withdraw the accumulated balances to buy an annuity in the unregulated market but such a strategy would never be optimal as the conversion rates (γ) in unregulated markets are well below conversion rates in the regulated second pillar.

If an individual has a dependent child at the time of retirement, child benefits are paid provided the annuity is chosen. A widow's (widower's) pension can be obtained by surviving spouses who have been married for at least 5 years if the claimant dies (again, only in case the annuity is chosen).

3.2 Taxing annuities and lump sums

Second pillar annuities are subject to the ordinary income tax. That is, if the annuity is chosen, the annual income stream from pension wealth, A , is taxed like ordinary income, together with any other income, in particular, income from the first pillar. For retirees, taxable income is close to gross income.²

The lump sum, on the other hand, is subject to a special, one-off tax applied to the full amount of pension wealth cashed out. There are no deduction possibilities and tax rates apply to the lump sum from the second pillar alone, unless it is cashed out at the same time as third pillar pension wealth.³ If annuity and lump sum are combined, both taxes are applied to the

¹The amount of insured income above the lower threshold (CHF 24,675 in 2015) and below the upper threshold (CHF 84,600 in 2015) is called the mandatory component, and income above the upper threshold is called the super-mandatory component. All pension providers are required by law to insure the mandatory share. They are free to offer insurance for the super-mandatory share, however most (including the pension fund providing this data) do so because the second pillar is considered an integral part in attracting well-educated workers in Switzerland's tight labour market.

²While many deductions exist for working individuals and for families, few deductions are available for retirees.

³About a fifth of all retirees obtain both money from their second pillar and third pillar five years after retirement, the other 80 percent obtain money from their first pillar, or from their second and first pillar. The

amount withdrawn as either option. Figure 1 gives an overview on the taxation of second pillar wealth:

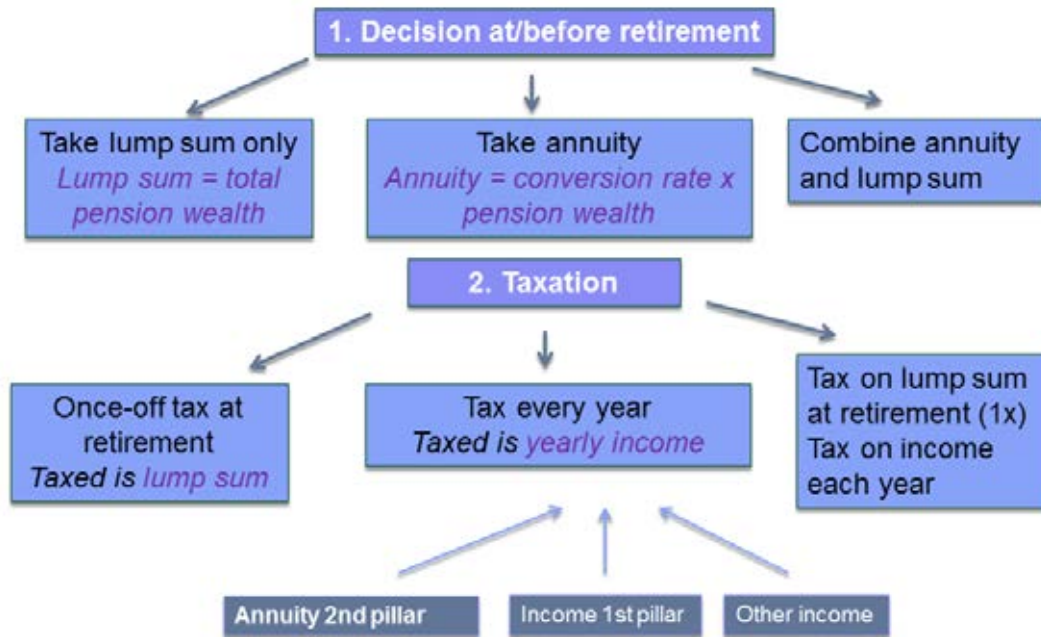


Figure 1: Taxation of second pillar pension wealth

Like ordinary income and wealth, annuities and lump sums are taxed at three levels in Switzerland: at the federal, at the cantonal and at the municipality level. For the majority of individuals, the federal tax constitutes less than 20% of their total tax, the remainder of the tax load goes to the municipality and to the canton in roughly equal shares.

To calculate taxes on annuities and lump sums for any type of individual, we use information on tax schemes from the tax administrations of all 26 Swiss cantons. To calculate the tax load, the so-called base tax has to be calculated first. The base tax is defined by the cantons and determines progressivity of the tax schedule. The base tax is multiplied with the cantonal and municipality tax multipliers to obtain the total canton and municipality tax load.⁴ Consequently, there are large differences in tax progressivity across cantons but not between municipalities within each canton. In most cantons, the base tax differs according to marital status while the canton and municipality tax multipliers are the same for married and non-married individuals.⁵ Switzerland has roughly 2600 municipalities, the number decreasing over time due to municipality mergers. For this reason, municipality tax multipliers are always provided on the village level and need to be matched by their names, rather than their zip code or the statistical code by the Swiss federal statistical office. This requires to keep track of all name changes and municipality mergers over time.

To sum up, we set up a model which calculates the base tax for both married and unmarried individuals with any amount of pension wealth and annuity income, and apply the municipality and cantonal tax multipliers to obtain the total tax liability. Applying our model to a hypo-

fact that it would never be optimal to withdraw money from the second and third pillar in the same year is pointed out by banks when retirees withdraw their savings from their third pillar. We therefore abstract from this possibility in our analysis.

⁴Most cantons provide the information for calculating the base tax online. Those cantons which do not provide the information online were contacted by email or telephone, after which the information was willingly provided.

⁵Canton tax multipliers are available online, and as of 2011, municipality tax multipliers are also provided online by the federal tax administration.

thetical dataset consisting of observations in each municipality in Switzerland with a moderate pension wealth of CHF 200,000 shows that the federal system leads to substantial differences in tax loads on the annuity and on the lump sum. This is illustrated by Figures 2 and 3:

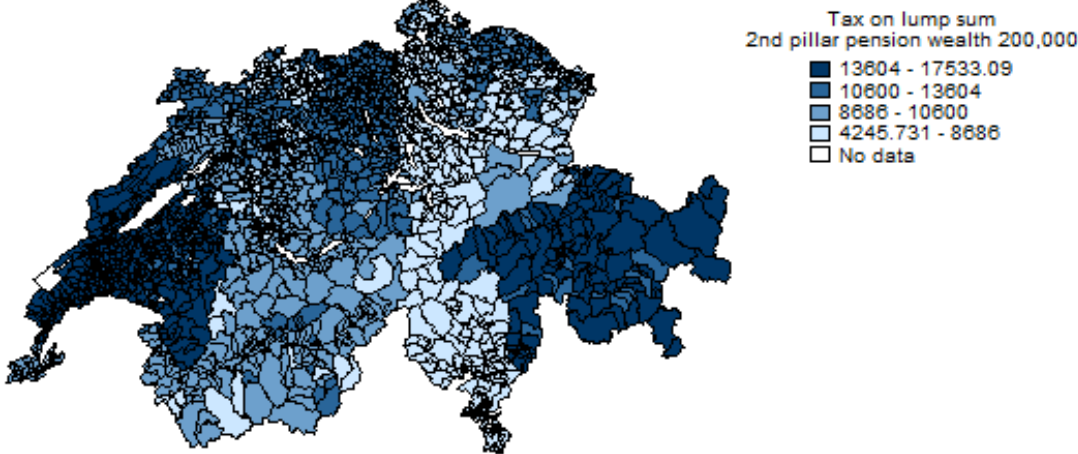


Figure 2: Tax load on lump sum of CHF 200,000 for married individuals

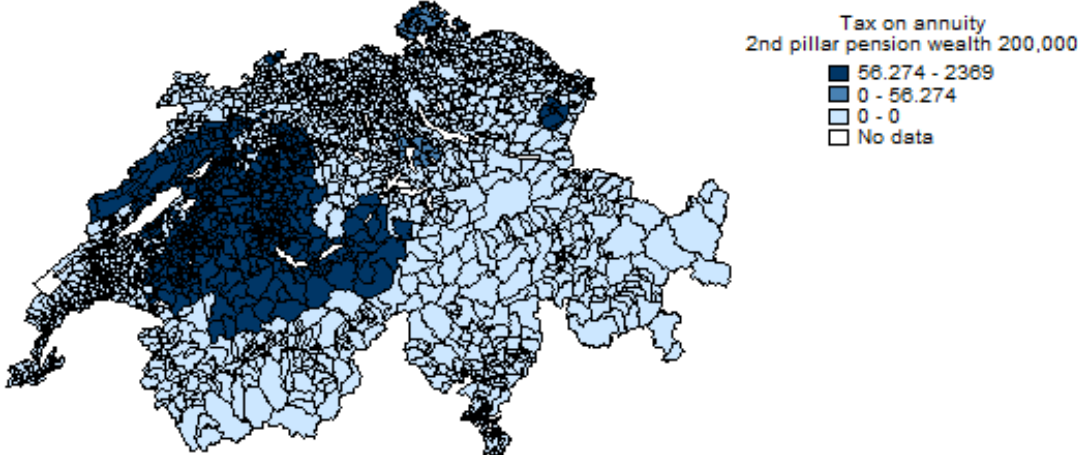


Figure 3: Tax load on annuity, pension wealth of CHF 200,000 converted to annual income of 13,600; married individuals

The total tax liability on the lump sum ranges from about CHF 4,000 to over CHF 17,000,

the tax liability on the annuity (corresponding to an annual income of about CHF 13,600) ranges from CHF 0 to over 2,000. While some municipalities have high (or low) taxes on both the annuity and the lump sum, others levy a high tax on the lump sum but only a moderate tax on the annuity, and vice versa. There is thus a shift in colours between the map for taxation of the annuity and the map for taxation of the lump sum. For different levels of pension wealth, applicable tax rates again differ between cantons and municipalities hence, there is once more a shift in colours as illustrated by Figures 5 and 4. Now taxes range from 18,360 to over 60,000 for the lump sum and from 0 to over 10,000 for the annuity.

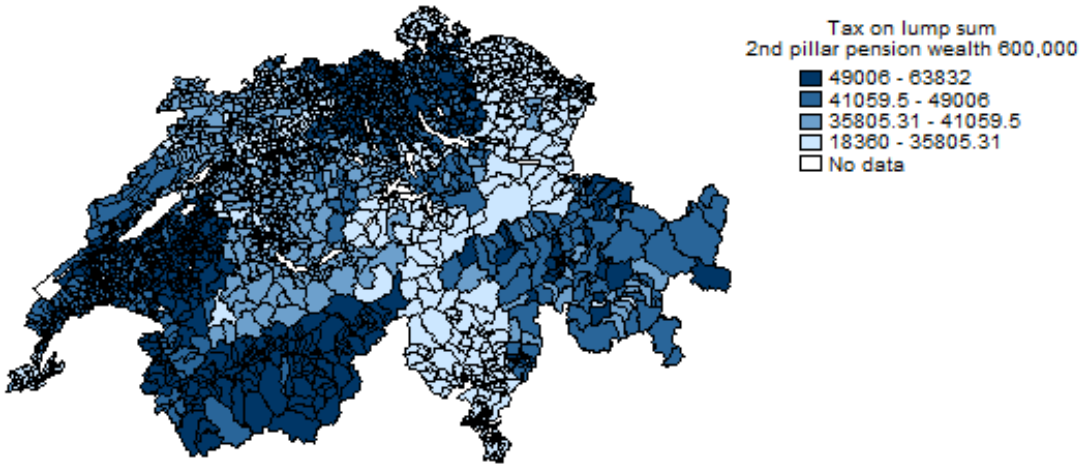


Figure 4: Tax load on annuity, pension wealth of CHF 600,000 converted to annual income of 40,800; married individuals

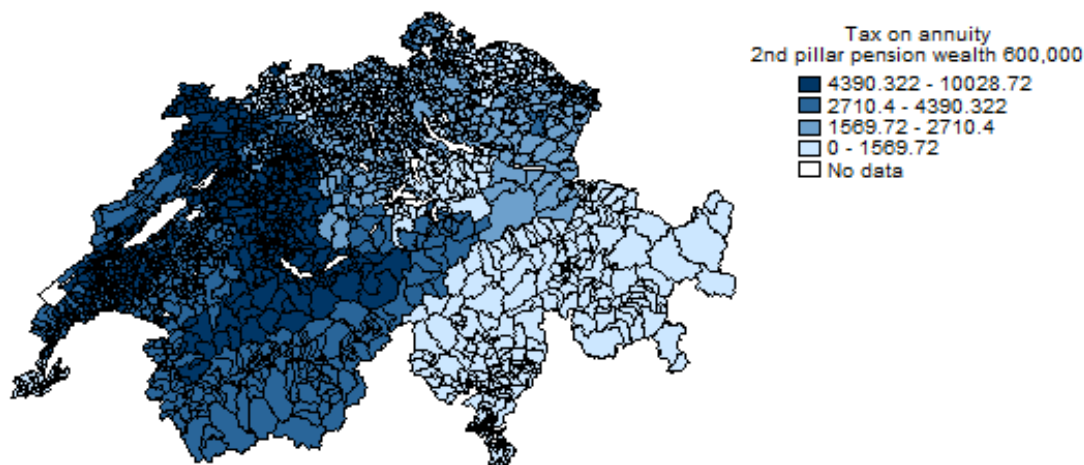


Figure 5: Tax load on lump sum of CHF 600,000 for married individuals

Taxes may change slightly over time as municipalities can adjust the municipality tax multiplier to increase or decrease their tax revenues. Cantons can do the same however not as easily as municipalities since more parties and negotiations are involved. Five of the 26 cantons changed the base tax calculation for the lump sum during the time period under consideration (Bern, Uri, Glarus, Appenzell Ausserrhoden and Graubünden) however, these changes did not translate into large differences in tax liabilities.⁶ Thus, while we take into account these changes in our tax calculation model, we do not exploit changes over time explicitly.

