

# ***The Demand for Annuities***

## ***International Evidence & Implications for Turkey***

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*OECD/IOPS Global Forum on Private Pensions*

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# Summary

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## Annuity puzzle

⇒ Theoretical reasons for poor demand for longevity insurance

We build on this by asking the consumer

⇒ Survey of surveys into customer attitudes and understanding

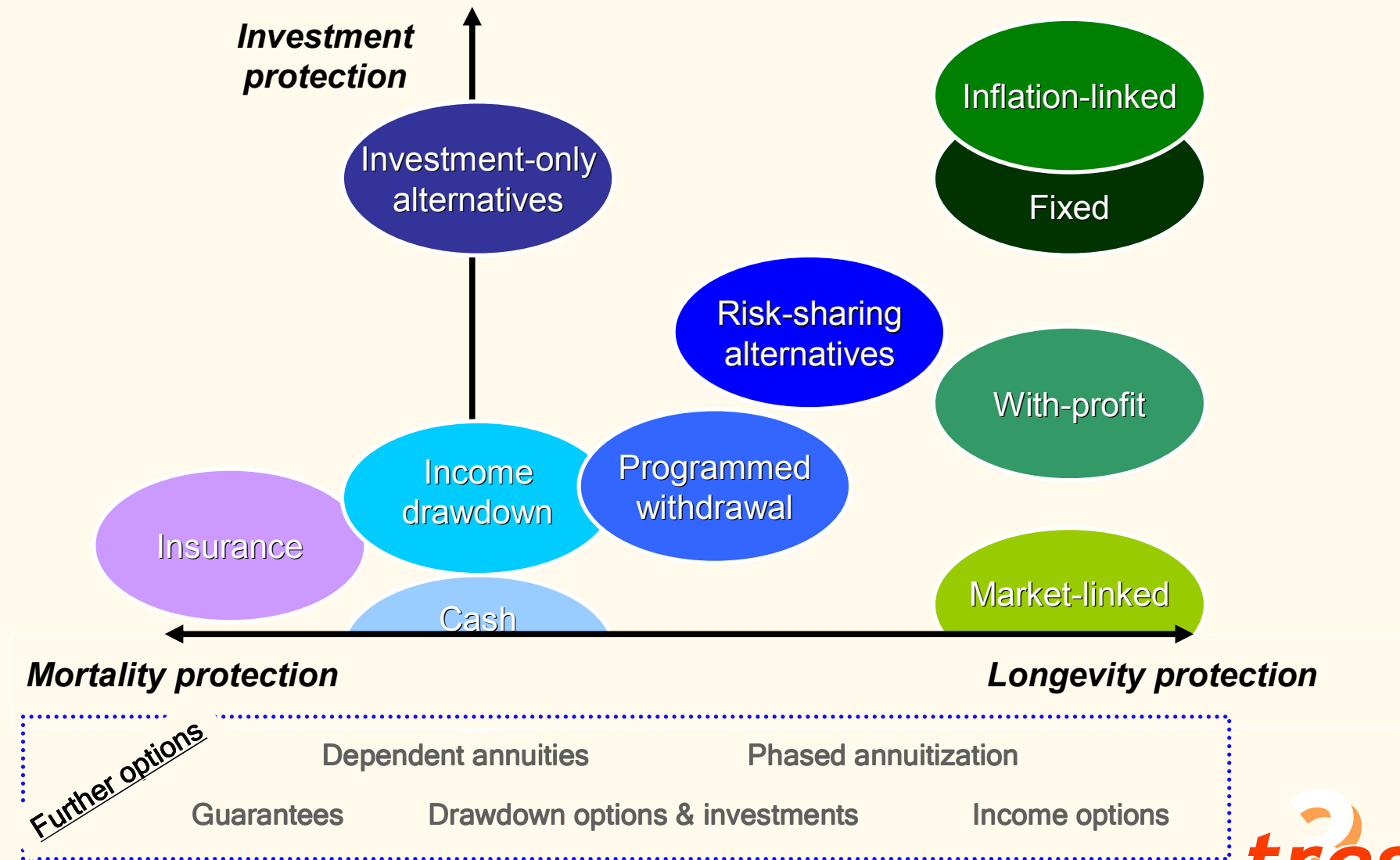
## Implications

⇒ More flexibility of income options at retirement

⇒ Greater flexibility of work and retirement

# Product options

- ⇒ Product options around the world
- ⇒ Analysis of attitudes to annuitization
- ⇒ Consideration of implications



