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Annuity Options in Public Pension Plans

Dr. Robert Clark, North Carolina State University

North Carolina Treasurer Janet Cowell

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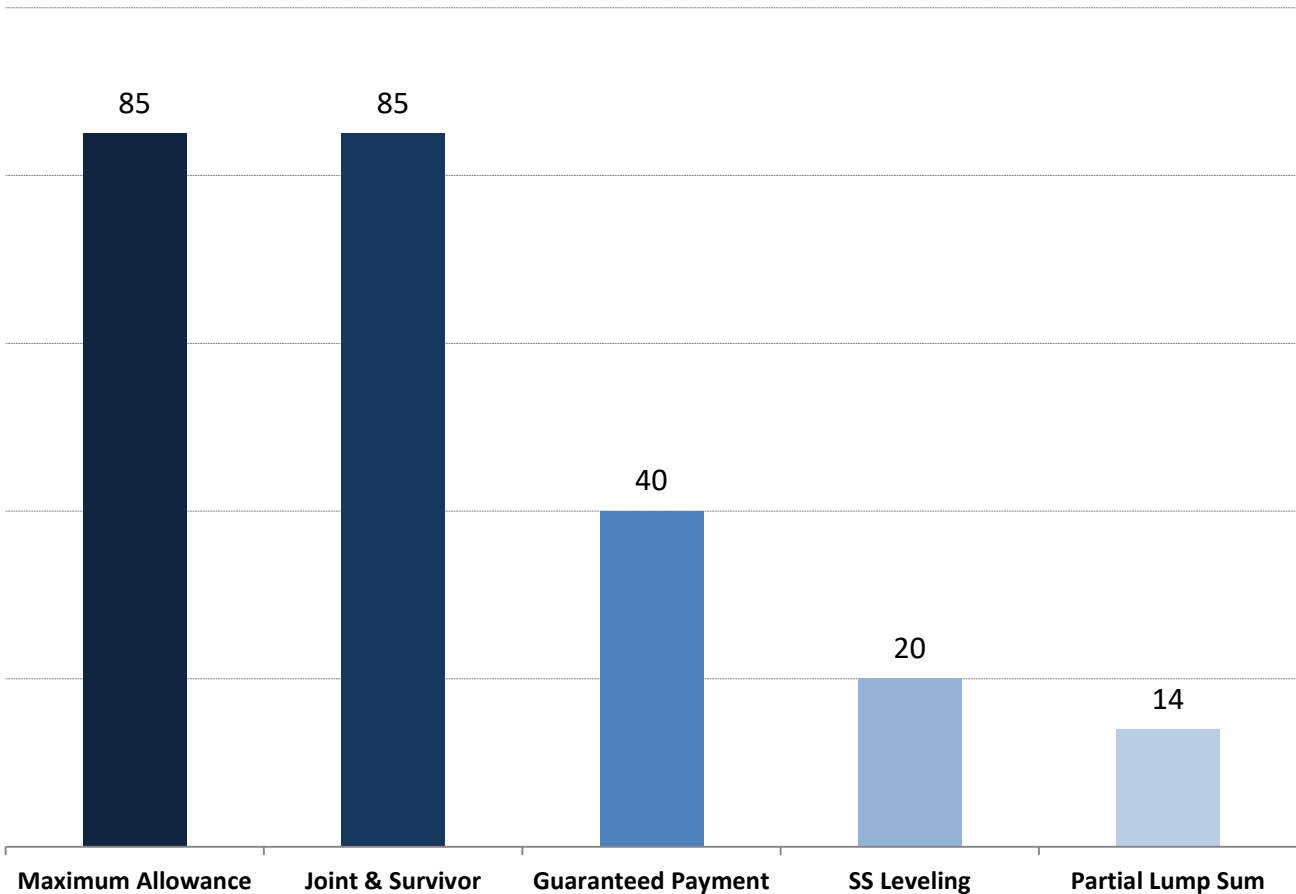
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Annuity Options: A Timely Renovation for Public Pensions



