

Framing and Pension Annuities

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Summary

- Experiment on the effects on the choice between annuity and lump sum of
 - Framing
 - Default settings
- Previous studies based on US respondents highlight that framing can partially overcome the observed tendency to prefer lump sum over annuities.
- Dutch system: mandatory annuitization for second pillar, but the introduction of a partial lump sum option is being considered.
- Findings: strong effect of default settings, confirmation that framing is effective in making people like annuities more (3 out of 4 frames show significant negative effect on lump sum take up), evidence of heterogeneity in the response to framing.

Strengths

- **Data:** experiment based on actual personal pension prospects, reducing alienation bias;
- analysis is well-executed.
- Interesting research question and ideas emerging in the analysis:
 - relevance of institutional setting in the perception of risk (annuities viewed in a “consumption” rather than in an “investment” setting in Netherlands vs. US): more cross-country studies needed?;
 - heterogeneity in the response to framing: gender, age, indebtedness, risk tolerance.
- well-organized.

A few questions

- Experimental Design:
 - ① Is first pillar pension accounted for when presenting the options?
 - ② Annual versus monthly annuity amounts?
- Results:
 - ① “Reversed” annuity puzzle: how much of that is due to sample “selection”? Would it re-appear if the experiment was based on the population of Netherlands? Is that truly due to the higher familiarity of Dutch with annuities?
 - ② Preference towards annuities: are there mechanisms that could counterbalance their perceived riskiness wrt U.S. (e.g. reversion, at least of the first pillar pension)? Could any of these aspects influence the effectiveness of framing?
 - ③ Are lump sum and high-low profile substitutes? Not clear from the paper.