# Attitude surveys

- ⇒ Product options around the world
- ⇒ Analysis of attitudes to annuitization
- ⇒ Consideration of implications

## Gardner & Wadsworth

### ⇒ Survey details

- ◆ United Kingdom, 3 500 aged between 50 and 64, varying working status
- ◆ Would they annuitize and at what age?

### ⇒ Key results

- ◆ 58.8% would never purchase longevity insurance, if given the choice
- ◆ 56.5% would not annuitize, even if able to annuitize only half
- ◆ Among those who would, slight preference for later purchase

### ⇒ Most important reasons given

- ◆ From the list, need for flexibility...  
... then concern about low income & expectation of better results elsewhere
- ◆ Volunteered by respondents, lack of trust in institutions

# Attitude surveys

## Gardner & Wadsworth

### ⇒ Tendencies to purchase insurance

- ◆ Health ↗
- ◆ Education ↗
- ◆ Income ↗
- ◆ Household size ↘
- ◆ Patience (time preference) ↗
- ◆ Source of pension provision: more likely to annuitize if the principle source is a defined contribution fund or personal pension

### ⇒ Primary policy implications

- ◆ Flexibility

## *Attitude surveys*

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Association of British Insurers (focus groups, before retirement)

⇒ Desirable product qualities

- ◆ Simplicity - particularly among lower-income workers
- ◆ Flexibility - especially from the wealthy
- ◆ Reliability of income
- ◆ Some access on early death
- ◆ Protection against inflation
- ◆ Security of provider
- ◆ A degree of choice

⇒ Summary in another ABI paper suggests that consumers

- ◆ do not understand the reason for compulsion
- ◆ have a poor conception of the main benefits of annuitization

## *Attitude surveys*

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Association of British Insurers (telephone, after retirement)

⇒ Levels of understanding

- ◆ Income for life & pooling concepts
- ◆ Less strong on distinguishing a pension from an annuity
- ◆ Advice increased probability of shopping around

⇒ Choice of product dominated by level annuity

⇒ Implications

- ◆ Quality of information might improve quality of decision
- ◆ Consumer understanding considerably improved through the process of exercising choices

# Attitude surveys

## TIAA-CREF (analysis of choices)

Figure 1. TIAA-CREF initial income election

(%)	1989	1993	1997	2001
Single-life annuity	40.5	37.5	32.2	22.0
Joint-life annuity	54.7	49.4	38.5	23.1
Interest payments	4.8	4.9	9.5	17.3
Minimum distribution	-	8.1	13.7	27.0
Systematic withdrawals	-	-	8.2	10.6

*Source: Ameriks (2002:9). Note that the minimum distribution option is effectively the default in instances where no election is made.*

⇒ Choice of options driven by choice of lifestyle

- ◆ Significant evidence of change in retirement patterns...  
... driving demand for alternatives to conventional annuities

# Attitude surveys

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## Merrill Lynch (survey)

### ⇒ Fixed retirement age on the way out

- ◆ One-third of retirees are working for pay
- ◆ More than 70% of adults would like to work after retirement...  
... nearly half of these plan never to stop working
- ◆ Various reasons characterise the motivation to continue working

### ⇒ Cycles of work and leisure

- ◆ Evidence from the 2005 survey of blended periods

Attitudes to retirement consistent with demand for product flexibility

# *Attitude surveys*

- ⇒ Product options around the world
- ⇒ Analysis of attitudes to annuitization
- ⇒ Consideration of implications

## Policy implications

⇒ The annuity decision is not isolated from other parts of pension policy

⇒ Issues to consider

- ◆ Encourage supply
- ◆ Support flexibility of product...  
... and flexibility of work and retirement patterns
- ◆ Consider mandatory annuitization with great care
- ◆ Invest in education and require providers to do the same

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