Flat annuities or flexible pension schemes: the influence of expected expenses and (dis)trust in pension funds

Authors: Carin van der Cruijsen and Nicole Jonker

Discussant: Ed Westerhout

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Do preferred annuity profiles relate to expected expenditure patterns and/or trust in pension funds?

- Debate on pension reform in the Netherlands
- Quest for more flexibility:
  - Non-flat pension profiles
  - Lump-sum payments at retirement
  - Lump-sum pay-outs before retirement
  - Pension fund provider
  - Pension fund’s investment policy
Do preferred annuity profiles relate to expected expenditure patterns and/or trust in pension funds?

• This paper explores how popular are alternatives for the current model:
  • Non-flat annuity profiles
  • Lump-sum pay-outs

• It explores how the two relate to
  • Expected expenditure patterns respectively
  • Trust in one’s pension fund

• It also relates trust to underlying factors
Main results

• 19 percent of respondents would favour a non-flat profile
  • The main reason is the expectation of declining expenses
  • Trust is not a relevant factor

• 12 percent of respondents would favour a partial lump-sum at retirement
  • Trust is a relevant factor; those who do not trust their fund are more likely to choose a lump-sum pay-out

• Most respondents trust their pension funds
  • 18 percent has doubts
Assessment+discussion

• Assessment:
  • Useful research, in light of current pension debate
  • Nice to read
  • Results seem plausible

• Discussion
  • How popular will be alternatives for the current model?
  • Questionnaire
  • Policy implications
How popular will be alternatives for the current model?

• Possibility that people will behave differently than as stated in the questionnaire
  • Can you compare the results obtained with current practice for those pension funds who already offer the option of high-low or low-high annuity profiles?
  • Can you compare the results obtained with practice abroad?
• Why not also investigate other options, *e.g.* pay out (part of) pension wealth before retirement?
Questionnaire

- “Flat, decreasing, increasing or other pattern.”
- Respondents may have very different views regarding a decreasing or increasing pattern
Questionnaire

• “Do you trust your pension fund(s) to be able to pay your pension benefit at all times?”
  • Respondents may have very different views on this
    • Is pension benefit defined as a benefit that may have undergone a nominal cut?
    • Or one that has not undergone any nominal cut but that may have lacked indexation for several years?
    • Or one that is free from both nominal cuts and indexation reductions?
Policy implications

• How large is the impact of trust according to the estimates in the paper?
  • May the preference for lump-sum pay-outs disappear once the trust in Dutch pension funds returns to its pre-crisis level?
  • Would it be possible that the lump-sum pay-out option becomes suddenly very popular if funding ratios were starting to fall?
Concluding

• Interesting paper, good read
• Looking forward to follow-up paper that explores a number of other questions regarding pension flexibility