Securing Lifelong Retirement Income: Global Annuity Markets and Policy

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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.
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

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

GSA Group Self Annuitzation
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
Abbreviations

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