

## Matchmaking in the pension world: which pension suits which participant?

“Optimum pension match is a delicate balance between rational and emotional perspectives”

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Since 2016, participants in a Dutch defined contribution scheme can choose a variable annuity. This is expected to give a higher benefit compared to a fixed annuity, but there is also the risk of a lower benefit. This study explores how we can find a good match between the rational and emotional characteristics of participants on the one hand and the investment mix of pensions on the other hand.

### Principal Findings

- From a rational perspective, a variable annuity is generally a better match than a fixed annuity.
- From an emotional perspective, a fixed annuity is the better match for 90% of participants, which is mainly due to loss aversion.
- The rational and emotional values conflict: products that score well rationally score poorly emotionally and vice versa.
- Smoothing the investment results of a pension product over time improves the product's emotional acceptance for participants and scarcely detracts from its rational acceptance.

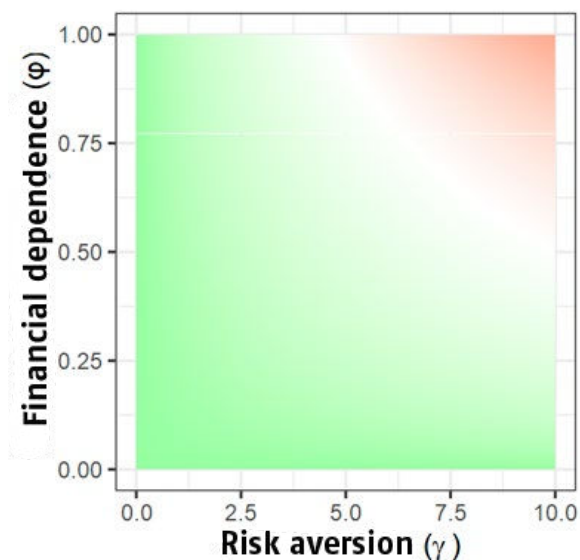


Figure: Welfare gains (and losses) of a variable annuity with 2/3 risky assets compared to a fixed annuity, for participants with different risk aversion and dependency of the pension product

### Key Takeaways for the Industry

- The discrepancy between the rational and emotional perspectives of participants requires pension providers to make well-considered decisions about the balance of a product.
- Pension providers need to communicate the risk of products carefully to help participants overcome loss aversion (e.g. by taking into account the frequency and horizon of communication).
- Having a variable annuity as the default instead of the fixed annuity would lead to welfare gains for participants. A variable annuity with 1/3 risky assets outperforms a fixed annuity both rationally and emotionally.



Want to know more? Read the paper

**'Matchmaking in pensioenland: welk pensioen past bij welke deelnemer?'**