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Securing Lifelong Retirement Income: Global Annuity Markets and Policy

EDITED BY

Olivia S. Mitchell, John Piggott, and Noriyuki Takayama

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Preface

As the world ages, millions of savers and investors are beginning to wake up to the fact that they face longevity risk. This refers to the possibility that an individual, or indeed, an entire cohort of people, might live much longer than expected and hence become exposed to the chance of running out of retirement money. This volume focuses on how insurers and other financial market players can help protect against this critical and increasingly important financial and demographic challenge, taking an international focus.

As this book points out, there are three main ways to protect against longevity. Traditional societies relied on large, multigenerational families, but reliance on one's children is a less attractive option than it was in the past. State provision was mainly a twentieth-century phenomenon and, as we note, faces substantial challenges in many nations. Last is the insurance industry which can cover the long lives of some retirees by pooling survival risk across the population, including those who live less long. The particular question this volume addresses is whether and how more general and formalized private longevity insurance provision can be provided, and is being offered, through annuity products. We are delighted to represent the vigorous debate currently underway by academics, financial experts, regulators, and plan sponsors, all seeking to define a new future for mechanisms to help protect against outliving one's wealth.

Previous research studies published by the Pension Research Council and the Boettner Center of the Wharton School of the University of Pennsylvania have focused on pensions and retirement adequacy around the world. In this volume, as in our many others, we have relied on many fine contributors, coeditors, and commentators. In the present instance, John Piggott and Noriyuki Takayama provided the impetus to turn a rich set of conversations and ideas into a high-quality research volume worthy of the Pension Research Council series. The Senior Partners and Institutional Members of the Pension Research Council are also very much appreciated for their intellectual and financial support. The Institute of Economic Research at Hitotsubashi University in Tokyo hosted an early meeting for the researchers, under the direction of Professor Takayama. Additional support was provided by the Pension Research Council, the Boettner Center for Pensions and Retirement Research, and the Ralph H. Blanchard Memorial Endowment at the Wharton School of the University of Pennsylvania. The manuscript was expertly prepared and carefully edited by Andrew Gallagher and Matt Rosen, with help from Irene Shaffer.

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On behalf of these institutions and individuals, we thank all of our fine collaborators and supporters for their help and intellectual guidance in these times of financial turmoil.

Olivia S. Mitchell

Pension Research Council
Boettner Center for Pensions and Retirement Research
The Wharton School

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Abbreviations

ABS	Australian Bureau of Statistics
AEW	Annuity equivalent wealth
AFTS	Australia's Future Tax System
ALDA	Advanced life deferred annuity
APRA	Australian Prudential Regulatory Authority
ATO	Australian Taxation Office
AVS	First-pillar welfare scheme
BLS	Bureau of Labor Statistics
CLHIA	Canadian Life and Health Insurance Association
CMI	Central Mortality Investigation Bureau
CPI	Consumer price index
CREF	College Retirement Equities Fund
CRRA	Constant relative risk aversion
DA	Deferred annuity
DAV	Deutsche Aktuarvereinigung
DB	Defined benefit
DC	Defined contribution
DCA	Dollar cost averaging
EPF	Employees' Pension Fund
EPI	Employees' Pension Insurance
ER	Early retirement
ETF	Exchange traded fund
FaHCSIA	Department of Family, Housing, Community Services and Indigenous Affairs
FDC	Funded defined contribution
FPF	Farmers' Pension Fund
FRBM	Fiscal Responsibility and Budget Management
FSA	Financial Services Authority
GDV	Gesamtverband der Deutschen Versicherungswirtschaft
GLWB	Guaranteed Lifetime Withdrawal Benefit

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GSA	Group Self Annuitization
IA	Immediate annuity
IAI	Institute of Actuaries of India
ILO	International Labor Organization
INE	Instituto Nacional de Estadísticas
IRA	Individual Retirement Account
IRDA	Insurance Regulatory and Development Authority
IRS	Individual retirement saving
LIC	Life Insurance Corporation of India
LIF	Life Income Funds
LPiA	Lifetime payout income annuity
LPP	Federal Law on Occupational Retirement, Survivors and Disability Pension Plans
LRIF	Locked-In Retirement Fund
LSRB	Lump-Sum Retirement Benefit Plans
LTC	Long-term care
MAA	Mutual Aid Association
MPG	Minimum pension guarantee
MWR	Money's worth ratio
NDC	Notional defined contribution
NP	National Pension
NPF	National Pension Fund
NPS	New Pension Scheme
NR	Normal retirement
OECD	Organisation for Economic Co-operation and Development
PASIS	*pension asistencial*
PAYGO	Pay-as-you-go
PFRDA	Pension Fund Regulatory and Development Authority
PW	Phased withdrawal
PWER	PW at the early retirement age
PWNR	PW at the normal age
RBL	Reasonable Benefit Limits
RCLA	Ruin Contingent Life Annuity
RCV	Residual capital value

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RMLA	Reverse mortgage loan annuity
RRIF	Registered Retirement Income Fund
RRSP	Registered Retirement Saving Plan
SAFP	Superintendencia de Administradoras de Fondos de Pensiones
SCOMP	*sistema de consultas y ofertas de montos de pensión*
SEK	Swedish kronor
SG	Superannuation Guarantee
SPIA	Single premium immediate annuity
SSA	Social Security Administration
S2P	State Second Pension
SWiP	Systematic withdrawal plan
TAP	Term allocated pension
TFR	Total fertility rate
TIAA	Teachers Insurance and Annuity Association
TIPS	Treasury inflation-protected securities
TQPP	Tax-Qualified Pension Plans
TW	Temporary withdrawal
UF	Unidad de Fomento
VA	Variable annuity
WRAMAF	Workers' Retirement Allowance Mutual Aid Fund