



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

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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