Several cantons introduced tax-related policy changes on a cantonal level in the time period under consideration, following one or more cantonal ballots, namely Baselland, Lucerne, Bern, Zug, Schaffhausen, Aargau and Solothurn. The nature of the changes varies, although most of them addressed families through the implementation of, e.g., deductions from income for children or decreases in tax rates for families with children. None of these changes were targeted at retirees.

In a second step, we apply this model to the administrative insurance data to calculate tax loads and tax rates on the annuity and on the lump sum for all observations within that dataset. The formula for the calculation of the tax on the lump sum can be applied directly to the amount of gross pension wealth. To calculate annuity income, we apply applicable conversion rates to pension wealth to transform the latter into an annual income stream (see Table 8 in the Appendix for an overview on applicable conversion rates). We also approximate income from the first pillar for each individual and add it to income from the second pillar. According to BSV (2014), both men and women receive on average 86% of the maximal first pillar income. This is because each year not contributed (the so-called ‘tax gap’) leads to a reduction of 1/44 in one’s first pillar income. We thus assign 86% of the maximal first pillar income to all individuals in our dataset.⁷

⁶Investigation with a difference-in-differences model shows that individuals have not reacted to these changes in base tax calculation with a change in annuitization behaviour.

⁷The maximum first pillar income differs by year, which we take into account.

4 Data and Descriptive Statistics

Our empirical analysis uses administrative records from a large Swiss insurance company which provides pension plans to small- and medium-sized companies in the private sector. The latter constitute 99 percent of all companies in Switzerland and provide about two thirds of all places of employment in Switzerland (BFS, 2012).⁸ The data contains information on retirement choice (taking the annuity or the lump sum, or a combination of the two), to create the outcome variable, Y :

$$Y = \frac{\text{Amount of pension wealth withdrawn as annuity}}{\text{Total pension wealth}} \quad (1)$$

It also contains the following individual characteristics: date of retirement (*date*), age at retirement (*age*), gender (*sex*), marital status (*married*), total second pillar pension wealth at time of retirement (*wealth*), income in the year before retirement (*income*), whether the individual receives a disability insurance (*disability*) and whether individuals have ever withdrawn money from their second pillar to finance the purchase of a house (*WEF*, from the German ‘Wohneigentumsförderung’). We further know in which sector (defined by so-called Noga codes) the individual worked prior to retirement (*noga*). We exclude individuals who receive full disability insurance because their choice to take the lump sum is severely restricted (see Section 3.1; descriptives statistics for the full sample are in the Appendix in Table 7). Table 1 provides summary statistics for the observations which are used for the analysis:

⁸The formal definition of a small- or medium-sized company provided by the Swiss Federal Statistics Office is that it should not contain more than 249 employees.

Table 1: Descriptive statistics

Variables	N	mean	s.d.	min	max
<i>Covariates:</i>					
Sex	12,186	0.36	0.48	0	1
Married	12,186	0.7	0.46	0	1
Age	12,186	64.33	1.63	58	70.97
Pension wealth	12,186	295,359	335,693	100	6,824,000
Income	12,186	77,660	58,175	0	1085000
WEF	12,186	7,749	46,608	0	1,500,000
Annuity after retirement*	6,003	20,079.41	22,285.71	0	289,200
<i>Dependent variables and variables of interest:</i>					
Annuity rate	12,186	0.45	0.48	0	1
Choice of combination	12,186	0.21	0.41	0	1
Fraction annuitized**	1,619	0.69	0.25	0.02	1
Tax on annuity	12,186	1,213	3,573	0	89,470
Tax on lump sum	12,186	20,294	37,072	0	638,382
Tax rate annuity	12,186	0.03	0.04	0	0.28
Tax rate lump sum	12,186	0.05	0.02	0	0.31
Ratio	12,186	0.03	0.05	0	0.7
MWR	12,186	1.11	0.08	0.94	1.24
Net-tax MWR	12,186	1.14	0.09	0.80	1.43
<i>Average wealth by type of choice (annuity, lump sum, or combination):</i>					
Lump sum	4,382	304,099	268,761	2,700	4,142,800
Annuity	6,177	241,697	344,936	100	6,823,800
Combination	1,627	476,487	399,115	4,500	4,257,300

**Annuity after retirement*: only for individuals which receive an annuity.

***Fraction annuitized*: only for individuals which annuitize part of their pension wealth.

Notes: Sex=0 if male, 1 if female. Married=1 if married, 0 if not married (divorced, widowed, single). Wealth, income, WEF and tax loads are in CHF. *WEF* is amount of pension wealth withdrawn prior to retirement to finance purchase of a house. Choice of combination=1 if choice is both annuity and lump sum, 0 if lump sum only. Ratio= ratio of tax on annuity to tax on lump sum. Fraction annuitized = share of pension wealth taken as annuity. People receiving disability insurance are excluded.

Our data is a fairly representative sample of the Swiss population and corresponds closely to other papers which have used data from Swiss pension funds: the average annuity rate is almost equivalent to the rate of 0.443 in Bütler, Staubli, and Zito (2013). Average age at retirement is only slightly higher than in Bütler, Staubli, and Zito (2013) and Bütler and Teppa (2007) where the average age is 63.9 years and 61.75 years, respectively. A lower share of women in this dataset corresponds roughly to the national average of second pillar recipients, which is 0.41 (BFS, 2013). The number of people entering retirement increases over time but is unrelated to specific retirement dates, although there seems to be a cyclical component (see Figure B in the Appendix). Average age at retirement remains stable over time (see Figure B in the Appendix).

For every individual in the dataset we first calculate the (gross) present value of an annuity,

i.e., the present value of an annual income stream of 1 after retirement, without taking into consideration taxation. The present value (PV) captures changes in the yield curve which represent investment opportunities if the lump sum is taken. We calculate the present value annuity factor at the statutory retirement age of 65 for a male beneficiary until the end of his life.⁹ We use nominal yields on Swiss treasury bonds with maturities of 1, 2, 3, 4, 5, 6, 7, 8, 10, 20 and 30 years to calculate the expected nominal short rate in each future period. Life expectancy is calculated using data from mortality tables created by the Swiss Federal Statistics Office (BFS). We then calculate the money's worth ratio (henceforth MWR), a measure of the value of an annuity compared to the cash-out option, both with and without taxes. The MWR has been used in a number of papers, e.g. Mitchell et al. (1999), Brown (2001), Finkelstein and Poterba (2004), Chalmers and Reuter (2012) and Hagen (2015). It is expressed as the ratio of the present value of an annuity to the value of the lump sum:

$$MWR = \frac{\text{Present value life annuity}}{\text{Lump sum}} \quad (2)$$

The net MWR explicitly takes into account taxes, comparing the net-of-tax income stream after retirement to the net-of-tax lump sum.

Figure 6 shows the difference in the MWR and the net-MWR by retirement choice (lump sum, annuity, or combination) for 6 cantons. The blue bars represent the MWR without taking into account taxation, while the red bars represent the MWR net of tax. For Zürich, Luzern, Baselland and Aargau the MWR is lower when not taking into account taxation, that is, the value of an annuity increases when taxes are taking into account. This is because the tax on the lump sum is relatively high in those cantons compared to the tax on the annuity. In Bern and St. Gallen the picture is less clear-cut: the value of an annuity increases for lower wealth individuals when taking into account taxation because of the relative high taxation of the lump sum (compared to the annuity) for lower-wealth individuals, but decreases for higher wealth individuals.

⁹The age of 65 is chosen because it corresponds to the statutory retirement age for men, and we chose men rather than women because there are more men in the sample. Our present value annuity factor is biased downwards as individuals covered by the second pillar have, on average, a higher life expectancy than the overall population.

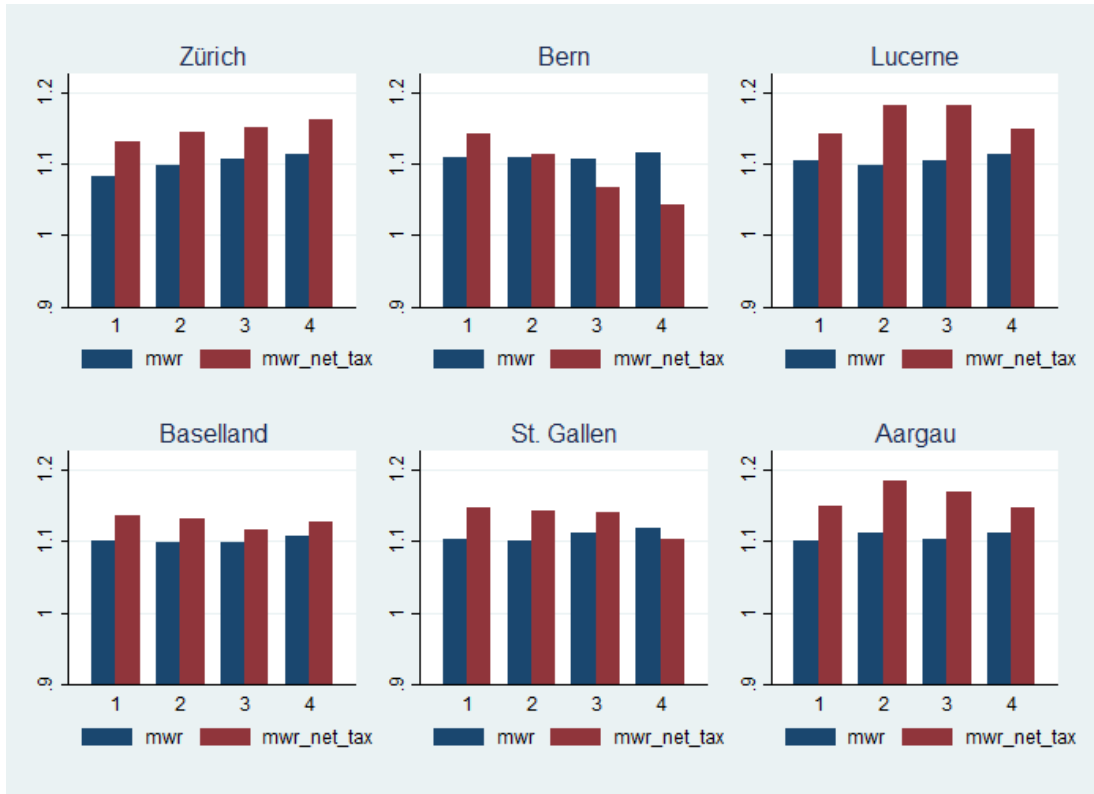


Figure 6: MWR (blue bars) and net-of-tax MWR (red bars) across wealth quantiles, 6 cantons

Figure 7 shows the (average) tax rate on the lump sum across the wealth distribution. The average tax rates are defined as the percentage of post-retirement wealth spent on taxes. It shows that the tax rate on the lump sum is higher for Zürich than for other cantons and increasing at different rates across cantons. The clouds in Figure 7 can be explained by differences in taxes by marital status and date of retirement for individuals with the same amount of pension wealth: tax rates differ between married and single individuals and also (to a much lesser degree) over time.

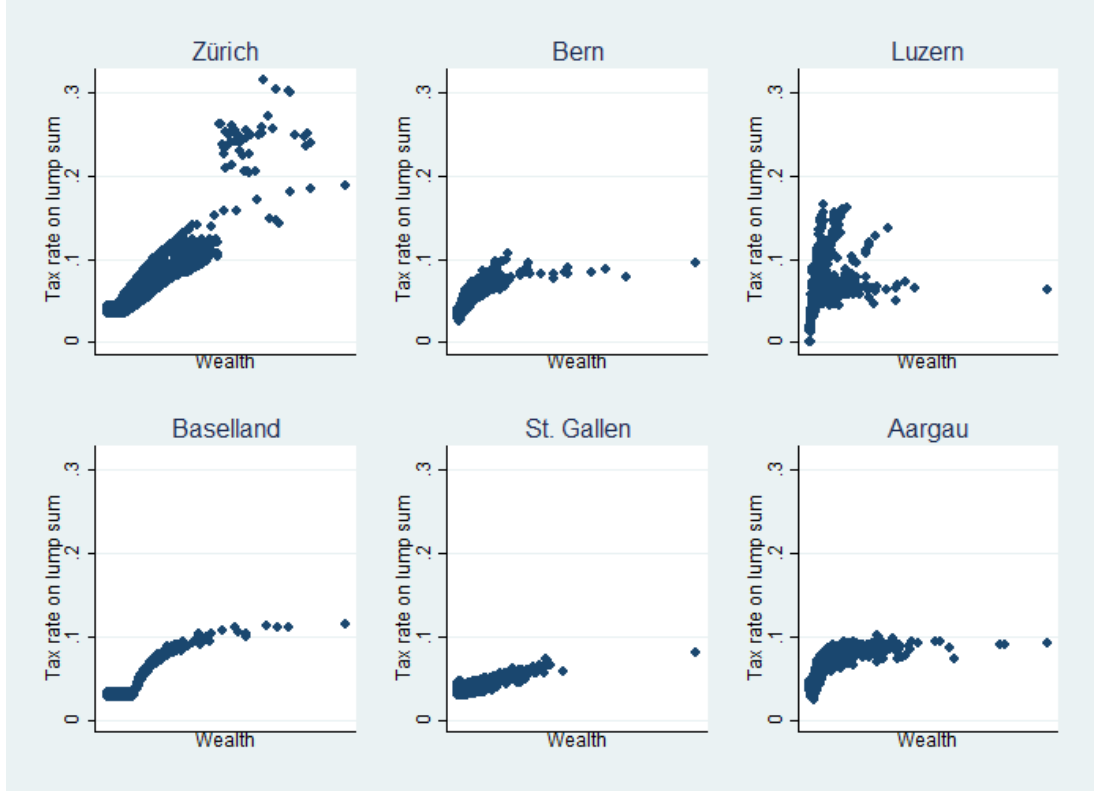


Figure 7: Tax rate on lump sum across wealth. Married and single individuals.

