Abstract: Health and Mortality Delta

We develop a pair of risk measures for the universe of health and longevity products that includes life insurance, annuities, and supplementary health insurance. Health delta measures the differential payoff that a product delivers in poor health, while mortality delta measures the differential payoff that a product delivers at death. Optimal insurance choice simplifies to the problem of choosing a portfolio of health and longevity products that replicates the optimal health and mortality delta. For each household in the Health and Retirement Study, we calculate the health and mortality delta implied by its ownership of life insurance, annuities including private pensions, supplementary health insurance, and long-term care insurance. For the median household aged 51 to 58, the lifetime welfare cost of market incompleteness and suboptimal insurance choice is 17 percent of total wealth.