Question: Benefits of Additional Annuity Options

Distribution of Major Annuity Options by Plan



Some Uncommon Questions Yield Important Insights

Percent of Retirees Selecting Annuity Options

State	Plan	Maximum Allowance	Joint & Survivor	Social Security Leveling	Guaranteed Payment	Partial Lump Sum
California	PERS	44.5	37.3	1.3	N/A	N/A
California	TRS	52.1	46.9	N/A	N/A	N/A
Delaware	SEPP		100	N/A	N/A	N/A
Iowa	PERS	9.4	38.2	0.4	32.8	19.2
Maryland	SRPS	40.0	34.0	N/A	N/A	N/A
Mississippi	PERS	65.8	22.0	N/A	7.6	21.1
Nebraska	SPP	14.1	38.8	N/A	30.2	N/A
North Carolina	TSERS	56.2	25.9	17.9	N/A	N/A
North Carolina	LGERS	55.7	34.6	9.7	N/A	N/A
South Carolina	SCRS	64.3	30.4	4.6	0.4	N/A
Washington	PERS	65.2	34.8	N/A	N/A	N/A
Washington	TRS	38.8	21.4	N/A	N/A	39.8
Wyoming	WRS	43.1	52.9	N/A	4.1	N/A

Conference Theme and Annuity Choices

- The theme of this year's conference is "Financial Decision Making and Retirement Security in an Aging World."
- Our paper documents the:
 - Current annuity options provided by public pensions, and
 - Choices retirees are making concerning lifetime benefits
- Are the current annuity options the best options for future retirees as life expectancy increases?

Developing New Annuity Options

- Public pensions typically provide incentives for employees to retire at relatively young ages, often in their 50s.
- Retirees in this age range are not immediately eligible for Social Security benefits.
- Consider two types of retirees:
 - A. Healthy individuals who plan on working on new jobs for a number of years
 - B. Individuals who are not or do not plan on working after leaving their career jobs

Young and Healthy Retirees

- Healthy individuals who retire at age 55, for example, may plan to continue working.
- Current options strongly encourage individuals to start their pension annuity immediately after they qualify for benefits.
- Would a deferred annuity be a better option?
 - Assume the individual shifts to a new job with comparable annual earnings.
 - Public plans could offer a present value neutral annuity beginning at some point in the future—for the 55-year-old retiree, perhaps age 60 or 65.
 - By deferring the annuity, the annual pension benefit would be substantially higher beginning at a later age.

Impact of Deferred Annuity Option

<u>Annuity Option</u>	<u>Annual Payout</u>	<u>PV @ 55</u>	<u>PV@ 60</u>	<u>PV@65</u>
Maximum Allowance				
3% interest	\$30,000	\$588,013		
7.25% interest	\$30,000	\$363,110		
Deferred Annuity: First benefit is deferred until age 60				
3% interest				
Ages 55-64	\$0	\$588,013	683,174	
Ages 65-84	\$39,233			
7.25% interest				
Ages 55-64	\$0	\$363,110	\$522,878	
Ages 65-84	\$45,884			
Deferred Annuity: First benefit is deferred until age 65				
3% interest				
Ages 55-64	\$0	\$588,013		\$793,735
Ages 65-84	\$53,351			
7.25% interest				
Ages 55-64	\$0	\$363,110		\$749,724
Ages 65-84	\$72,150			

Young Retirees with No Plans to Reenter the LF

- Individuals who retire young and who are not able or do not plan to reenter the labor force
- 20 of the 85 plans we reviewed have a Social Security leveling annuity option
 - This option generally encourages retirees to claim their Social Security benefits at age 62.
 - Recent research shows that the present value of Social Security benefits for most individuals rises with delayed claiming.
 - Why do public pension plans have this option and why do most set the age of leveling at age 62?
- We examined a flexible Social Security leveling option that would allow retirees to set the age of leveling between 62 and 70.

Aging, Annuity Options, & Public Pension Plans

- Public pension plans provide a number of options for retiring workers.
- Are these options sufficient as life expectancy increases?
- We examined two annuity options that should increase well-being for two types of public retirees.
- These options are presented as present value neutral to pension systems.

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Thank you!

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