5 Regression Analysis

5.1 OLS Regressions

In a first step, we run OLS regressions of the annuity rate on 3 different tax measures: the (average) tax rate on the annuity, the (average) tax rate on the lump sum and the ratio of the tax on the annuity to the tax on the lump sum.

The OLS regressions can be written as follows:

$$Y_i = \beta_0 + \beta_1 * Z_i + \beta_2 * X_i + \eta_i \quad (3)$$

Y_i is the annuity rate defined in Section 4, Z_i refers to our tax variables and X_i are control variables. The tax rate on the annuity and the tax rate on the lump sum are included in the same regression because they represent a trade-off between the two choices.¹⁰ The regressions on the tax ratio are run separately to avoid collinearity. We control for age, age squared, gender, marital status, the present value of the annuity and the sector in which the individual has worked prior to retirement as all these factors have been shown to affect annuity choices (for the relationship between age, gender, marital status and an annuity's value see, e.g., Bütler and Teppa (2007), and for the relationship between work sector and annuity choice see Bütler and Ramsden (2015)).

We further control for pension wealth as the tax rate is a function of accumulated pension wealth, and wealth squared to capture non-linearities in wealth with regards to annuity demand. Time dummies are included in most regressions: including time fixed effects controls for differences in the annuity rate over the years, which is important as we observe an increase in the

¹⁰Running separate regressions for the two variable leads to almost identical results.

annuity rate over time (see Bütler and Ramsden, 2015, for a discussion). We do not include canton dummies (which control for all unobservable time-invariant canton-specific factors affecting the annuity rate) as doing so eliminates an important source of variation in relative tax loads of the two drawdown options.¹¹

The distribution of the outcome variable has two mass points at zero and one as a large fraction of individuals in the sample chooses either only the lump sum or only the annuity. The resulting loss in efficiency can be taken care of by computing heteroskedasticity-robust standard errors. Results of a Breusch-Pagan test for heteroskedasticity support the use of heteroskedasticity-robust standard errors.

In all estimations we assume that, after controlling for covariates, taxes on the annuity and on the lump sum are exogenous: at the time of retirement, the individual is faced with a given tax on the annuity and lump sum. There is a concern that individuals change residence prior to retirement to take advantage of favorable tax conditions *after* making a choice between the annuity and the lump sum. If this was the case, our results would suffer from bias due to reverse causality. It seems reasonable to assume that the willingness to migrate is lower among the elderly than among the young, in particular for lower wealth individuals. Brülhart and Parchet (2014) found that cuts in bequest taxes had almost no impact on migration patterns of elderly taxpayers nor on the tax base represented by these individuals in terms of federal income taxes. This result is supported by findings from other papers, however, a few studies have shown that tax competition in Switzerland might lead to migration to more favorable tax municipalities among the very wealthy (see, section 3.2 for an overview).

Nevertheless, we use several strategies to address potential endogeneity issues such as selection effects into low-tax municipalities: we exclude high-wealth individuals from the dataset as those are the ones which are likely to migrate to take advantage of lower taxes. This is primarily important for the regressions on the lump sum tax rate: since the tax on the annuity is the same as the tax on income, people who move for income tax reasons would have done so prior to retirement. Moreover, excluding wealthy retirees circumvents the problem of a potentially different annuity demand for the very rich. We also control for income from last year of employment and withdrawal of pension wealth to finance owner-occupied housing (*WEF*): income before retirement might be an important determinant of residence, which in turn influences tax rates. Withdrawing pension wealth prior to retirement to finance purchase of a house might directly affect the tax rate that individuals face at retirement. It not only reduces the amount of pension wealth in the second pillar, but also makes moving more costly. In some specifications we additionally control for cantonal debt per capita which proxies for tax expectations: individuals that live in a canton with high debt might expect tax rates to increase in the future, consequently choosing the lump sum over the annuity. We do not include this variable in all regressions as it is not available for 2014 and 2015, thus leading to a loss in observations.

5.2 Regression Discontinuity Design

In this part we analyse whether individuals choose a combination of annuity and lump sum to optimize taxation. For most individuals a combination between an annuity and a lump sum reduces the tax burden due to the progressivity of both taxes. The relative gain over a polar option might be ample if the individual faces a large jump in the marginal tax rate on the lump sum. In this case individuals can optimally choose the right combination of annuity and lump sum to be in a more favorable tax bracket.

We exploit the fact that tax schemes of the lump sum create kinks in the marginal tax rate as a function of wealth, illustrated by Figure 8 for 6 cantons:

¹¹Including canton fixed effects leads to very similar results, hence variation within a canton seems to be enough to drive the effects that we observe when not adding canton fixed effects.

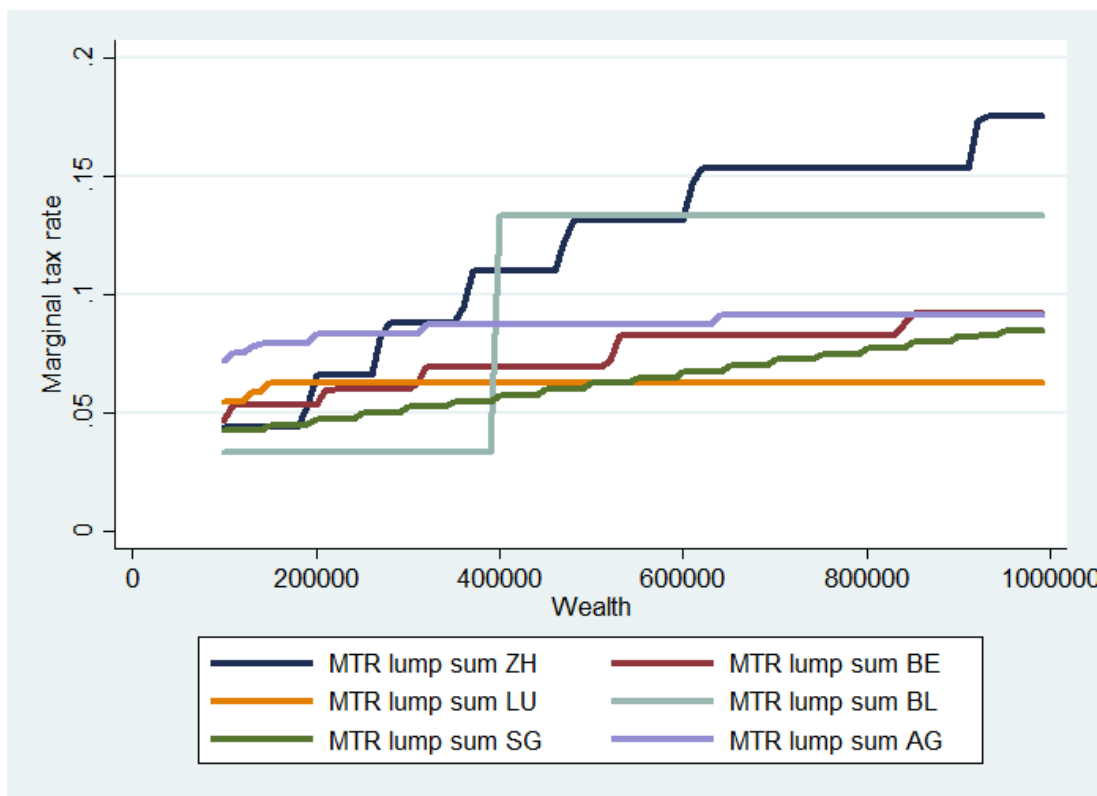


Figure 8: Marginal tax rate of lump sum across wealth.

Figure 8 shows that tax schedules differ a lot between the cantons. For example, while the canton of St. Gallen has a lot of small jumps in the marginal tax rate, the canton of Baselland has one large jump in the marginal tax rate at a pension wealth of 400,000. Individuals with a pension wealth just above CHF 400,000 might thus be better off annuitizing part of their pension wealth and taking the rest as a lump sum. We have calculated two examples: individuals with a pension wealth of CHF 410,000 pay around CHF 900 more in tax than individuals with a pension wealth of 400,000 (the exact amount depends on the municipality of residence), and individuals with a pension wealth of CHF 500,000 may pay up to CHF 10,000 more in tax, depending on the municipality of residence.

Figure 9 shows, for the full sample and for the cantons with the largest number of observations in the dataset, the (hypothetical) amount of tax on the lump sum across different choices (annuity, lump sum or combination of the two): the tax load on the lump sum is imputed for every individual regardless of his or her actual choice (excluding individuals which receive disability insurance). The average tax on the lump sum is always largest for those who take a combination of annuity and lump sum, suggesting that this choice is particularly attractive for individuals with large pension wealth and consequently, a high tax on the lump sum. The average tax on the lump sum is lowest among those who choose the lump sum, suggesting that individuals with a high tax on the lump sum choose to cash out less, on average. It also suggests that individuals who annuitize part of their pension wealth (choose the combination option) have a higher wealth stock, on average, than individuals who choose a polar option. The last 3 rows in Table 1 and Figure 13 in the Appendix shows that this is indeed the case.

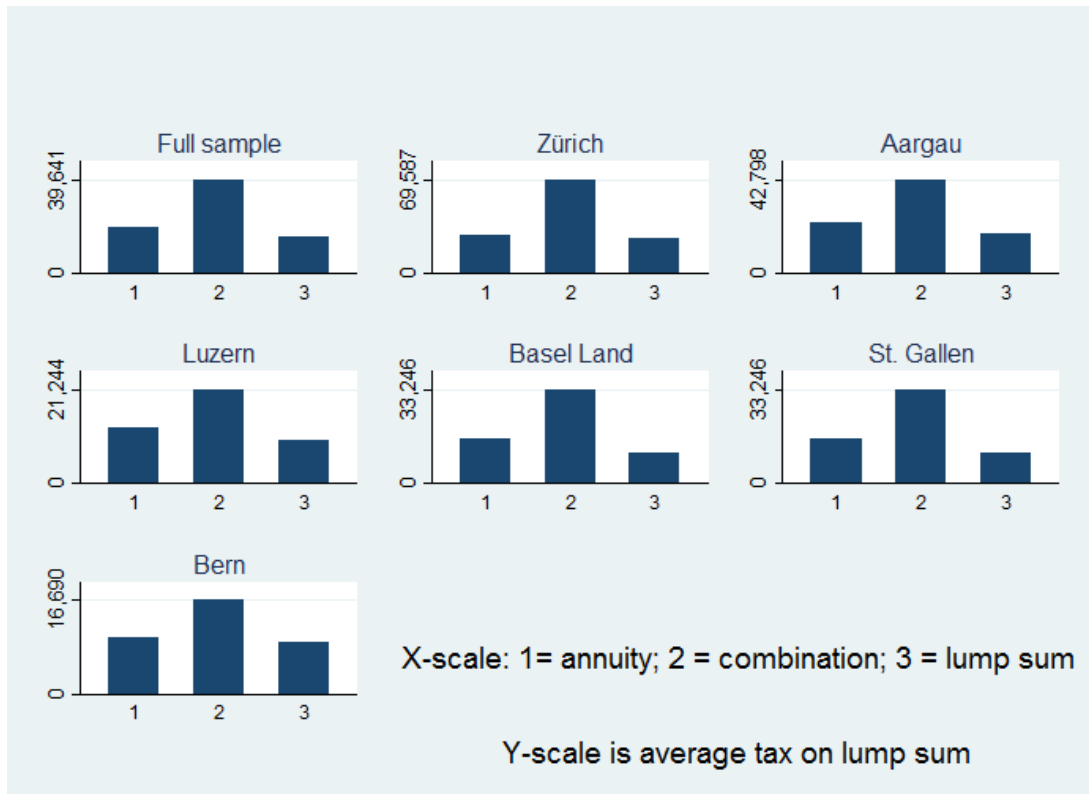


Figure 9: Average tax on the lump sum across retirement choice (annuity only, lump sum only, combination of the two).

