Annuities in Pension Plans
Policies to Encourage Annuitization

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International Benefits Issues
Employee Benefits Security Administration
## Risks in Retirement

### Risk Comparison

<table>
<thead>
<tr>
<th>Design</th>
<th>Funding Risk</th>
<th>Investment Risk</th>
<th>Longevity Risk</th>
<th>Inflation Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB Plan</td>
<td>Employer</td>
<td>Employer</td>
<td>Employer</td>
<td>Employee</td>
</tr>
<tr>
<td>DC Plan</td>
<td>Employee</td>
<td>Employee</td>
<td>Employee</td>
<td>Employee</td>
</tr>
<tr>
<td>Lifetime Income</td>
<td>Employee</td>
<td>Insurer*</td>
<td>Insurer</td>
<td>Employee**</td>
</tr>
</tbody>
</table>
Distribution of US Private Retirement Assets

25 Years Ago

Today
Role of Annuities in Retirement

- Guarantee a lifetime stream of income during retirement
- Longevity risk
- Wide variety available
- Annuities in economic theory
Types of Annuities for Plans

- Wide variety available today
- Deferred annuities
- Immediate annuities
- Inflation-protected annuities
- Fixed-guaranteed investment performance
- Variable-depends on investment performance
Total Sales Variable Annuities

Variable Annuity Total Sales (dollars in billions)

Source: Morningstar, Inc.
## Annuity Industry Total Sales - Deferred vs. Immediate

(Data in billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Deferred</th>
<th>Immediate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$181.1</td>
<td>$8.8</td>
<td>$189.9</td>
</tr>
<tr>
<td>2001</td>
<td>175.0</td>
<td>10.3</td>
<td>185.3</td>
</tr>
<tr>
<td>2002</td>
<td>208.6</td>
<td>11.3</td>
<td>219.9</td>
</tr>
<tr>
<td>2003</td>
<td>207.5</td>
<td>8.3</td>
<td>215.8</td>
</tr>
<tr>
<td>2004</td>
<td>209.2</td>
<td>11.6</td>
<td>220.8</td>
</tr>
<tr>
<td>2005</td>
<td>204.9</td>
<td>11.5</td>
<td>216.4</td>
</tr>
<tr>
<td>2006</td>
<td>226.3</td>
<td>12.4</td>
<td>238.7</td>
</tr>
<tr>
<td>2007</td>
<td>243.8</td>
<td>13.0</td>
<td>256.8</td>
</tr>
<tr>
<td>2008</td>
<td>250.6</td>
<td>14.4</td>
<td>265.0</td>
</tr>
<tr>
<td>2009</td>
<td>225.4</td>
<td>13.2</td>
<td>238.6</td>
</tr>
</tbody>
</table>
Factors Impacting Variable Annuities

- Percentage of people close to retirement
- Regulation
- Product trends and innovations
- Longevity insurance products
- Recent trends
Sources of Retirement Income

- Earnings, 29.6%
- Social Security, 36.5%
- Pensions, 18.5%
- Asset Income, 12.7%
- Other, 2.7%

Source: Social Security Administration, 2010
Defined Benefit Plans and Annuities

- DB plans historically have provided an annuitized income stream to retirees, unless their participants are offered and opt to take a lump-sum distribution instead.
- Based on data from a recent survey, 52 percent of private sector employees with DB plans are offered a lump sum distribution option.
Defined Contribution Plans and Annuities

- Many DC plans do not offer the option to purchase annuities
- Low percentage of DC plans are annuitized
- Typically small DC accounts
- Conclusions of the literature
Why Is Annuities Market Small?

- Preference for lump sum
- Adverse selection and high prices
- Bequest motive
- Reduced flexibility and control of assets
- Amount of wealth already annuitized
Why Is Annuities Market Small?

- Intermediaries lack a good understanding of annuity products
- Reduced opportunity for capital appreciation
- Reduced financial liquidity
- Behavioral challenges/framing issues
Lifetime Income Options for Retirement Plans

- Joint DOL & Treas. Dept. initiative
- Request for Info. (RFI)- published Feb. 2010
- Public hearing held Sept. 14-15, 2010
- Comments & testimonies under consideration
Lifetime Income- RFI

- Broadening the scope to encompass lifetime income products beyond annuities
- Clarifying its application to in-plan annuity products
- Simplifying the standards relating to assessing insurer/provider solvency - ability to pay all promised benefits
Current Obstacles

- Fiduciary concerns
- The “newness” of the product offerings
- Difficulty in comparing different product offerings
- Perceived lack of plan level portability
- Legal impediments under current laws
Benefits of Offering Lifetime Income Products to Plans

- Reducing exposure to outliving one’s income
- Reduce market risk
- Reduce risk of ineffective financial management
Pension Benefit Statement

- Participant’s “total accrued benefit” in the form of a lifetime income stream

- Should the agencies create a computer model that can be accessed for purposes of performing such calculations?
Not All Comments Were Positive for RFI

From: [REDACTED FOR PRESENTATION PURPOSES]
Sent: Wednesday, February 03, 2010 2:30 PM
To: EBSA, E-ORI - EBSA
Subject: RIN 1210-AB33

LEAVE MY PRIVATE RETIREMENT ALONE! I WORKED FOR IT, I SAVED IT. IT IS MINE!!

I AM WILLING TO GO TO WAR OVER THIS!!!!!!