

Designing the Payout Phase of Pension Systems

June 8, 2011

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The Challenge

- The problem is seemingly well-understood
- We all think we have the solution – annuities!
- So – what's not working?

Possible Product Deficiencies

- Perception of inflexibility
- Perception of high cost
- Perception of deception
 - lack of transparency
 - high fees
- Perception of risk
- Poor alignment with needs

Possible Behavioral Deficiencies

- Poor education
- High personal discount rates
- “All or nothing” thinking
- Suspicion and lack of trust
- Biases against insurance products
- The enormous power of advertising

Solutions

- “Payout-friendly” options at retirement
- Better financial education
- More diverse products
- Tax incentives
- Or – permit Social Security “buy-ins”

The Social Security “Buy-in”

- Also known as the “What, are you crazy?” option
- Most workers are already “enrolled”
- No new payment infrastructure needed
- Permit workers to “buy” lifetime income through Social Security