To gain insight into whether individuals strategically try to place themselves in a lower tax bracket we investigate the mean outcome for choosing a combination of annuity and lump sum. This is a binary indicator which equals 1 if an individual annuitizes part of his or her pension wealth, but not all of it, and zero otherwise. Hence, it excludes individuals who choose the full annuity. Graphical evidence is shown for three cantons: Aargau (married individuals), Baselland (married and single as the tax bracket is the same for both) and Bern (married individuals). Figures 10, 11 and 12 show that at the high tax thresholds in the cantons of Aargau and Bern and at the only tax threshold in the canton of Baselland, the average outcome for choosing a combination is higher for individuals just above the threshold where the marginal tax rate increases. This suggests that high wealth individuals with wealth just above these thresholds annuitize part of their pension wealth (but not all of it) more often, on average.¹²

¹²Figures exclude individuals which choose a full annuity; gaps are due to insufficient observations.

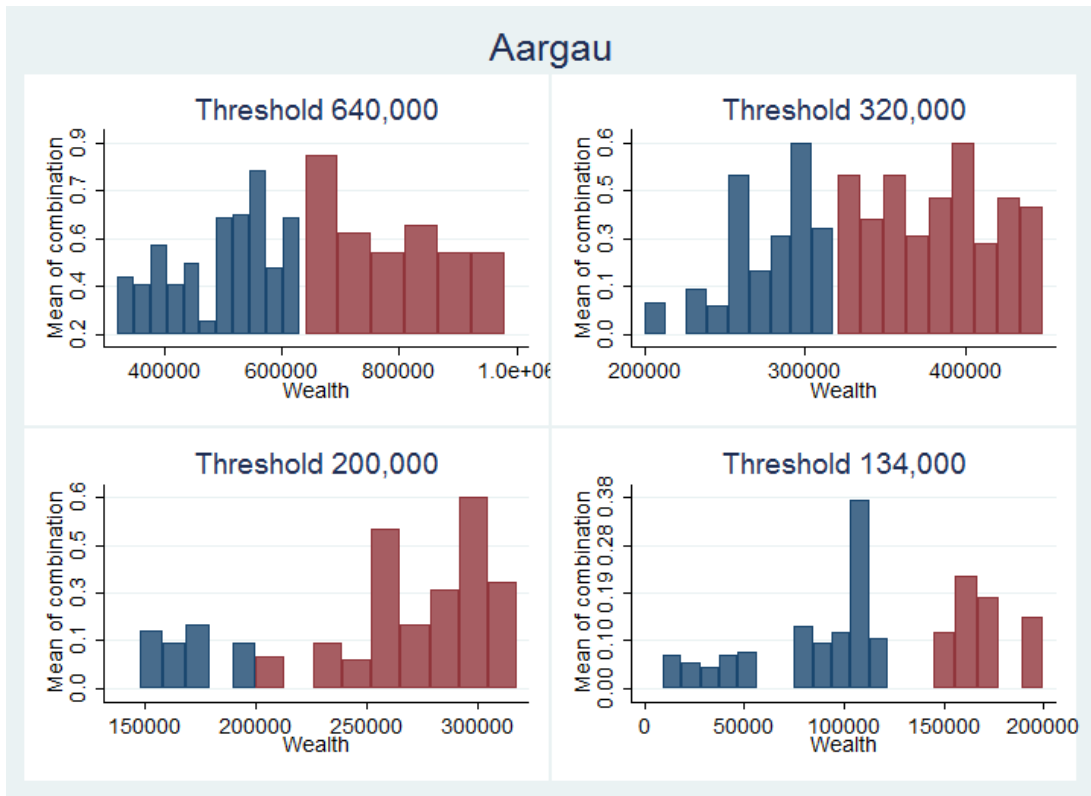


Figure 10: Mean of 'mixed option' across wealth, canton of Aargau, married individuals.

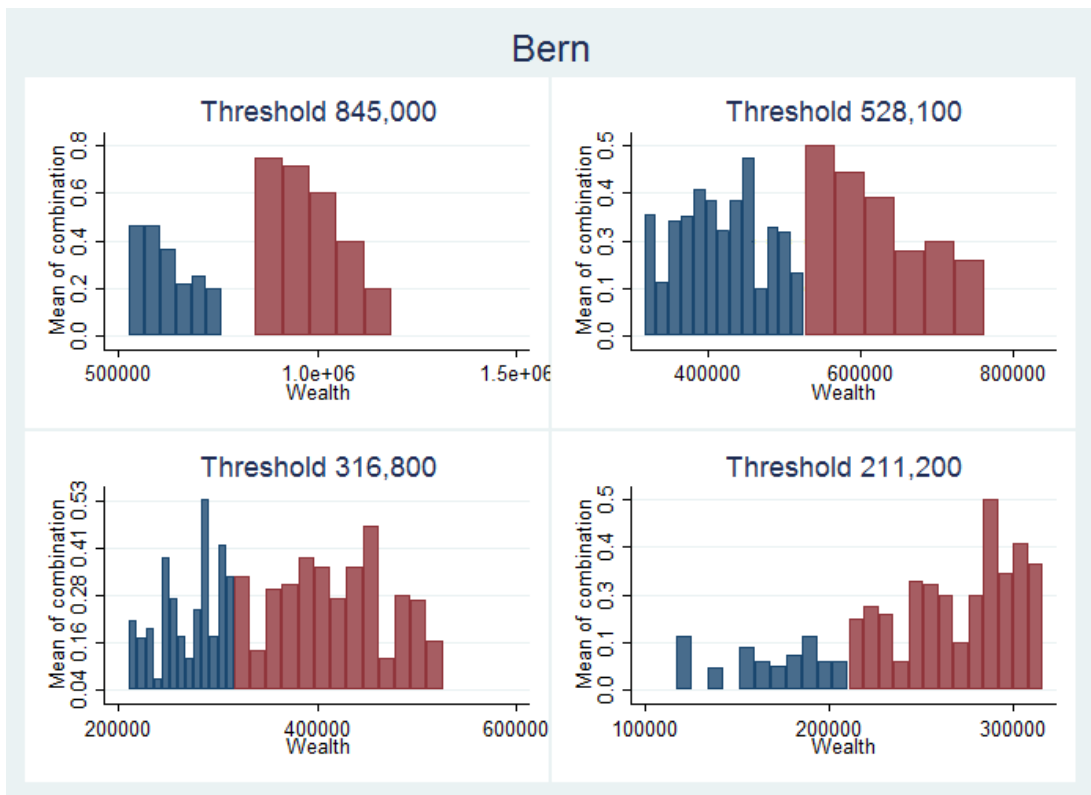


Figure 11: Mean of 'mixed option' across wealth, canton of Bern, married individuals.

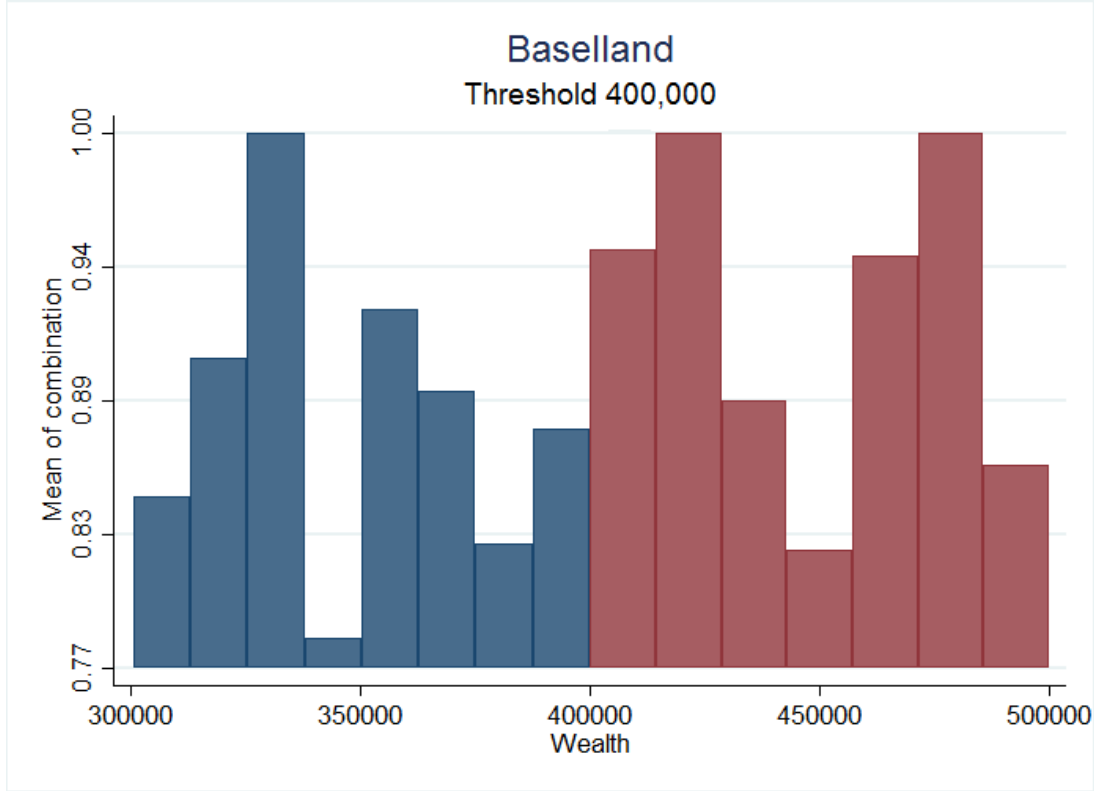


Figure 12: Mean of ‘mixed option’ across wealth, canton of Baselland, married and single individuals.

To formally test whether individuals optimize taxation by taking a combination of annuity and lump sum, we implement a regression discontinuity design exploiting the kinks in the marginal tax rate schedule. In this RDD setting, treatment is a deterministic function of wealth and is defined as:

$$T_i = \begin{cases} 1 & \text{if } w_i \geq w_0 \\ 0 & \text{if } w_i < w_0 \end{cases} \quad (4)$$

where T_i denotes treatment, w_i denotes wealth and w_0 the wealth thresholds. We estimate the treatment effect using a flexible parametric model within a narrow bandwidth (in terms of wealth), hence the regression formulation is:

$$Y_i = \alpha_0 + \alpha_1 T_i + \alpha_2 W_i + \alpha_3 W_i T_i + \epsilon_i \quad (5)$$

The parameter α_1 measures the average causal effect of the tax threshold on choosing the combination of annuity and lump sum at the assignment threshold W_0 . We include interaction variables $W_i T_i$ between the assignment variable and the treatment dummy to control for the fact that the treatment may impact not only the intercept, but also the slope of the regression line.

Covariates, which should not change the average outcome, are included as a robustness check. We do not include higher-order polynomials which would be justified when using observations very far away from the cut-off for which different treatment effects are expected. Within a reasonably narrow wealth range, there is no reason to expect non-linearities between mean counterfactual outcomes and the rating variable (see Jacob et al. (2012) for a discussion). Nevertheless, we perform a series of robustness checks including polynomial terms along with

covariates and interaction terms. A summary of these robustness checks for the two highest tax thresholds for the canton of Bern can be found in the Appendix in Tables 16 and 17.

To provide unbiased impact estimates, the cut-point must be determined independently of the rating variable i.e. it must be exogenous. Individuals accumulate their second pillar pension wealth over the whole work life. It depends on individual decisions with regards to one's occupation (e.g. working part-time or full-time, or being employed or self-employed), the amount earned, marriage and divorce decisions, location decisions, the regulatory environment and the pension fund chosen by the employer. That individuals are able to sort into their most favorable tax bracket is thus highly unlikely. Graphical evidence for no sorting around thresholds for the cantons of Aargau, Baselland and Bern is given in the Appendix in Figures 14, 15 and 16.

We perform this RDD for the cantons of Aargau, Baselland, Baselstadt, Bern, Fribourg and Zürich. We cannot estimate effects for the other 19 cantons for the following reasons: (i) there are not enough observations per canton (SZ, OW, SH, AR, AI, VD, NE, GE, JU), (ii) there are too many thresholds i.e. jumps in the marginal tax rate and consequently not enough observations in each tax bracket (SG, ZG, TI, LU, SO), (iii) the cantons have a flat tax rate or very complex tax system i.e. there are no jumps in the marginal tax rate (UR, NW, GL, GR, TG, VS).¹³ Table 9 in the Appendix gives an overview on number of observations in the sample and compares them to population statistics from the Swiss statistics office BFS.

6 Results

6.1 Results from OLS Regressions

Tables 2 and 3 show OLS regressions of the annuity rate on the different tax indicators (tax rate on lump sum, tax rate on annuity and ratio of tax on annuity to tax on lump sum). We define a number of different specifications: first, we run a regression of the annuity rate on the tax rate on the lump sum and the tax rate on the annuity plus a set of control variables, defined in section 5.1: wealth, wealth squared, income prior to retirement, withdrawal of pension wealth prior to retirement, the present value of an annuity, age, age squared, gender, marital status and sector in which an individual has worked prior to retirement (column (I) in Tables 2 and 3). We then include year dummies (column (II)) and debt per capita, our proxy for tax expectations (column (III)). Columns (IV) to (VI) in Tables 2 and 3 are specified in the same way but the richest 5% of the sample (in terms of pension wealth) are excluded to test for selection effects and differences in annuitization behaviour among the rich (see Section 5.1).

Table 2 summarizes the OLS regressions of the annuity rate on the lump sum tax rate and the annuity tax rate. The coefficient on *tax rate LS* is highly significant and implies that if the tax rate on the lump sum increases by 1 percentage point, the annuity rate increases by 0.85 to 0.99 percentage points, depending on the specification. This is a sizeable effect. Results become insignificant when we exclude the richest 5% of the sample (columns (IV) to (VI)). This suggests that there might be an endogeneity issue as explained in section 5.1 or it might be that for individuals with low or average pension wealth, taxation of the lump plays a minor role in their decision to annuitize, on average, and that the effect on the annuity rate is driven by the wealthy. Coefficients on *tax rate annuity* are negative and highly significant across all specifications for the full sample (columns (I) to (III) in Table 2) and when excluding 5% of the richest individuals in our sample (columns (IV) to (VI)). The coefficients imply that an increase

¹³While it seems attractive at first to pool together all observations to redefine wealth (of each individual) in terms of distance to nearest threshold, this approach turns out to be unfeasible: (i) there is large heterogeneity across cantons, thus tax incentives differ hugely even for otherwise identical individuals; (ii) cantons with narrow thresholds and low-wealth households would be over-represented in this RDD due to the bandwidth selection. However those are precisely the observations where we would not expect to see an effect anyway.

in the tax rate on the annuity by 1 percentage point leads to a 0.6 percentage point decrease in the annuity rate, on average. The OLS regressions on *ratio* (Table 3) provide very similar results: the coefficients are negative and significant for the full sample and when excluding the richest 5% of the sample. The coefficient on *ratio* implies that a higher tax on the annuity - compared to the tax on the lump sum - is associated with a lower propensity to annuitize, on average.

Table 2: OLS regression of annuity rate on tax rate on lump sum

	Full sample			Excluding richest 5%		
	(I)	(II)	(III)	(IV)	(V)	(VI)
Tax rate LS	0.99*** (0.22)	0.85*** (0.25)	0.99*** (0.22)	0.36 (0.24)	0.43 (0.27)	0.37 (0.24)
Tax rate annuity	-0.69*** (0.15)	-0.65*** (0.17)	-0.71*** (0.15)	-0.61*** (0.15)	-0.60*** (0.18)	-0.63*** (0.15)
Wealth	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.22*** (0.01)	0.21*** (0.01)	0.22*** (0.01)
Wealth sq.	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)
Income	-0.04*** (0.01)	-0.05*** (0.01)	-0.04*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)
Sex	0.01 (0.01)	0.00 (0.01)	0.01 (0.01)	0.07*** (0.01)	0.06*** (0.01)	0.07*** (0.01)
Married	-0.05*** (0.01)	-0.05*** (0.01)	-0.05*** (0.01)	-0.03*** (0.01)	-0.03*** (0.01)	-0.03*** (0.01)
Age	0.74*** (0.09)	0.64*** (0.11)	0.76*** (0.09)	0.72*** (0.10)	0.64*** (0.12)	0.74*** (0.10)
Age sq.	-0.01*** (0.00)	-0.01*** (0.00)	-0.01*** (0.00)	-0.01*** (0.00)	-0.00*** (0.00)	-0.01*** (0.00)
PV	0.03*** (0.00)	0.01** (0.00)	-0.01 (0.01)	0.03*** (0.00)	0.01* (0.00)	-0.01 (0.01)
WEF	-0.07*** (0.01)	-0.07*** (0.01)	-0.07*** (0.01)	-0.08*** (0.01)	-0.08*** (0.02)	-0.08*** (0.01)
Debt PC		0.33* (0.18)			0.26 (0.17)	
Constant	-23.91*** (2.93)	-20.52*** (3.52)	-23.98*** (2.93)	-23.69*** (3.14)	-20.71*** (3.81)	-23.75*** (3.13)
Noga dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	No	No	Yes	No	No	Yes
Observations	12,186	8,814	12,186	11,573	8,389	11,573
R-squared	0.060	0.064	0.065	0.119	0.116	0.122

Notes: Heteroskedasticity-robust standard errors in parenthesis. Level of significance: * ($\leq 10\%$), ** ($\leq 5\%$), *** ($\leq 1\%$). Sex = 1 if female, 0 if male. Income = last income before retirement. Debt per capita is on cantonal level and missing for the years 2014 and 2015. Wealth, wealth squared, income, WEF and debt per capita are in 100,000 CHF.

As a robustness check we re-estimate the regressions on the three different tax indicators with a tobit estimation. OLS regressions have a disadvantage for our data as the distribution of the outcome variable has two mass points at zero and one due to a large fraction of individuals

Table 3: OLS regression of annuity rate on ratio

	Full sample			Excluding richest 5%		
	(I)	(II)	(III)	(IV)	(V)	(VI)
Ratio	-0.26** (0.12)	-0.21 (0.13)	-0.27** (0.12)	-0.55*** (0.12)	-0.53*** (0.14)	-0.56*** (0.12)
Wealth	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.23*** (0.01)	0.22*** (0.01)	0.23*** (0.01)
Wealth squared	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)
Income	-0.05*** (0.01)	-0.05*** (0.01)	-0.05*** (0.01)	-0.07*** (0.01)	-0.07*** (0.01)	-0.07*** (0.01)
Sex	0.01 (0.01)	0.00 (0.01)	0.01 (0.01)	0.07*** (0.01)	0.06*** (0.01)	0.07*** (0.01)
Married	-0.05*** (0.01)	-0.05*** (0.01)	-0.05*** (0.01)	-0.03*** (0.01)	-0.03*** (0.01)	-0.03*** (0.01)
Age	0.75*** (0.09)	0.66*** (0.11)	0.77*** (0.09)	0.73*** (0.10)	0.65*** (0.12)	0.75*** (0.10)
Age sq.	-0.01*** (0.00)	-0.01*** (0.00)	-0.01*** (0.00)	-0.01*** (0.00)	-0.01*** (0.00)	-0.01*** (0.00)
PV	0.03*** (0.00)	0.01** (0.00)	-0.01 (0.01)	0.03*** (0.00)	0.01* (0.00)	-0.01 (0.01)
WEF	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.08*** (0.01)	-0.08*** (0.02)	-0.07*** (0.01)
Debt CP		0.35** (0.17)			0.24 (0.17)	
Constant	-24.18*** (2.98)	-21.11*** (3.61)	-24.23*** (2.99)	-23.75*** (3.10)	-21.11*** (3.78)	-23.82*** (3.10)
Noga dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	No	No	Yes	No	No	Yes
Observations	12,186	8,814	12,186	11,573	8,389	11,573
R-squared	0.056	0.060	0.060	0.116	0.113	0.120

Notes: Heteroskedasticity-robust standard errors in parenthesis. Level of significance: *($\leq 10\%$), **($\leq 5\%$), ***($\leq 1\%$). Sex= 1 if female, 0 if male. Income = last income before retirement. Debt per capita is on cantonal level and missing for the years 2014 and 2015. Wealth, wealth squared, income, WEF and debt per capita are in 100,000 CHF.

choosing a polar option: the full lump sum or the full annuity. As a consequence estimates from the OLS regression will be downward-biased for the slope coefficient and upward-biased for the intercept. The doubly censored Tobit model estimates both the likelihood and the intensity of annuitization by means of maximum likelihood methods (Wooldridge, 2013). Tables 10 and 11 in the Appendix summarise results from the tobit regressions on the different tax indicators, showing that the results do not change qualitatively.¹⁴

We also estimate a linear probability model and a probit model for the effect of the tax rate on choosing either the full annuity or the full lump sum, hence we exclude the mixed option. This gives an idea how the tax rates affect the two polar options alone. This does not qualitatively change the results (see tables 12 and 13 in the Appendix).

6.2 Results from Regression Discontinuity Design

Results for the RD estimations for the cantons of Aargau, Bern and Baselland - cantons with a large enough number of observations in our sample - are summarised in Tables 4, 5 and 6. Treatment effects for the canton of Aargau are positive and significant for the two highest tax thresholds (thresholds 640,000 and 320,000) and insignificant for all other thresholds. The same holds true for the canton of Bern where treatment effects are positive and significant at thresholds 845,000 and 526,000 and insignificant thereafter. In the canton of Baselland, the treatment effect is positive and significant at the only tax threshold of 400,000. For the latter, specifications with different bandwidths (in terms of wealth) ranging from 200,000 to 350,000 are shown, revealing that the results are robust to a number of bandwidth choices. Bandwidths for all cantons are selected on an ad-hoc basis and tested with the cross-validation procedure, a means of calculating the optimal bandwidth (see Jacob et al., 2012, for an overview). Bandwidths from the cross-validation procedure are very similar to the bandwidths selected ad-hoc.

All in all, results from the regression discontinuity estimation provide evidence that individuals at the higher end of the wealth distribution choose a combination of annuity and lump sum to optimize taxation, whereas individuals with moderate or average wealth do not strategically place themselves in a lower tax bracket by choosing a combination of annuity and lump sum. This makes sense for two reasons: (i) generally, the thresholds where there are jumps in the marginal tax rate are much closer together for lower wealth levels, thus positioning oneself in a lower tax bracket is often not worthwhile for individuals with low pension wealth; (ii) high-wealth individuals can gain much more financially from annuitizing part of their pension wealth than low-wealth individuals.

Since the outcome variable is binary, the treatment effects for, e.g., Bern imply that being above the cut-off increases the probability of choosing the mixed option by over 40%. Effects are smaller for the canton of Baselland, where the treatment effect implies an increase in the probability of choosing the mixed option by about 20%.¹⁵

Additional results for the cantons of Baselstadt and Fribourg for the high marginal tax rate thresholds are in the Appendix in Tables 14 and 15. Again all estimations include wealth and an interaction term and bandwidths are chosen ad-hoc and tested with the cross-validation procedure. Results for the lower tax thresholds are not shown because they are not significant, confirming the findings in the other cantons. Treatment effects for high tax thresholds on the other hand are positive and significant, providing additional evidence that individuals at the higher end of the wealth distribution choose a combination of annuity and lump sum to optimize taxation. Results from the RD estimation for the canton of Zürich are never significant. Since the canton of Zürich is one of the cantons with a very high tax rate on the lump sum, a possible

¹⁴The coefficients from this model cannot be directly interpreted: tobit regressions require computation of partial effects to make them comparable to OLS coefficients (Wooldridge, 2013).

¹⁵Treatment effects for the canton of Aargau lack a clear economic interpretation as they are larger than 1, a common problem associated with linear probability models.

explanation for this finding could be the selection effect: people who want to maximize their after-tax income have moved to other cantons before retirement and we essentially estimate effects for individuals who are either indifferent about optimizing taxes or value location more than tax savings.

Table 4: RDD treatment effects for canton Aargau, married. Outcome variable is choice of combination

Thresholds	640,000		320,000		200,000		134,000		...
Bandwidths	320,000	270,000	120,000	110,000	90,000	80,000	26,000	21,000	...
T_i	1.002**	1.228**	0.936**	1.123**	-1.026	-1.792*	-1.679	0.191	...
	-0.45	-0.517	-0.465	(0.679)	(1.001)	-0.535	-1.465	-2.213	...
Wealth	8.11e-07*	1.04e-06*	4.24e-06***	-5.21e-07	-3.59e-06	4.81e-06**	-1.45E-05	7.79E-07	...
	-4.85E-07	-6.10E-07	-1.59E-06	(3.40e-06)	(5.19e-06)	-1.86E-06	-1.17E-05	-1.75E-05	...
Wealth* T_i	-1.45e-06**	-1.81e-06**	-3.42e-06**	4.73e-06	8.67e-06	-4.07e-06**	1.41E-05	-1.09E-06	...
	-6.53E-07	-7.78E-07	-1.66E-06	(3.66e-06)	(5.42e-06)	-1.91E-06	-1.20E-05	-1.79E-05	...
Const.	0.113	-0.0053	-0.823**	0.213	0.769	-0.981**	1.867	-0.0177	...
	-0.22	-0.293	-0.415	(0.580)	(0.918)	-0.491	-1.379	(2.131)	...
Observations	190	158	233	139	120	225	68	54	...
R-squared	0.03	0.038	0.082	0.094	0.105	0.073	0.026	0.004	...
Cov.	No	No	No	No	No	No	No	No	...

Notes: Standard errors in parenthesis. Level of significance is denoted by *($\leq 10\%$), **($\leq 5\%$), ***($\leq 1\%$). Optimal bandwidths according to cross validation criteria are 317,900; 118,500; 91,700; 45,200. Other thresholds are: 108,000; 86,000; 68,000; 54,000.

Table 5: RDD treatment effects for canton Bern, married. Outcome variable is choice of combination

Thresholds	845,000		526,000		316,000		...
Bandwidths	265,000	225,000	146,000	116,000	76,000	56,000	
T_i	0.562*** (0.171)	0.778*** (0.239)	0.354** (0.163)	0.409** (0.189)	-0.131 (0.0935)	-0.189* (0.112)	...
Const.	0.826*** (0.203)	1.195*** (0.424)	1.123*** (0.347)	1.362** (0.535)	-0.0175 (0.196)	-0.348 (0.359)	...
Obs.	86	66	163	124	295	207	...
R-squared	0.116	0.160	0.032	0.037	0.010	0.017	...
Wealth	Yes	Yes	Yes	Yes	Yes	Yes	...
Wealth* T_i	Yes	Yes	Yes	Yes	Yes	Yes	...
Cov.	No	No	No	No	No	No	...

Notes: Standard errors in parenthesis. Level of significance is denoted by *($\leq 10\%$), **($\leq 5\%$), ***($\leq 1\%$). Optimal bandwidths according to cross validation criteria are 309,900, 208,000 and 103,200. Other thresholds are: 211,200; 105,600; 52,800.

Table 6: RDD treatment effects for canton Baselland, married and single. Outcome variable is choice of combination

Threshold	400,000			
Bandwidths	350,000	300,000	250,000	200,000
T_i	0.224*** (0.0470)	0.176*** (0.0518)	0.150** (0.0583)	0.149** (0.0640)
Const.	0.136*** (0.0228)	0.153*** (0.0259)	0.184*** (0.0304)	0.200*** (0.0348)
Obs.	365	305	254	213
R-squared	0.059	0.037	0.025	0.025
Wealth	Yes	Yes	Yes	Yes
Wealth* T_i	Yes	Yes	Yes	Yes
Cov.	No	No	No	No

Notes: Standard errors in parenthesis. Level of significance is denoted by *($\leq 10\%$), **($\leq 5\%$), ***($\leq 1\%$). Optimal bandwidth according to cross validation criteria is 397,000.

7 Conclusion

This paper investigates the role of taxation in individual annuitization decisions. We first impute taxes on annuities and lump sums for any amount of pension wealth and for all municipalities in Switzerland and apply it to a dataset from a large Swiss insurance company providing pension plans for the mandatory occupational pension scheme. The tax imputation uncovers large differences between the taxation of the annuity and the taxation of the lump sum. Furthermore, there is a high variation in taxation between cantons and municipalities and across the wealth distribution.

We exploit this variation by including different tax measures in OLS regressions to estimate the effects of taxation on the decision to annuitize. We find that taxation matters in individuals decisions to cash out pension wealth: the lower the relative tax burden on the annuity (compared to the lump sum), the higher the annuity rate. The effects are sizable - increasing the tax rate on the lump sum by 1 percentage point increases the annuity rate by almost 1 percentage point, on average. On the other hand, increasing the tax rate on the annuity by 1 percentage point decreases the annuity rate by about 0.6 to 0.7 percentage points, on average. The results are robust to different specifications.

The freedom to allocate pension wealth between an annuity and a lump sum also opens up a possibility to minimize the tax burden by annuitizing an optimal fraction of pension wealth. We exploit kinks in the tax schedule for the lump sum within a regression discontinuity framework to investigate whether individuals try to optimize taxation by annuitizing part of their pension wealth. Our results provide clear evidence for sorting effects i.e. tax optimization strategies: individuals with wealth just above the threshold where the marginal tax rate on the lump sum increases choose a combination of annuity and lump sum to end up in the lower marginal tax rate bracket. These tax optimization strategies are implemented only by relatively wealthy individuals for whom such behaviour pays off financially.

In contrast to the annuity factor which is a clear indicator of relative prices, tax burdens on withdrawal options are not very salient. They depend not only on the amount of accumulated pension wealth, but also on the individual's place of residence and, in case of the annuity, on

other income. Nonetheless, our results demonstrate that individuals react to tax incentives with regards to retirement choices. This has important implications for policy. If policy makers try to reduce poverty at advanced ages, taxes might be an alternative or a supplementary measure to mandates and nudges. In particular, a more preferential tax treatment of annuities relative to the one of lump sum payments could induce more individuals to annuitize a share of their pension wealth, thereby reducing the danger that they outlive their assets in old age and need social assistance.

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Appendix A Tables

Table 7: Descriptive statistics for the full sample, including individuals who receive full disability insurance

Variables	N	mean	s.d.	min	max
Sex	14,620	0.343	0.475	0	1
Married	14,620	0.694	0.461	0	1
Age at retirement	14,620	64.32	1.578	58.00	70.97
Pension Wealth	14,620	279,214	315,341	0	6,824,000
Income	14,620	65,681	59,970	0	1,085,000
Disability	14,620	13.82	32.58	0	100
PV	14,620	15.98	1.317	13.27	18.16
<i>Outcome variable:</i>					
Annuity rate	14,620	0.516	0.481	0	1.000

Notes: sex=1 if male, 0 if female. Disability= receipt of Swiss disability insurance, it ranges from 0 (no disability) to 100 (full disability). Last income denotes last annual income before retirement.

Table 8: Minimum applicable conversion rates, 2007 - 2015

Year	Men (age 65)	Women (age 64)
2007	7.10%	7.15%
2008	7.05%	7.10%
2009	7.05%	7.00%
2010	7.00%	6.95%
2011	6.95%	6.90%
2012	6.90%	6.85%
2013	6.85%	6.80%
2014	6.80%	6.80%
2015	6.80%	6.80%

Notes: Statutory retirement age for men is 65, for women 64 between 2007 and 2015.

Table 9: Number of observations per canton in dataset and in Switzerland

Canton	<i>Sample:</i>		<i>Population statistics:</i>	
	Number of obs.	Share	Number of obs.	Share
ZH	2,376	0.195	226,831	0.168
BE	1,740	0.143	187,588	0.139
LU	710	0.058	61,255	0.045
UR	35	0.003	6,415	0.005
SZ	464	0.038	22,663	0.017
OW	51	0.004	5,597	0.004
NW	78	0.006	6,836	0.005
GL	37	0.003	6,960	0.005
ZG	311	0.026	17,335	0.013
FR	282	0.023	39,918	0.03
SO	453	0.037	45,866	0.034
BS	314	0.026	38,679	0.029
BL	815	0.067	54,245	0.04
SH	101	0.008	15,121	0.011
AR	109	0.009	9,627	0.007
AI	66	0.005	2,679	0.002
SG	734	0.06	78,639	0.058
GR	456	0.037	35,077	0.026
AG	1,189	0.098	96,646	0.071
TG	488	0.04	39,287	0.029
TI	326	0.027	69,804	0.052
VD	314	0.026	113,529	0.084
VS	242	0.02	54,557	0.04
NE	139	0.011	31,338	0.023
GE	269	0.022	73,230	0.054
JU	87	0.007	13,037	0.01
TOTAL	12,186	1	1,352,759	1

Notes: Share from population statistics corresponds to the share of individuals above age 64 living in that canton, averaged over the years 2007 to 2014. Source: <http://www.bfs.admin.ch/bfs/portal/de/index/themen/01/02/blank/key/bevoelkerungsstand.html>

Table 10: Effect of taxation on annuity rate: tobit regression of annuity rate on tax rate of lump sum and tax rate on annuity

	Full sample			Excluding richest 5%		
	(I)	(II)	(III)	(IV)	(V)	(VI)
Tax rate LS	5.84*** (1.57)	5.88*** (1.57)	4.92*** (1.85)	2.56 (1.93)	2.61 (1.93)	3.01 (2.31)
Tax rate annuity	-5.36*** (1.03)	-5.53*** (1.03)	-5.38*** (1.27)	-4.90*** (1.13)	-5.07*** (1.13)	-5.13*** (1.40)
Wealth	0.47*** (0.03)	0.47*** (0.03)	0.48*** (0.04)	1.77*** (0.08)	1.77*** (0.08)	1.78*** (0.09)
Wealth sq.	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)
Income	-0.36*** (0.08)	-0.36*** (0.08)	-0.36*** (0.09)	-0.47*** (0.10)	-0.48*** (0.10)	-0.47*** (0.13)
Sex	0.17** (0.08)	0.17** (0.08)	0.12 (0.10)	0.55*** (0.09)	0.55*** (0.09)	0.51*** (0.11)
Married	-0.38*** (0.07)	-0.38*** (0.07)	-0.40*** (0.09)	-0.21*** (0.08)	-0.22*** (0.08)	-0.24** (0.09)
Age	5.31*** (0.71)	5.48*** (0.71)	5.02*** (0.90)	5.81*** (0.80)	5.98*** (0.80)	5.76*** (1.03)
Age sq.	-0.04*** (0.01)	-0.04*** (0.01)	-0.04*** (0.01)	-0.04*** (0.01)	-0.05*** (0.01)	-0.04*** (0.01)
PV	0.21*** (0.03)	-0.13 (0.11)	-0.16 (0.12)	0.19*** (0.03)	-0.10 (0.11)	-0.12 (0.13)
WEF	-0.59*** (0.09)	-0.59*** (0.09)	-0.70*** (0.12)	-0.65*** (0.12)	-0.65*** (0.12)	-0.81*** (0.16)
Debt PC			2.30* (1.35)			2.15 (1.47)
Constant	-174.54*** (22.73)	-175.20*** (22.76)	-160.37*** (28.65)	-193.34*** (25.56)	-194.31*** (25.59)	-187.73*** (32.97)
Noga dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	No	No	Yes	No	No	Yes
Observations	12,186	12,186	8,814	11,573	11,573	8,389
Pseudo R2	0.0350	0.0373	0.0415	0.0640	0.0660	0.0678

Notes: Std. errors in parenthesis. Level of significance: *($\leq 10\%$), **($\leq 5\%$), ***($\leq 1\%$). Sex= 1 if female, 0 if male. Income = last income before retirement. Debt per capita is on cantonal level and missing for the years 2014 and 2015. Wealth, income, WEF and debt per capita are in 100,000 CHF.

Table 11: Effect of taxation on annuity rate: tobit regression of annuity rate on the ratio of tax on annuity to tax on lump sum

	Full sample			Excluding richest 5%		
	(I)	(II)	(III)	(IV)	(V)	(VI)
Ratio	-2.71*** (0.85)	-2.81*** (0.85)	-2.42** (1.02)	-4.35*** (0.95)	-4.47*** (0.95)	-4.46*** (1.16)
Wealth	0.46*** (0.03)	0.47*** (0.03)	0.46*** (0.03)	1.77*** (0.08)	1.77*** (0.08)	1.78*** (0.09)
Wealth squared	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)
Income	-0.36*** (0.08)	-0.37*** (0.08)	-0.37*** (0.09)	-0.48*** (0.10)	-0.49*** (0.10)	-0.49*** (0.13)
Sex	0.16* (0.08)	0.16* (0.08)	0.11 (0.10)	0.53*** (0.09)	0.53*** (0.09)	0.49*** (0.11)
Married	-0.37*** (0.07)	-0.37*** (0.07)	-0.38*** (0.08)	-0.23*** (0.08)	-0.23*** (0.08)	-0.25*** (0.09)
Age at retirement	5.32*** (0.71)	5.49*** (0.71)	5.09*** (0.89)	5.80*** (0.80)	5.96*** (0.80)	5.83*** (1.03)
Age squared	-0.04*** (0.01)	-0.04*** (0.01)	-0.04*** (0.01)	-0.04*** (0.01)	-0.05*** (0.01)	-0.05*** (0.01)
PV	0.21*** (0.03)	-0.13 (0.11)	-0.15 (0.12)	0.18*** (0.03)	-0.10 (0.11)	-0.11 (0.13)
WEF	-0.57*** (0.09)	-0.57*** (0.09)	-0.68*** (0.12)	-0.64*** (0.12)	-0.64*** (0.12)	-0.79*** (0.16)
Debt PC			2.62** (1.30)			2.13 (1.40)
Constant	-174.54*** (22.68)	-175.10*** (22.71)	-162.37*** (28.59)	-192.55*** (25.50)	-193.48*** (25.53)	-189.73*** (32.92)
Noga dummies	yes	yes	yes	yes	yes	yes
Year dummies	no	yes	no	no	yes	no
Observations	12,186	12,186	8,814	11,573	11,573	8,389
Pseudo R2	0.0327	0.0348	0.0391	0.0621	0.0641	0.0655

Notes: Std. errors in parenthesis. Level of significance: *($\leq 10\%$), **($\leq 5\%$), ***($\leq 1\%$). Sex= 1 if female, 0 if male. Income = last income before retirement. Debt per capita is on cantonal level and missing for the years 2014 and 2015.

Table 12: Effect of taxation on choosing a polar option: linear probability model for binary outcome annuity or lump sum on the tax rate on annuity and tax rate on lump sum

	Full sample			Excluding richest 5%		
	(I)	(II)	(III)	(IV)	(V)	(VI)
Tax rate LS	1.09*** (0.26)	0.90*** (0.29)	1.09*** (0.26)	0.29 (0.27)	0.31 (0.31)	0.29 (0.27)
Tax rate annuity	-0.84*** (0.17)	-0.81*** (0.20)	-0.86*** (0.17)	-0.73*** (0.17)	-0.71*** (0.20)	-0.75*** (0.17)
Wealth	0.05*** (0.01)	0.05*** (0.01)	0.05*** (0.01)	0.23*** (0.01)	0.21*** (0.01)	0.22*** (0.01)
Wealth sq.	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)
Income	-0.05*** (0.01)	-0.04*** (0.01)	-0.05*** (0.01)	-0.07*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)
Sex	0.02 (0.01)	0.01 (0.01)	0.02 (0.01)	0.07*** (0.01)	0.06*** (0.01)	0.07*** (0.01)
Married	-0.05*** (0.01)	-0.05*** (0.01)	-0.05*** (0.01)	-0.03*** (0.01)	-0.03** (0.01)	-0.03*** (0.01)
Age	0.76*** (0.10)	0.65*** (0.12)	0.78*** (0.10)	0.76*** (0.10)	0.67*** (0.12)	0.78*** (0.10)
Age sq.	-0.01*** (0.00)	-0.01*** (0.00)	-0.01*** (0.00)	-0.01*** (0.00)	-0.01*** (0.00)	-0.01*** (0.00)
PV	0.03*** (0.00)	0.01* (0.00)	-0.02 (0.02)	0.03*** (0.00)	0.01 (0.00)	-0.01 (0.02)
WEF	-0.07*** (0.01)	-0.07*** (0.01)	-0.07*** (0.01)	-0.08*** (0.02)	-0.08*** (0.02)	-0.08*** (0.02)
Debt PC		0.34* (0.19)			0.24 (0.18)	
Constant	-24.40*** (3.12)	-20.78*** (3.76)	-24.41*** (3.12)	-24.71*** (3.30)	-21.75*** (3.98)	-24.76*** (3.29)
Noga dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	No	No	Yes	No	No	Yes
Observations	10,032	7,690	10,032	9,638	7,407	9,638
R-squared	0.060	0.062	0.064	0.114	0.110	0.118

Notes: Std. errors in parenthesis. Level of significance: *($\leq 10\%$), **($\leq 5\%$), ***($\leq 1\%$). Sex= 1 if female, 0 if male. Income = last income before retirement. Debt per capita is on cantonal level and missing for the years 2014 and 2015.

Table 13: Effect of taxation on choosing a polar option: probit model for binary outcome annuity or lump sum on the tax rate on annuity and tax rate on lump sum

	Full sample			Excluding richest 5%		
	(I)	(II)	(III)	(IV)	(V)	(VI)
Tax rate LS	1.48** (0.70)	1.58** (0.80)	1.52** (0.70)	0.91 (0.77)	0.99 (0.88)	0.94 (0.77)
Tax rate annuity	-2.49*** (0.46)	-2.43*** (0.53)	-2.58*** (0.46)	-2.01*** (0.46)	-1.93*** (0.54)	-2.06*** (0.46)
Wealth	0.25*** (0.03)	0.25*** (0.02)	0.25*** (0.03)	0.64*** (0.03)	0.62*** (0.03)	0.64*** (0.03)
Wealth sq.	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)	-0.00*** (0.00)
Income	-0.15*** (0.04)	-0.15*** (0.04)	-0.16*** (0.04)	-0.18*** (0.04)	-0.17*** (0.05)	-0.18*** (0.04)
Sex	0.11*** (0.03)	0.08** (0.04)	0.11*** (0.03)	0.20*** (0.04)	0.18*** (0.04)	0.20*** (0.04)
Married	-0.12*** (0.03)	-0.14*** (0.03)	-0.12*** (0.03)	-0.08** (0.03)	-0.08** (0.03)	-0.08*** (0.03)
Age	2.03*** (0.30)	1.98*** (0.36)	2.11*** (0.30)	2.17*** (0.32)	1.97*** (0.40)	2.24*** (0.32)
Age sq.	-0.02*** (0.00)	-0.02*** (0.00)	-0.02*** (0.00)	-0.02*** (0.00)	-0.02*** (0.00)	-0.02*** (0.00)
PV	0.07*** (0.01)	0.02 (0.01)	-0.04 (0.04)	0.07*** (0.01)	0.02 (0.01)	-0.03 (0.05)
WEF	-0.24*** (0.04)	-0.29*** (0.05)	-0.24*** (0.04)	-0.27*** (0.05)	-0.32*** (0.06)	-0.27*** (0.05)
Debt PC		0.75 (0.51)			0.69 (0.52)	
Constant	-66.93*** (9.47)	-64.69*** (11.65)	-67.93*** (9.52)	-72.31*** (10.25)	-65.36*** (12.65)	-73.05*** (10.30)
Noga dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	No	Yes	Yes	No	Yes	Yes
Observations	10,027	7,686	10,027	9,633	7,403	9,633
Pseudo R-squared	0.0566	0.0653	0.0601	0.0899	0.0917	0.0932

Notes: Std. errors in parenthesis. Level of significance: *($\leq 10\%$), **($\leq 5\%$), ***($\leq 1\%$). Sex= 1 if female, 0 if male. Income = last income before retirement. Debt per capita is on cantonal level and missing for the years 2014 and 2015.

Table 14: RDD treatment effects for the canton of Fribourg, married individuals. Outcome variable is choice of combination

Thresholds	190,000				130,000	
Bandwidths	60,000		50,000		50,000	
T_i	0.272** (0.133)	0.605 (1.242)	0.410** (0.192)	5.120** (2.249)	-0.0753 (0.185)	0.828 (0.812)
Constant	0.117 (0.121)	-47.75 (29.80)	0.218 (0.210)	-59.75* (31.08)	-0.214 (0.276)	16.60 (87.89)
Observations	113	113	74	74	38	38
R-squared	0.045	0.116	0.069	0.233	0.046	0.242
Wealth	Yes	Yes	Yes	Yes	Yes	Yes
Wealth* T_i	No	Yes	No	Yes	No	Yes
Cov.	No	Yes	No	Yes	No	Yes

Notes: Standard errors in parenthesis. Level of significance is denoted by *($\leq 10\%$), **($\leq 5\%$), ***($\leq 1\%$).

Table 15: RDD treatment effects for the canton of Baselstadt, married individuals. Outcome variable is choice of combination

Thresholds (Bandwidths)	100,000 (50,000)		50,000 (25,000)	
T_i	0.344** (0.143)	0.163 (0.575)	5.284** (1.991)	5.019* (2.480)
Constant	0.00354 (0.130)	-54.01*** (20.38)	-5.284** (1.975)	-12.97 (29.92)
Observations	126	126	91	91
R-squared	0.045	0.141	0.398	0.421
Wealth	Yes	Yes	Yes	Yes
Wealth* T_i	No	Yes	Yes	Yes
Cov.	No	Yes	No	Yes

Notes: Standard errors in parenthesis. Level of significance is denoted by *($\leq 10\%$), **($\leq 5\%$), ***($\leq 1\%$). Bandwidth in parenthesis.

Table 16: Robustness Checks (I): RDD treatment effects for canton Bern, married individuals, threshold 845,000. Outcome variable is choice of combination

Bandwidths	319,000			265,000			225,000			145,000		
Ti	0.200*	0.355**	0.317**	0.567***	0.910***	0.951***	0.775***	0.877***	0.930***	0.931*	0.843**	0.863*
	(0.112)	(0.153)	(0.152)	(0.164)	(0.244)	(0.237)	(0.234)	(0.277)	(0.278)	(0.452)	(0.391)	(0.418)
Constant	-63.47**	0.627***	-62.53**	-71.75***	2.391***	-74.99***	-56.56*	2.367	-60.65**	-23.49	19.14*	35.48
	(25.01)	(0.176)	(24.99)	(25.97)	(0.842)	(25.40)	(28.97)	(1.838)	(29.22)	(91.22)	(9.265)	(88.45)
Wealth	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Wealth* T_i	No	No	No	No	No	No	No	No	No	No	No	No
Wealth squared	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Covariates	Yes	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes	No	Yes
Observations	109	109	109	87	87	87	67	67	67	26	26	26
R-squared	0.116	0.056	0.127	0.214	0.156	0.260	0.227	0.170	0.240	0.336	0.410	0.465

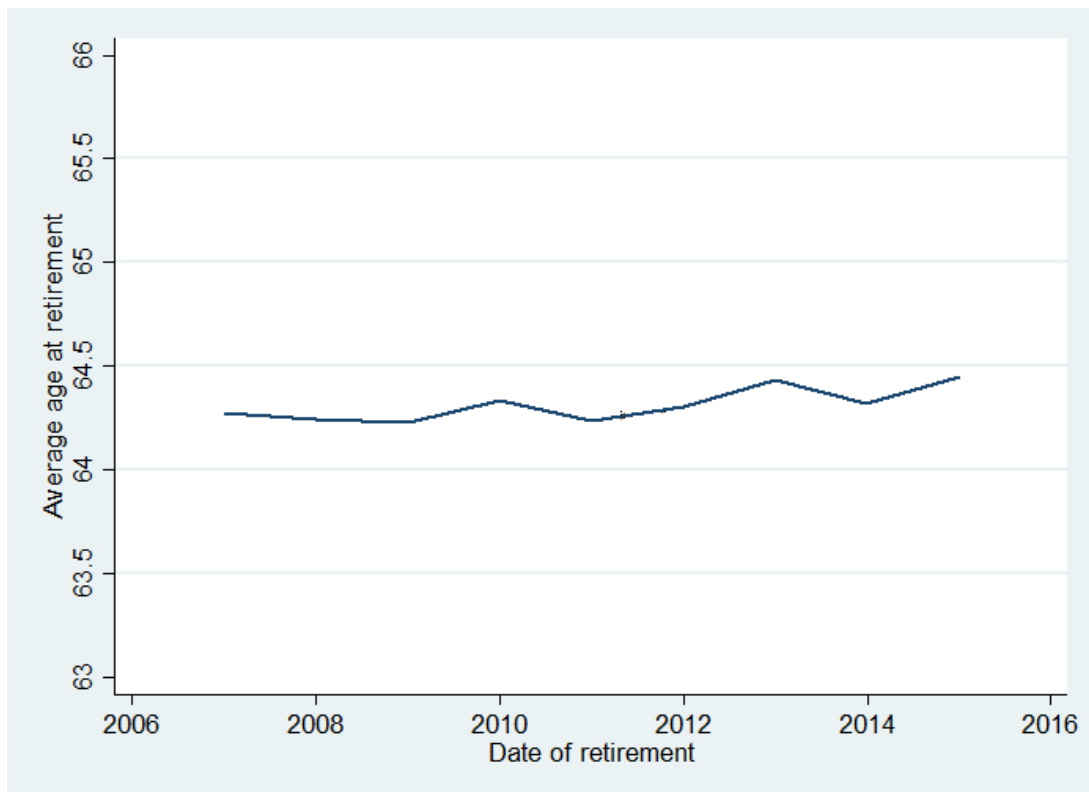
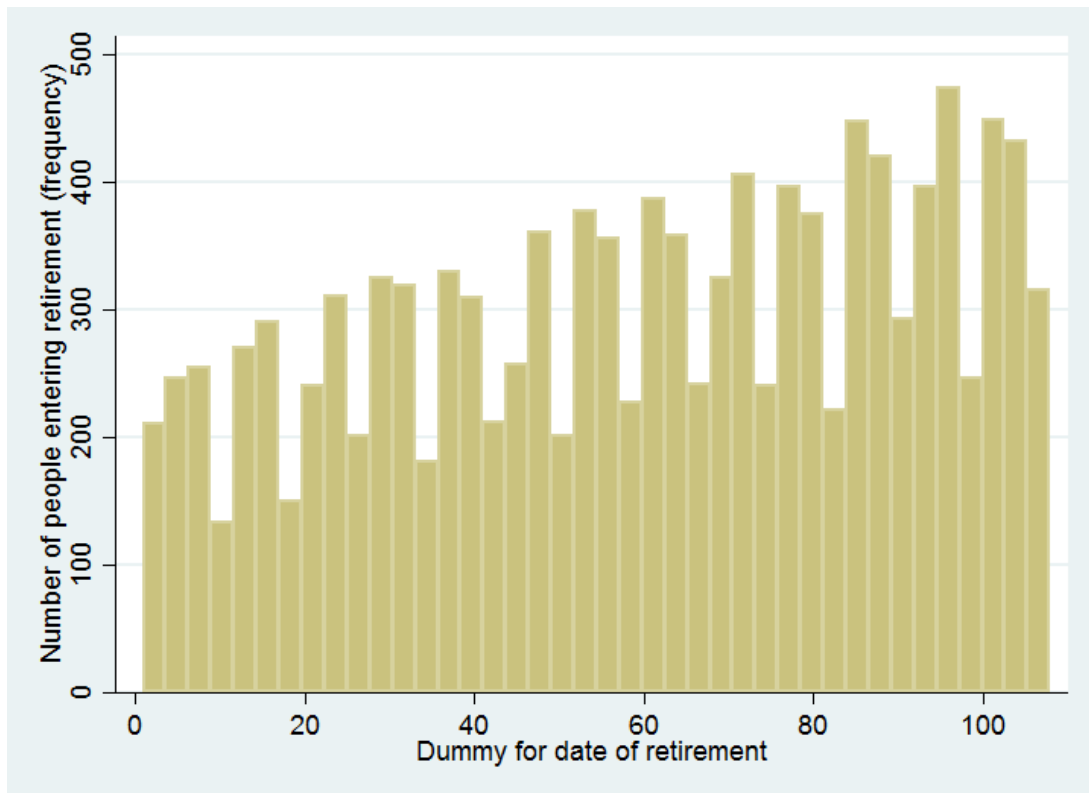
Notes: Standard errors in parenthesis. Level of significance is denoted by *($\leq 10\%$), **($\leq 5\%$), ***($\leq 1\%$).

Table 17: Robustness Checks (II): RDD treatment effects for canton Bern, married individuals, threshold 526,000. Outcome variable is choice of combination

Bandwidths	210,000			146,000			116,000			76,000		
Ti	1.371*** (0.513)	0.249* (0.127)	0.261** (0.126)	0.431*** (0.156)	0.398** (0.159)	0.432*** (0.157)	0.495*** (0.182)	0.454** (0.183)	0.495*** (0.183)	0.655*** (0.228)	0.665*** (0.225)	0.651*** (0.229)
Constant	-39.65** (18.97)	-0.529 (0.462)	-42.48** (19.05)	-46.92** (21.55)	1.358 (1.236)	-46.84** (21.64)	-38.56 (24.69)	1.593 (2.292)	-39.23 (24.95)	-31.07 (35.82)	5.544 (6.834)	-31.55 (36.03)
Wealth	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ti*Wealth	Yes	No	No	No	No	No	No	No	No	No	No	No
Wealth squared	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Covariates	Yes	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes	No	Yes
Observations	258	258	258	166	166	166	126	126	126	72	72	72
R-squared	0.091	0.036	0.093	0.111	0.041	0.111	0.125	0.048	0.126	0.188	0.116	0.191

Notes: Standard errors in parenthesis. Level of significance is denoted by *($\leq 10\%$), **($\leq 5\%$), ***($\leq 1\%$).

Appendix B Figures



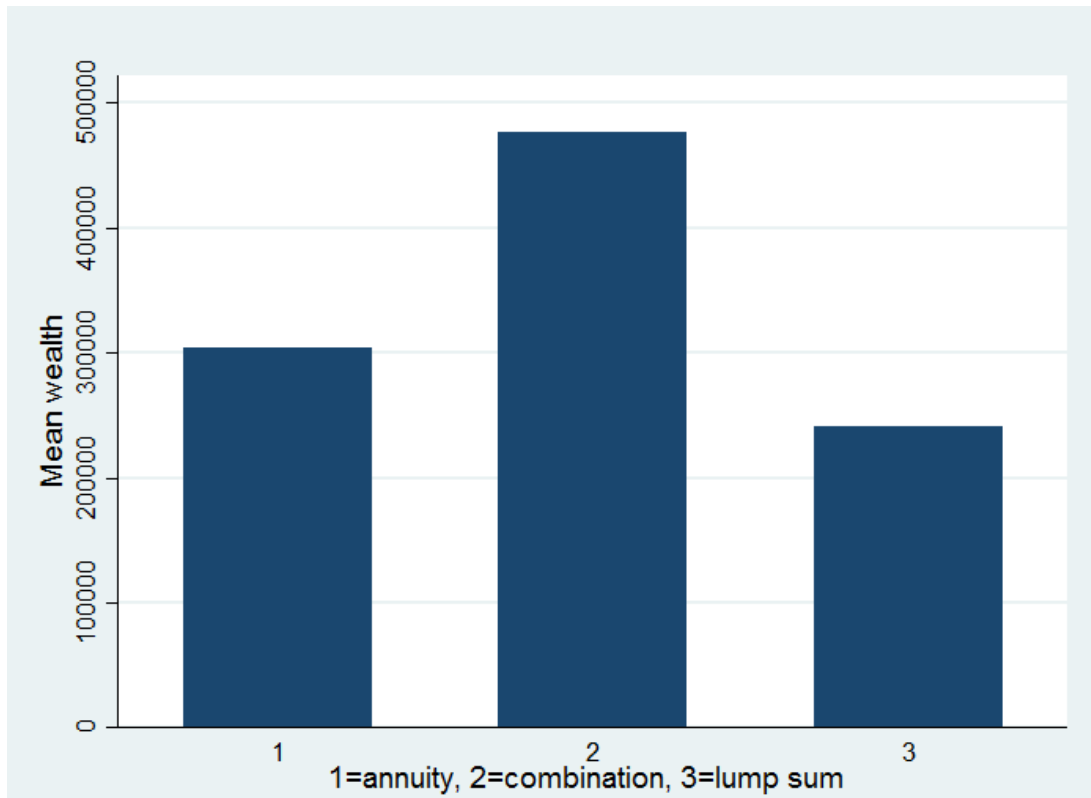


Figure 13: Average wealth across choice (full annuity, combination annuity and lump sum, full lump sum); full sample excluding individuals that receive disability insurance.

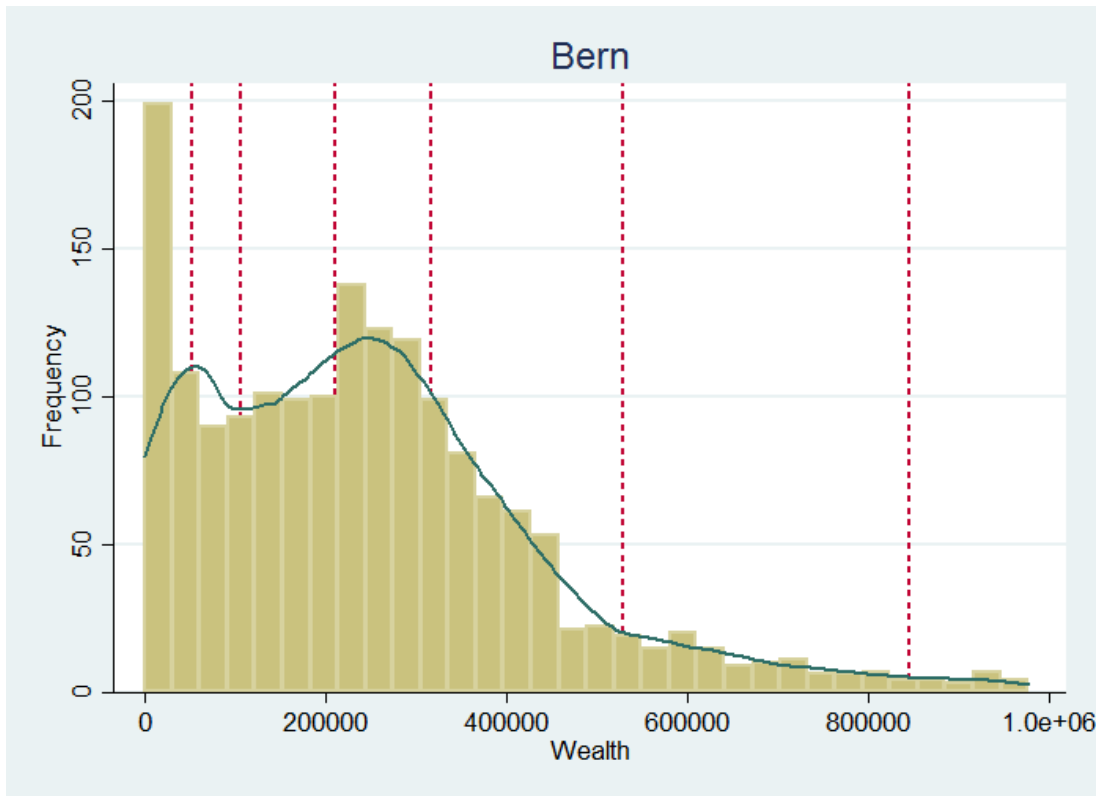


Figure 14: Wealth frequency density and wealth kernel density for wealth 0 to 1,000,000, married individuals, canton Bern. Red dotted lines indicate tax thresholds where marginal tax rates increase.

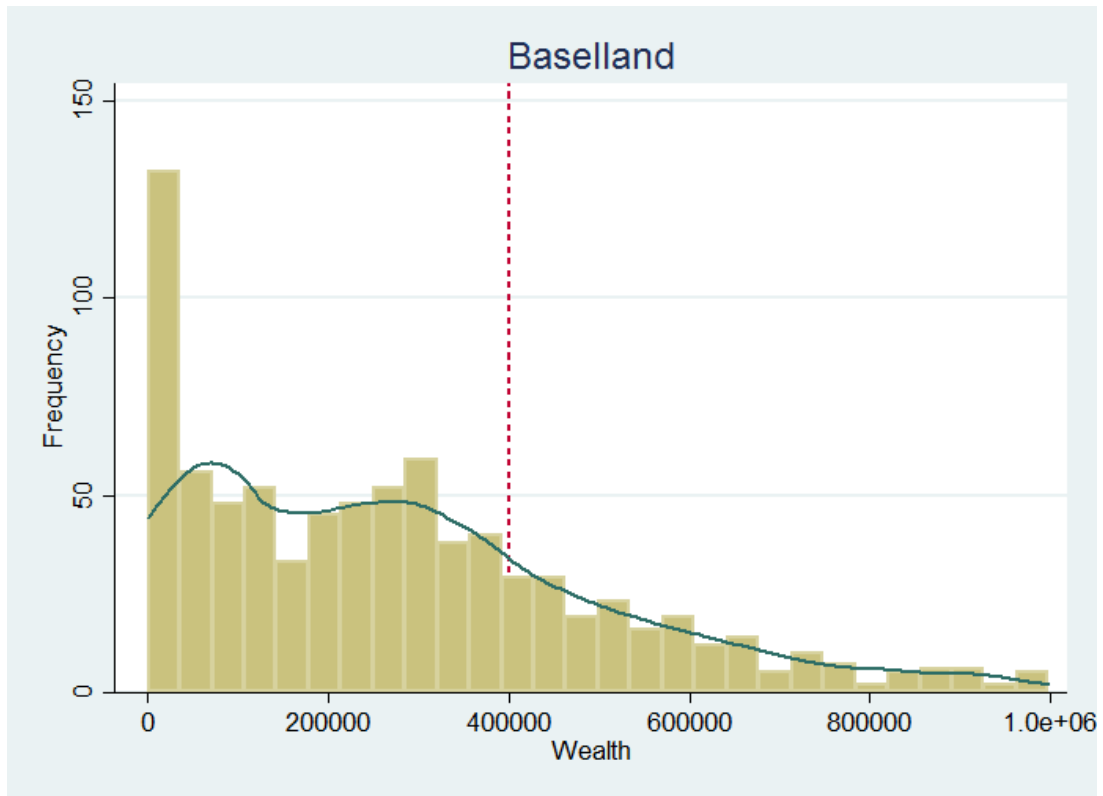


Figure 15: Wealth frequency density and wealth kernel density for wealth 0 to 1,000,000, married and single individuals, canton Baselland. Red dotted line indicates tax threshold where marginal tax rates increases.

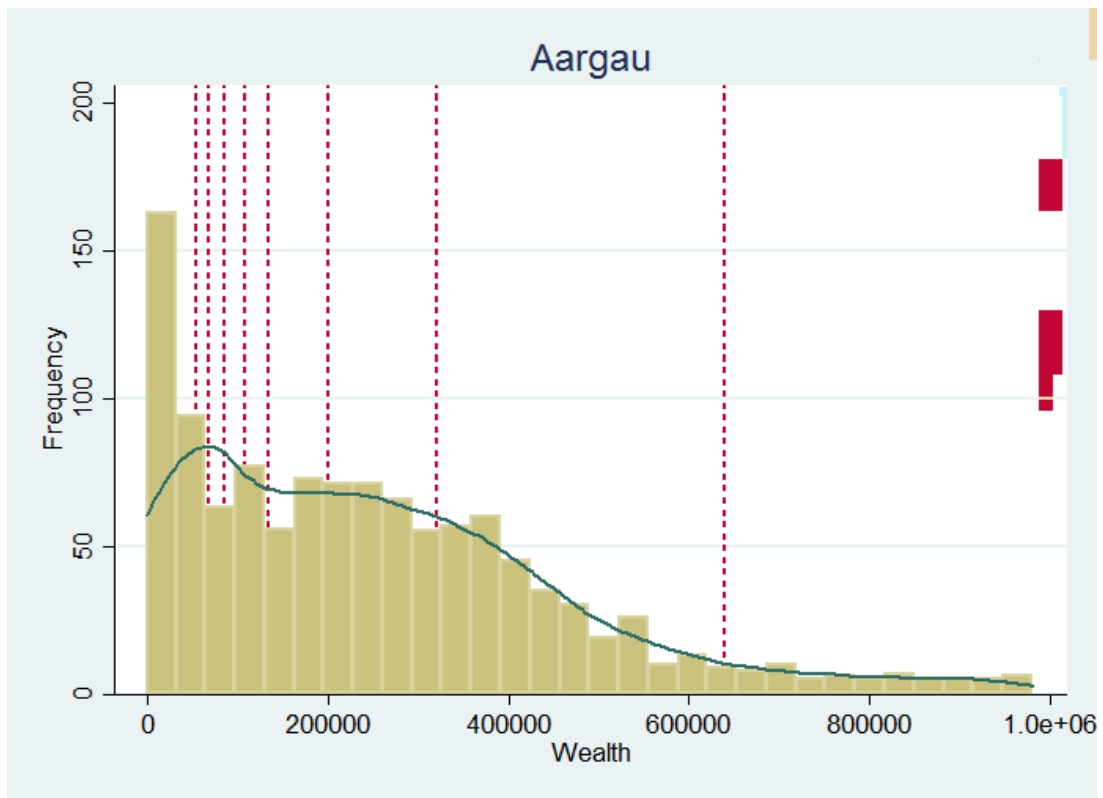


Figure 16: Wealth frequency density and wealth kernel density for wealth 0 to 1,000,000, married individuals, canton Aargau. Red dotted lines indicate tax thresholds where marginal tax rates increase.